OVERVIEW

The six case studies enclosed in this series provide examples of corporate efforts to conduct environmental due diligence, drawing on the experience of Japanese companies. The case studies aim to support business in the practical implementation of environmental due diligence across supply chains. The OECD Guidelines for Multinational Enterprises (OECD Guidelines) and related OECD Due Diligence Guidance for Responsible Business Conduct (OECD Due Diligence Guidance) lay out the expectation that business contribute to sustainable development, while avoiding and addressing adverse impacts of their activities, including throughout their supply chains.

Risk-based supply chain due diligence to identify and address their adverse impacts on people and the planet is a means to implement the Responsible Business Conduct expectations outlined in the OECD Guidelines. This collection of case studies draws on the experiences of six Japanese businesses and organisations operating in various sectors and representing varying positions across the value chain, including: electronics and IT manufacturing; office supplies distribution; auto parts manufacturing; food ingredient manufacturing; financial services; and mega sports events organisation.

The case studies provide examples of actions taken to implement the OECD due diligence process and supporting measures as outlined in the OECD Due Diligence Guidance (see Figure 1 below), and in response to salient environmental risks or adverse impacts relating to climate change, biodiversity loss, use of plastics and deforestation. Not all six steps of the due diligence process are covered in each case study.

This series of case studies has been developed further to the OECD Centre for RBC’s collaboration with the Japanese Ministry of Environment on the implementation of the Ministry’s new Introductory Guide on Environmental Due Diligence along the Value Chain – Referring to the OECD Due Diligence Guidance for Responsible Business Conduct (August 2020).¹

Figure 1: OECD DUE DILIGENCE PROCESS & SUPPORTING MEASURES

NOTES

The Introductory Guide aligns with and references OECD RBC instruments and focuses on environmental aspects of supply chain due diligence. See: https://www.env.go.jp/press/108293.html

RESOURCES

OECD (2019), Due Diligence for Responsible Corporate Lending and Securities Underwriting: Key considerations for banks implementing the OECD Guidelines for Multinational Enterprises


DISCLAIMER

The case studies are based on the information shared by a select group of companies for the purposes of providing real life, illustrative examples. The OECD does not endorse any of the organisations or specific practices highlighted in these case studies. This work is published under the responsibility of the Secretary-General of the OECD. Any opinions expressed or arguments employed herein do not necessarily reflect the official views of OECD member countries. This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

RESPONSIBLE SUPPLY CHAINS IN ASIA

The Responsible Supply Chains in Asia (RCSA) programme is being implemented by the International Labour Organization (ILO) and the Organisation for Economic Co-operation and Development (OECD) with funding from the European Union. The RCSA programme aims to promote respect for human rights, including labour rights, and responsible business standards in global supply chains. This programme is carried out in partnership with Japan (an OECD member) and five partner economies, namely China, Thailand, Viet Nam, Philippines, and Myanmar.

With funding from the European Union
OVERVIEW

The organisation: The Company is one of the largest mail order businesses in Japan and delivers office supplies to businesses and individual customers across the country. Its key products include paper and plastic files. The annual turnover of the company in 2020 was approximately JPY 400 billion (Japanese Yen).

The Challenge: Pulp and paper supply chains are often long, complex, and multi-faceted. Many businesses are working to increase their visibility over the supply chain to meet legal standards and rising public demands to address deforestation, biodiversity loss and plastic waste. Recent regulatory initiatives to address environmental challenges include the Japan Clean Wood Act,1 the EU Timber Regulation and the US Lacey Act, which seek to tackle production or trade in illegal timber.

The EU also adopted a Directive on single-use plastics in 2019,2 whilst the Japanese Government introduced the Bill for the Act on Promotion of Resource Circulation for Plastics in March 2021.3 New certification programmes and eco-labels have also emerged4 to help companies improve their environmental performance, and consumer demand for sustainably sourced wood and paper products is increasing.5

In 2002, environmental non-governmental organisations (NGOs) reported that the Company’s procurement of paper products was contributing to deforestation in tropical rainforests. The Company was also found to be displaying environmental labels incorrectly on its products. In response to these challenges, the Company is increasing efforts to address environmental impacts and to scale-up risk prevention and mitigation measures. This case study provides examples of how the Company is implementing supply chain due diligence, with a focus on two key environmental risks commonly identified in paper and plastic product lifecycles – deforestation and plastic waste.
INCORPORATING RBC EXPECTATIONS AND POLICIES INTO ENGAGEMENT WITH SUPPLIERS AND OTHER BUSINESS RELATIONSHIPS

As set out in the OECD Due Diligence Guidance for Responsible Business Conduct (OECD Due Diligence Guidance), embedding RBC into policies and management systems and communicating expectations to suppliers and other business relationships is the first step of due diligence for RBC.

It enables companies to articulate their company-wide vision and strategy, assign responsibility, support relevant business units in implementation and ensure accountability. It can also help ensure suppliers are aware of and commit to integrating their business partner’s policies and support implementation and monitoring of due diligence practices along the supply chain.

The Company has developed specific environmental activity plans for each stage of its business activities in its supply chain. Figure 1 maps these five stages. The Company identified three environmental risks (climate change; circular economy; and biodiversity) to prioritise and address at each of the five stages.

The Company has formulated specific action plans for each priority risk and reviews progress through its environmental management system. The company feeds learnings from the review into the following year’s action plans, with a view to progressively improving its systems and processes to address existing or emerging environmental risks. This enables the company to embed ongoing and responsive due diligence practices into its management processes.

Figure 1: THE COMPANY’S SUPPLY CHAIN IN FIVE STAGES

For examples of practical actions to develop RBC policies and to embed them into management systems, see pages 22-23, items 1.1 and 1.2, and pages 56-59, Q14-Q17, including Table 5 “Example of departments and functions potentially relevant to implementation of due diligence” of the OECD Due Diligence Guidance.
INCREASING VISIBILITY OVER SUPPLY CHAINS

Supply chain mapping is a critical part of the due diligence process. It helps companies develop a complete picture of their supply chain and business relationships and understand where the risks are. This enables effective risk assessment and prioritisation based on severity and likelihood.

In 2002, environmental NGOs communicated concerns about the Company’s procurement of paper from Indonesia potentially contributing to adverse environmental impacts; specifically, illegal logging leading to deforestation and biodiversity loss.

In response to these concerns and in order to promote sustainable procurement, the Company published a procurement policy for paper products and began conducting raw material traceability surveys with its Tier 1 suppliers every quarter.

These surveys aim to improve visibility of the supply chain beyond Tier 1, and to identify and drive engagement with high-risk business relationships.

*For examples of practical actions to assess company’s business relationships along the supply chain, see pages 68-69, Q28 and Box 5 on “Engagement with business relationships operating at control points in the supply chain” of the OECD Due Diligence Guidance.*

CEASE, PREVENT AND MITIGATE ADVERSE IMPACTS

*The OECD Due Diligence Guidance recommends that a risk management strategy should be designed and implemented based on an assessment and prioritisation of risks, and be underpinned by stakeholder engagement.*

Businesses should develop and implement plans that are fit-for-purpose to prevent and mitigate potential (future) adverse impacts.

The company should also detail the actions it will take, as well as its expectations of suppliers, customers and other business relationships.
STAKEHOLDER ENGAGEMENT AND ADDRESSING SYSTEMIC RISKS

Through its stakeholder engagement, the Company learned that illegal and unsustainable logging occurring in Indonesia is in part due to the limited sources of income available to local communities. This has accelerated deforestation. The Company decided to encourage its suppliers to grow fast-growing trees with local communities to reduce unsustainable logging practices.

In addition, in 2018, the Company and its Indonesian supplier began an initiative to support local communities in developing professional skills to develop alternatives to logging, such as fish farming. Company representatives regularly visit sourcing sites to track how industrial tree planting is progressing, to assess other risks and challenges, and to evaluate how it can further support this work.

In an effort to mitigate identified deforestation risks, the Company launched an initiative in 2010 in collaboration with Tier 1 suppliers to ensure that two trees are planted for every box of paper sold. In 2019, the Company reported that as a result of the initiative, approximately 149 million trees had been planted and that the total area of plantations amounted to 104,200 hectares.

Through close engagement, the Company supported a Tier 1 supplier in Indonesia to develop a forest conservation policy and a declaration of zero natural deforestation in 2013 for instance. This supplier also endorsed the New York Declaration on Forests in 2014.  

For examples of how a company can engage with stakeholders to inform its due diligence, see pages 48-51, Q8-Q11 of the OECD Due Diligence Guidance.

For information on addressing systemic issues, please see Box 6 “Addressing systemic issues” on page 76. Examples of practical actions to develop a company’s leverage to prevent or mitigate risks can be found on pages 78-79, Q36-Q37.

ADDRESSING THE ENVIRONMENTAL IMPACT THROUGHOUT THE LIFECYCLE OF PLASTIC PRODUCTS

Consumers are paying attention to steps taken by companies to address these risks, and an increasing number of regulations related to plastic use, waste and pollution have been introduced in recent years.

The OECD Guidelines for Multinational Enterprises underlines the importance of companies assessing and addressing impacts related to the environment throughout the lifecycle of operations, including consumption, use and disposal of goods and services. OECD
due diligence tools provide a supportive framework to meet RBC expectations as well as examples of risks in supply chains relating to climate change, biodiversity and circular economy.

Through dialogue with its employees, customers and suppliers, the Company has identified how its plastic products may be contributing to adverse environmental impacts. Products such as plastic folders have no collection or recycle scheme and are often simply discarded after use.

To address this issue, the Company launched a project with the support of the Ministry of the Environment of Japan and in collaboration with a waste management company to build a recycling process for used plastics. It also consulted with an environmental law expert on developing an effective recycling scheme that complies with existing waste management rules. The Company now asks its customers to cooperate in the collection of used plastic folders through a collection scheme. It plans to manufacture and sell new products with the plastics collected.

For examples of actions that companies can take to respond to identified risks and to support business partners in implementing risk prevention and mitigation measures, see pages 30-31, item 3.2, and page 80, Q38, of the OECD Due Diligence Guidance.
CASE STUDY ON ENVIRONMENTAL DUE DILIGENCE

ADDRESSING DEFORESTATION & USE OF PLASTICS

NOTES


4 For examples of new certification programmes and eco-labels, see: https://www.env.go.jp/policy/hozen/green/ecolabel/f01.html


7 The New York Declaration on Forests (NYDF) is a voluntary and non-binding international declaration to take action to halt global deforestation. See: https://forestdeclaration.org/


REFERENCES


This case study documents actions related to some but not all of the six due diligence processes and supporting measures set out in the OECD Due Diligence Guidance. These actions are outlined under the corresponding process and step number included in the OECD Due Diligence Guidance.

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OVERVIEW

The organisation: The Company is an auto parts manufacturer and the world's top supplier of rubber products that reduce vibration and noise caused by engines and road surfaces. It produces automotive hoses, products for sound control and insulation, and interior equipment for vehicles such as engine covers and seats.

Annual sales in 2020 were approximately JPY 445,148 million (Japanese Yen). Japan is its largest customer market (42%), followed by the rest of Asia (27%), the Americas (20%), and Europe and other regions (11%).

The Challenge: The automotive industry has highly complex global supply chains. One vehicle can consist of approximately 30,000 individual parts sourced from different suppliers.

Car manufacturers are facing increasing demands to carry out due diligence beyond direct (Tier 1) suppliers and to address adverse environmental and social impacts in their supply chains. Environmental and human rights risks such as deforestation, biodiversity loss, and forced labour are commonly found in different sectors including natural rubber supply chains.

Auto parts manufacturers are typically positioned in the middle of the supply chain and are frequently requested by car manufacturing clients to collaborate on due diligence to address environmental impacts and scale-up risk prevention and mitigation measures. This case study provides examples of how the Company is implementing supply chain due diligence, with a focus on key environmental risks commonly identified in automotive supply chains, including chemical contamination, climate change, water use and risks related to natural rubber procurement such as deforestation and biodiversity loss.
ASSIGNING OVERSIGHT AND RESPONSIBILITY FOR THE IMPLEMENTATION OF DUE DILIGENCE

As set out in the OECD Due Diligence Guidance for Responsible Business Conduct (OECD Due Diligence Guidance), assigning oversight and responsibility for due diligence to relevant senior management is a critical step of due diligence for RBC.

As set out in the OECD Due Diligence Guidance for Responsible Business Conduct (OECD Due Diligence Guidance), embedding RBC into policies and management systems and communicating expectations to suppliers and other business relationships is the first step of due diligence for RBC. It enables companies to articulate their company-wide vision and strategy, assign responsibility, support relevant business units in implementation and ensure accountability. It can also help ensure suppliers are aware of and commit to integrating their business partner’s policies and support implementation and monitoring of due diligence practices along the supply chain.

In 2014, the Company established a sub-committee to oversee corporate actions to promote responsible supply chains and responsible procurement in line with its Supplier Guidelines and other relevant policies. This sub-committee sits under the CSR committee which is currently chaired by a managing executive officer.

COMMUNICATING RBC EXPECTATIONS WITH SUPPLIERS

The Company launched its Supplier Corporate Social Responsibility Guidelines (Supplier Guidelines) in 2011 and revised them in 2014 and 2019. The 2014 revision included the addition of expectations for suppliers on the use of minerals from conflict-affected and high-risk areas.

The 2019 revision included its updated Group Corporate Action Charter, which incorporated the company’s mid-term vision towards 2022 and referred to the Charter of Corporate Behaviour, published in 2017 by the Japan Business Federation (Keidanren). The Action Charter sets out ten principles, six of which relate to the environment and which highlight measures to address risks commonly identified in automotive supply chains (See Box 1).

The Supplier Guidelines also call for co-operation from suppliers to support responsible procurement practices in order to meet the goals set out in the Action Charter.
Through its “Green Procurement Standards for Suppliers”, the Company identifies "prohibited substances" and "substances subject to monitoring" throughout its supply chains, including those prohibited under applicable laws and regulations as well as additional substances specified by business partners.

The Company aims to adhere to regulatory initiatives including the EU’s Restriction of Hazardous Substances (RoHS) Directive, the EU’s Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation, the EU’s Directive on end-of-life vehicles, and other chemical control regulations. In order to raise awareness of new standards, the Company also holds regular meetings with suppliers to share updates on regulatory developments.

Numerous reports such as the Global Risks Report published by the World Economic Forum (WEF) have highlighted significant environmental and social risks associated with water scarcity.

Due to the large quantity of water used in its production processes, the Company uses AQUEDUCT, an international water risk assessment tool, to identify and evaluate water-related risks in the regions where production sites are located.
In 2018, the Company carried out a water risk survey, including interviews with all of its production plants in Japan and overseas. These in-depth assessments reportedly enabled the Company to mitigate the risk of water shortages in local communities by introducing technology designed to support cost-effective recycling of waste water discharged through the production processes.

For examples of practical actions to identify risks, see pages 62-64, Q20-Q21 and Table 6 “Example of departments and functions potentially relevant to implementation of due diligence” of the OECD Due Diligence Guidance. For information on assessing significant risks, see pages 65-66, Q23-Q24.

The OECD Due Diligence Guidance recommends that a risk management strategy should be designed and implemented based on an assessment and prioritisation of risks, and be underpinned by stakeholder engagement.

Businesses should develop and implement plans that are fit-for-purpose to prevent and mitigate potential (future) adverse impacts. The company should also detail the actions it will take, as well as its expectations of suppliers, customers and other business relationships.

To monitor implementation of its Supplier Guidelines, the Company has conducted surveys with suppliers on environmental and social risks since 2016. This helps suppliers assess practices against Company expectations and can help suppliers identify areas for improvement. The Company uses the survey to reinforce its communications on RBC expectations and to improve its own responsible procurement strategies.

In response to concerns raised by non-governmental organisations (NGOs) and evolving expectations of manufacturing partners relating to sustainable procurement, the Company has taken several steps to address these risks.

From 2016 to 2019, responsible procurement officers, including Executive level representatives, carried out on-site visits to natural rubber farms and processors (secondary and tertiary suppliers) in Thailand, Indonesia, Malaysia, and Viet Nam. The Company also carried out interviews related to labour and human rights risks.

For examples of tracking implementation and results an enterprise’s due diligence activities, see pages 82-84, Q41-Q45 of the OECD Due Diligence Guidance.
This case study documents actions related to some but not all of the six due diligence processes and supporting measures set out in the OECD Due Diligence Guidance. These actions are outlined under the corresponding process and step number included in the OECD Due Diligence Guidance.

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