



10th Forum on Due Diligence in the Garment and Footwear Sector

Due Diligence Scenarios Workshop

21 February 2024 | 16.30 – 18.00

OECD Conference Centre, CC6

Objective of the workshop

In this interactive workshop, participants will have the opportunity to discuss how due diligence could be applied to a series of example scenarios common in the sector. This session will increase participants' understanding of conducting risk-based due diligence and provide an opportunity to exchange.

Structure of the workshop

- Participants are assigned to a group of up to 15 participants. Each group will be assigned two scenarios.
- Each group will have a facilitator.
- Groups should read through the scenario and then jointly work through discussion questions as a group. 30 minutes is allocated per scenario.
- All groups will reconvene in CC6 at 17:40 to share 2-3 lessons learned. One person from each group will share key messages.
- Participants are encouraged to actively engage in the discussion, bearing in mind the importance of allowing space for everyone's voice to be heard and valued during the discussion.

Scenarios

- **Scenario 1**

Company profile

Eternal Mode is a medium-sized women's clothing brand in Country A, which is best known for its jeans, which make up 50% of its business. While increasingly known nationally, Eternal Mode has not yet expanded into other markets. Eternal Mode sources all of its jeans from a large and a small

supplier in Country B, Denim Go and Jean Exports, with Moda Eterna's jeans orders split 70/30% across the two factories.

Eternal Mode has a particularly long working relationship with Denim Go, having sourced from them for 8-10 years, and its orders account for approximately 5% of Denim Go's profits. Eternal Mode has been using 3rd party social auditors to carry out social audits at Denim Go every 12 months for the last 5 years. Conversely, Jean Exports is a relatively new and smaller supplier which Eternal Mode introduced last year to help balance its sourcing portfolio. Eternal Mode represents 80% of Jean Exports' production capacity, and this is the maximum capacity Jean Exports can dedicate to Moda Eterna's orders.

Situation

Denim Go's latest risk analysis highlighted a suite of issues across health and safety, incl. heat strokes due to high temperatures and chemical handling, workers' contracts, reprisals of trade union members, and lack of social insurance payments - all issues had been raised in previous audits and through a grievance mechanism established by a local NGO that contacts brands in case there are reports coming in for the factories they source from. In addition, some of the working hour issues relate to piece-rate workers in one production line. While the piece-rate workers are paid by the piece, the audit standard still does expect that the clock their working hours to ensure they are paid at least the minimum wage. However, the piece-rate workers still do not sign in or out of work nor have work contracts which was also an issue raised in previous audits. Eternal Mode has paid for a number of one-off worker trainings and management trainings at Denim Go over the years across a range of topics including health and safety, contracts, and wage payments, however, the assessment results suggest that these challenges have not been substantially solved. Denim GO's Human Resources manager has changed 2 times in the last year, but the new hire seems quite motivated.

Discussion questions

When answering each of the below questions, consider if and how Moda Eterna should engage with: its buyers, its agents, its suppliers, other companies in the sector, trade unions, civil society, government and various sector or multi-stakeholder initiatives.

1. What steps can Eternal Mode take to address the issues highlighted at Denim Go considering what Eternal Mode already tried?

Sub-questions to consider:

- a) **What would a risk-based approach look like in this context? (i.e. How should Eternal Mode prioritise its actions? How could Denim Go prioritise its actions?)**
- b) **What steps can Eternal Mode take to encourage Denim Go to meaningfully address the issues identified in the audits and through the grievance mechanism? How can Moda Eterna's previous experience (e.g. paying for once-off trainings) help to inform more sustainable solutions? Who should Eternal Mode engage in this process?**
- c) **What risks can entail to conduct a prioritisation exercise solely based on audit findings?**
- d) **What internal measures could Eternal Mode take to reduce the possibility of contributing to a higher-risk environment for excessive working hours and precarious work?**
- e) **Would Moda Eterna's approach be different if it was a large company with a team in-country? Does this affect how the company should/could carry out due diligence?**

- 2. Assume now that the steps in the first response are not successful and Denim Go does not engage and put in place meaningful, lasting solutions to the issues. What other options are reasonably open to Moda Eterna, and which stakeholders could play a role?**

Sub-questions to consider:

- a) What are the options? What are the advantages and disadvantages of each?**
- b) Which stakeholders should be involved?**

- **Scenario 2**

Company profile

CALM is a small but up-and-coming brand with a growing consumer base. It has a 35 staff members in the headquarters, one dedicated to sustainability, and an annual turnover of 5 million Euros. As a small company, CALM predominately sources through buying agents although it does also have some direct strategic suppliers in Country A (where it is based) and some additional direct suppliers abroad. CALM is mindful of the potential negative impacts in its supply chain and therefore engages with a third-party auditor to assess its direct suppliers. CALM knows that some of its suppliers are GOTS (Global organic textile Standard) certified. CALM also requires that its buying agents carry out annual supplier audits on working conditions. CALM has a robust code of conduct in place which indicates its commitment to upholding ILO core labour standards and high environmental standards in its own operations and its supply chain. It also put an email address for complaints on its website in several languages but did only receive one complaint in the last year.

Situation

A recent ILO study indicated that sexual harassment and abuse in the workplace is prevalent in the garment sector in several countries from which CALM sources from. The ILO study points to a prevalence of such abusive practices both within and outside of the workplace, a lack of awareness by women of what constitutes harassment and abuse and a fear of retaliation from workers if they do report cases. Furthermore, the study makes a link between workplaces with very tight deadlines and production pressures and an increased number of instances of harassment/abuse. However, despite these reports, neither sexual harassment nor instances of abuse have been flagged in any of CALM's supplier assessments.

Discussion questions

When answering each of the below questions, consider if and how CALM should engage with: its agents, its suppliers, other companies in the sector, social organisations, government, media platforms and sector or multi-stakeholder initiatives.

- 1. In light of the above context, should CALM consider sexual harassment and abuse to be a significant risk in its supply chain? Why or why not?**
- 2. What immediate steps can CALM take to understand whether sexual harassment and abuse are indeed an issue at its direct and indirect suppliers?**
- 3. How can CALM ensure that harassment and abuse risks and actual harms are flagged sooner in the future?**

4. What measures could CALM take specifically internally to prevent harassment and abuse amongst its suppliers?

Additional question, if time:

5. What information should CALM share publicly through its annual report in relation to sexual harassment and abuse risks and how it has responded? What information should CALM's suppliers. share publicly and with its customers?

- **Scenario 3**

Company profile

GOODFIT is a shoe manufacturer which supplies global clients ("buyers").

The manufacturer has a number of overseas brands as their customers. GOODFIT has adopted a code of conduct according to the requests of its customers (buyers), which governs working conditions for staff (wages, working hours, health and safety, minimum age etc). GOODFIT receives a number of audits per year from buyers against buyers' own code of conducts. However, GOODFIT itself does not communicate its code of conduct to its suppliers or subcontractors, setting only conditions on commercial matters such as price, lead times and quality specifications.

Situation

Recently, a client has contacted the factory to enquire about the potential use and handling of hazardous chemicals at tanneries and textile finishing in GOODFIT's supply chain.

Discussion questions

When answering each of the below questions, consider if and how GOODFIT should engage with: its buyers, its agents, its suppliers, other companies in the sector, trade unions, civil society, government and sector or multi-stakeholder initiatives.

1. What steps can GOODFIT take to address the hazardous chemical risks in its material supply chain and how can it prioritise actions?

Follow up questions:

2. At what stage should GOODFIT disengage from a company if hazardous chemicals are being used?

3. What are the risks to GOODFIT's business of not taking appropriate action?