SESSION NOTES

30-31 January 2018

OECD Forum on

Due diligence in the garment and footwear sector

OECD

Practical information

30-31 January 2018 | OECD Conference Centre, Paris, France

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Due diligence scenario workshop

30 January 2018, 16:00 — 18:00

Objective of the session

The purpose of this session is to bring the Due Diligence Guidance into the real-world context. During this session, 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 seek to increase participants' understanding of due diligence within different contexts in the sector and give industry and stakeholders an opportunity to exchange experiences on carrying-out risk based due diligence.

Structure of the workshop

Participants will be designated a break-out group at the start of the workshop.

- Each group will be assigned two scenarios.
- Each group will have an OECD facilitator and is encouraged to elect a note-taker for the group.
- Groups should read through the scenario assigned to them and then jointly work through discussion questions as a group. 30 minutes is allocated per scenario.
- All groups will reconvene at 17:30 in CC6 to share 2-3 lessons learned.

Scenarios

Scenario 1: Stagnation

Company profile

Moda Eterna is a medium-sized women's clothing brand in Spain, which is best known for its jeans, which make up 50% of its business. While increasingly known in Spain, Moda Eterna has not yet expanded into other markets. *Moda Eterna* sources all of its jeans from a large and a small supplier in Country X, Denim Go and Jean Exports, with *Moda Eterna's* jeans orders split 70/30% across the two factories. *Moda Eterna* 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. *Moda Eterna* has been using third 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 *Moda Eterna* introduced last year to help balance its sourcing portfolio. *Moda Eterna* represents 80% of Jean Exports's production capacity, and this is the maximum capacity Jean Exports can dedicate to *Moda Eterna's* orders.

Situation

Denim Go's latest audit report highlighted a suite of issues across health and safety, contracts, working hours, and social insurance payments, all of which had been raised in previous audits. In addition, some of the working hours issues relate to piece rate workers in one section who still do not sign in or out of work nor have verifiable contracts, both of which were raised as issues in a previous audit. Moda Eterna 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 met with lasting solutions.

Jean Exports were audited for the first time recently, and despite more non-compliances than Denim Go, are proactively engaging with *Moda Eterna* to develop corrective action measures and monitor progress.

Discussion questions

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

1. What steps can *Moda Eterna* take to break the cycle of stagnancy and meaningfully seek to address the issues highlighted at Denim Go?

   Sub-questions to consider:

   a. What would a risk-based approach look like in this context? (i.e. How should Moda Eterna prioritise its actions? How could Denim Go prioritise its actions?)

   b. What steps can Moda Eterna take to incentivise, encourage, etc. Denim Go to meaningfully address the issues identified in the audit? How can Moda Eterna's previous experience (e.g. paying for once-off trainings) help to inform more sustainable solutions? Who should Moda Eterna engage in this process?

   c. What measures could Moda Eterna take internally to reduce the possibility of contributing to a higher-risk environment for excessive working hours and precarious work?

   d. Would Moda Eterna's approach be different if it were 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/could Moda Eterna approach?

Scenario 2: Subcontracting in midstream

Company profile

JUMP is a large fashion brand with a small but growing line in accessories (bags and small leather goods). JUMP's finished goods manufacturers buy the majority of the metal components for JUMP's products from Zippers Inc., which has been selected by JUMP. Zippers Inc. casts and finishes the components and subcontracts the electroplating to a number of plating factories. Zippers Inc. works with different plating suppliers because the balance on price and quality is precarious, and their orders are low compared to their platers' overall production schedules and therefore they do not have much leverage.

JUMP has a strict code of conduct for suppliers on labour and environmental issues, aligned with ILO core conventions and relevant environmental standards, which they communicate to their direct tier one suppliers and expect them to implement within their own supply chain. JUMP engages with an industry initiative to carry out third-party assessments of its direct suppliers and components manufacturers, however subcontractor(s) are not within the scope of these assessments.

Situation

A recent ILO study found that serious cases of sexual harassment and abuse in the workplace is increasingly prevalent in the manufacturing sector in the country where Zippers Inc. is based. 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. However, despite these reports, neither sexual harassment nor instances of abuse have been flagged in any JUMP Inc. supplier assessments.

Discussion questions

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

1. In light of the above context, should JUMP consider sexual harassment and abuse to be a high-risk in its supply chain? Why or why not? Similarly, should Zippers Inc. consider sexual harassment and abuse to be a high-risk in its supply chain?
2. What immediate steps can JUMP take to understand whether sexual harassment and abuse are indeed issued linked to its suppliers? How can JUMP acquire information about the plating subcontractors in its supply chain? What steps can Zippers Inc. reasonably take? How can Zippers Inc. acquire information about its plating subcontractors?
3. How can JUMP ensure that in the future, risks of sexual harassment and abuse are flagged sooner? What role can Zippers Inc. and other stakeholders play in this process?
4. What information should JUMP share publicly through its annual report in relation to sexual harassment and abuse risks and how it has responded? What information should Zippers Inc. share publicly and with its customers?

Scenario 3: the role of governments in creating an enabling environment for due diligence

Country A has a significant garment and footwear finished goods market, of which 95% of the finished goods are imported. Civil society organisations have recently flagged concerns of worst forms of child labour to the government of Country A within the supply chains of companies based in their jurisdictions. Specifically, reports point to concerns related to worst forms of child labour at textile processing factories within three countries that export to Country A.

Discussion questions

When answering each of the below questions, consider if and how Country A should engage with industry, trade unions, civil society, other parts of the government and various sector or multi-stakeholder initiatives both within its own country and internationally.

1. What further information does the government of Country A need to understand and verify the scope and scale of the problem? Which sources should they consult?
2. What avenues and tools can the government consider in responding to the situation? Please consider the advantages and potential disadvantages of each, with respect to the specific due diligence concern:

    a Cooperating: How can the government cooperate with other stakeholders (in the business community, amongst civil society, the public, across government bodies) to create synergies and establish coherence with regard to responsible business conduct?

    b Promoting: Please discuss what government can do to communicate expectations on due diligence in the sector pertaining to the worst forms of child labour? Which actors should communication efforts target? What activities can assist with communication?

    c Incentivising: What actions can the government take to incentivise industry actors to carry out due diligence on child labour in their supply chains?

    d Demonstrating: How can the government demonstrate good practices as an economic actor?

Sourcing models, SMEs and the implications on due diligence

31 January 2018, 9:45 — 10:45
Room CC7

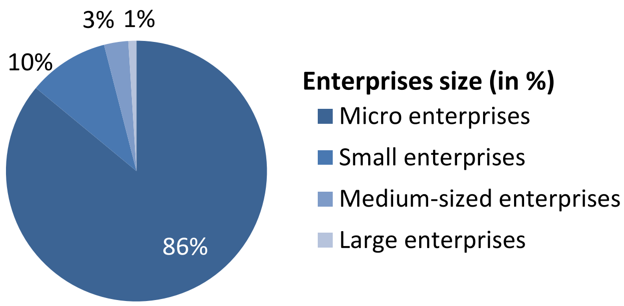
Objective of the session

This session will highlight efforts to build the capacity of small and medium-sized enterprises on due diligence, share lessons learned and discuss areas where collaboration could help to address shared challenges. An OECD survey which seeks to better understand the sourcing practices of SMEs operating in the sector from OECD countries will also be presented.

Background

Small and medium-sized enterprises (SMEs)[1] play a critical role in the garment and footwear sector. For example, within Europe, SMEs accounted for more than 99 percent of enterprises in the garment and footwear sector in the EU-28 in 2016, and in 2014 employed more than 74% of the workers in the sector. SMEs are found at all stages of garment and footwear manufacturing, whether textiles and leather manufacturing, or finished goods.

Figure 1. Percentage of SMEs and large enterprises in the garment and footwear sector, EU-28, 2016



Source: EURATEX based on Eurostat (SBS)

While the size of an enterprise does not change its responsibility to conduct due diligence, how an enterprise goes about applying due diligence may be affected by its size and sourcing models. SMEs generally share a number of characteristics that may change how they carry out due diligence. For example: they generally have a less formal operating structure than larger enterprises and they tend to rely on business partners and other outside sources for information related to sector specific risks. SMEs may also face constraints to carrying out due diligence. For example, there may be a cost barrier to employing dedicated staff to oversee due diligence, to accessing certification, training or making improvements to implement their own due diligence or meet the expectations of their customers' due diligence programmes. Furthermore, an SME on its own may not have sufficient purchasing power or other forms of leverage with their suppliers to gain the necessary information about potential risks or to seek to address adverse impacts where they are found. At the same time, SMEs may also have strengths which enable them to enact due diligence. For example, they may be in a position to implement procedural changes more quickly than larger companies and therefore may more easily embed due diligence into decision making processes in a meaningful way, and they are more likely to have open communication channels. A multifaceted approach is needed to address the various concerns and limitations of SMEs.

[1] The OECD does not have a definition of SMEs. The European Commission defines SMEs as businesses that employ fewer than 250 persons, and have either an annual turnover not exceeding EUR 50 million or an annual balance sheet total not exceeding EUR 43 million.

Box. 1 OECD Survey on sourcing practices and supply chain due diligence approaches for small and medium-sized enterprises in the Garment and Footwear Sector

What is the objective of the survey?

The surveys aims to collect data on SMEs operating in the garment and footwear sector in OECD countries in order to identify **pragmatic approaches tailored to SMEs** – recognising their size, resources, nature of business, and sourcing models – to **implement due diligence**.

Who does the survey target?

In 2018 a series of surveys targeting different SME groups operating within the sector in OECD countries and Adherents to the OECD Guidelines for Multinational Enterprises will be launched. These include agents, brands, licensees, manufacturers, retailers, and wholesalers. A second phase of the research will target SMEs operating outside of OECD countries.

How is the survey structured?

Each survey is divided into three sections: (A) Company characteristics, (B) Company sourcing practices, and (C) Supplier engagement on labour/environmental standards.

What will the OECD do with the data/findings?

Participants of the survey are not required to identify themselves or their organisation and all responses to the surveys will be kept strictly confidential. The OECD will launch a series of reports highlighting the findings, however, survey data will be reported only in aggregate form or in a manner that does not allow individual responses to be identified.

Take the survey.

The survey will be available on the OECD sector project webpage on 31 January 2018.

Discussion questions

- What are the core challenges facing SMEs in carrying out labour, human rights, and environmental due diligence?
- What are the key learnings on engaging with SMEs?
- Where do gaps/challenges persist? Where do we need to see further efforts, scaling, collaboration, etc. to further build the capacity and meet the needs of SMEs operating in the sector?
- Which stakeholders need to be engaged and how?

■ OECD alignment assessment tool for the OECD Due Diligence Guidance

31 January 2018, 9:45 — 10:45
Room CC6

Objective of the session

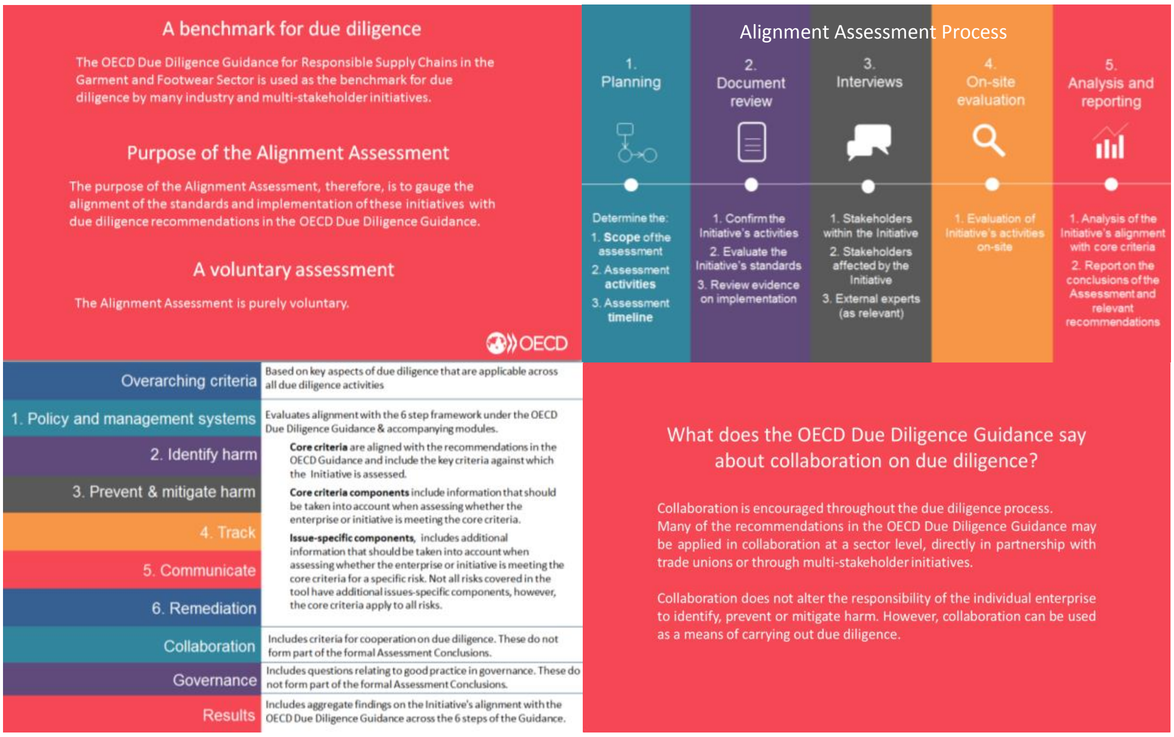
This session will provide an opportunity to introduce the OECD Alignment Assessment Tool of collaborative initiatives against the OECD Due Diligence and seek feedback from participants on the Alignment Assessment methodology.

Background

The OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector is used as the benchmark for due diligence by many industry and multi-stakeholder initiatives. The purpose of the Alignment Assessment, therefore, is to evaluate the alignment of the standards and implementation of these initiatives with the recommendations in the OECD Due Diligence Guidance.

The OECD has developed an Alignment Assessment tool which will be piloted from February 2018 – June 2018. While the tool is primarily geared towards the assessment of collaborative initiatives, it may likewise be used by individual companies to carry out self-assessments of their due diligence practices against the OECD Due Diligence Guidance.

Figure 2. Aspects of the Alignment Assessment Tool for the OEC Due Diligence Guidance



■ Workshop: Incorporating due diligence into supplier contracts

31 January 2018, 11:15 — 12:30
Room CC7

Objective of the session

This session will learn from the challenges and successes of industry actors and law firms on integrating various components of due diligence into commercial contracts in the garment and footwear sector.

Background

Incorporating provisions related to labour rights, human rights, anti-corruption and environmental standards into supplier contracts has become fairly standard practice amongst large retailers and brands in the garment and footwear sector. Such provisions often include requirements that suppliers meet company codes of conduct and incorporate the right to carry out supplier audits on these company standards. The right of the company to terminate buying agreements when serious cases of non-compliance are identified are also sometimes incorporated.

The existence of such clauses has the potential to directly influence the conduct of business partners in relation to labour rights, human rights, anti-corruption and the environment. Clauses requiring suppliers to disclose information, such as material flow down provisions covering raw materials, countries of origin, and names of specific high-risk sub-suppliers, can also enable companies to map and identify risk across the entire length of their supply chains.

In practice, questions remain regarding the clarity and adequacy of such provisions and their effectiveness as a tool for meaningfully engaging suppliers and building leverage to effect change. For example, in many cases, companies may incorporate expectations across all elements of their codes of conduct into supplier contracts, but in reality only monitor or enforce action on limited elements that attract greater public scrutiny, which can reinforce blind spots on other significant risks. Escalation measures may not be clearly defined in contracts, thus potentially increasing uncertainty between the buyer and supplier in cases when codes of conduct are breached. Furthermore, while attaching codes of conduct to supplier contracts has been common-place for some time in the industry, provisions regarding sub-contracting and engagement of suppliers with their business partners, including prequalification of sub-suppliers, are less common. Finally, contractual provisions are often one-sided in their expectations of suppliers and do not include reciprocal obligations of buying companies for activities which may put the supplier at risk, such as poor purchasing practices or late payments on orders.

Structure of the session

Legal presentation

Stéphane Brabant of Herbert Smith Freehills will provide an overview of current practices and challenges in relation to integrating various components of due diligence into commercial contracts in the garment and footwear sector.

Moderated discussion

This section of the workshop will be participatory in nature and will facilitate discussion around the following questions.

- What expectations of suppliers are included in contracts in relation to meeting labour, human rights, anti-corruption and environmental standards (e.g. codes of conduct)? Do companies require in these provisions outcomes (i.e. the meeting of standards) and/or the systems in place to manage risks? Are all provisions of the contract monitored and enforced?
- What expectations are included in contracts in relation to the disclosure or monitoring of the company’s supplier’s business relationships (e.g. subcontractors; their upstream suppliers)?

- Do contracts include clauses concerning disclosure of information and material flow down provisions at direct suppliers or upstream suppliers?
- What methods of enforcement exist, including in relation to escalation and termination of contracts (where appropriate)?
- What contractual provisions address a supplier's ability to meet the expectations of contracts and are they monitored and enforced (e.g. terms of payment)?

Background resources

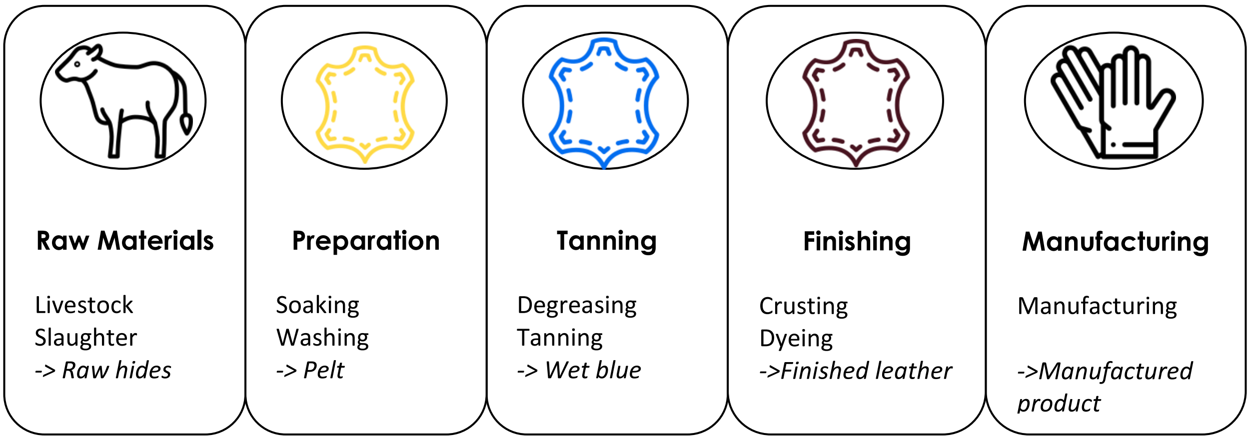
- Speech by Stephane Brabant, Setting Human Rights Standards Through International Standards, 24 June 2016, Legal Briefing, Herbert Smith Freehills
- Blog article by Antony Crockett, Human Rights Clauses in Commercial Contracts, Herbert Smith

Workshop: Supply chain traceability in leather supply chains to support due diligence

31 January 2018, 11:15 — 12:30
Room CC 6

Background

Figure 3. Basic leather supply chain structure



Leather is a resistant and flexible material, created by processing an animal raw hide or skin to retain its flexibility and toughness. Tanning is one of the oldest human activities as rudimentary forms of leather processing (e.g. smoking, drying, vegetable tanning) were used to prevent animals' skins from decaying, render them resistant and ultimately useable.

Leather supply chains are globalised, complex and fragmented. Today, leather is a globally traded commodity, with a mature market structure and a complex supply chain, providing employment opportunities to millions of workers worldwide. For example, in India, the second largest producer of footwear and leather garments, the leather industry employs around 3 million people, out of which 30% are women.[2] In the EU, the leather and related goods sector comprises about 36,000 enterprises and employs around 435,000 people.[3] In Vietnam, the fourth footwear maker in the world, leather and footwear products account for 10% of the country's total export revenues.[4].

The leather supply chain comprises three broad stages. In the first, raw hides and skins are obtained from the meat and dairy industry. The second phase – the most capital intensive – consists of the preparation, tanning and finishing of the hides, with the finished leather as the main output. 'In the third phase finished goods are manufactured from the leather and may be used in the garment, footwear, apparel accessories, furniture, automotive or other industries'. Nonetheless, the decision whether to include the food production sector – with its associated social and environmental challenges (e.g. animal welfare, deforestation, climate change) – in the leather supply chain has recently generated much controversy. Although hides and skins are evidently by-products of meat supply chains, their nature as product or as waste is not definitely established. Acknowledging that the debate is open, this session will

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[2] Make in India, *Leather Sector Achievements Report*, March 2017, www.makeinindia.com/documents/10281/114126/Leather+Sector+-+Achievement+Report.pdf

[3] The leather industry in the EU, European Commission, https://ec.europa.eu/growth/sectors/fashion/leather/eu-industry_en

[4] Nhan Dan (3 March 2017), "Prospects for Vietnam's leather and footwear industry without TPP", *Vietnamnet,* http://english.vietnamnet.vn/fms/business/173679/prospects-for-vietnam-s-leather-and-footwear-industry-without-tpp.html (retrieved 05/01/2018).

predominantly focus on traceability of midstream and downstream companies' activities, in light of specific risks related to the processing phase.

Leather transformation can be associated with various labour, human rights and environmental risks. When not properly managed, many different chemicals used at various stages of the tanning process – and the large volumes of effluent wastewater generated – may contaminate soil, groundwater and surface waters through uncontrolled discharge or accidental leakage. Child labour has been raised as a concern throughout the leather processing and manufacturing stages, especially in South-East Asia, as well as risks related to the exploitation of migrant workers, including forced labour in some cases. Exposure to hazardous chemicals, working in confined spaces and lack of protective equipment are also known risks related to occupational health and safety.

Adjusting to the implementation of export restriction policies on hides and skins in some countries, leather production and manufacturing have progressively moved to countries with cheaper access to raw material and lower labour costs. The greater part of global meat production and transformation currently takes place in countries where labour, environmental safety and corruption risks can be high. Traceability information is rarely passed on with the hide and producer countries often sell hides into the global leather market already in semi-processed 'wet blue' states. The globalisation and fragmentation of the leather supply chain can pose a challenge in terms of visibility across its various stages – especially for smaller players in the industry.

Increased attention to midstream impacts (i.e. at phase 2, which includes preparation, tanning and finishing) has led to the development of a number of sector initiatives that seek to increase visibility, carry out site-level assessments, and implement measures to boost the capacity of suppliers to meet international human rights, labour, anti-corruption and environmental standards. However, similar to other segments of the apparel sector, auditing schemes and certification processes have come under criticism for being duplicative, top-down, partial in their scope and not reaching beyond a group of already compliant tanneries. Nonetheless, site-level assessments remain a critical part of a supply chain due diligence process. The attention on midstream impacts coupled with the lack of visibility of enterprises operating at phase 2 has also created a tendency to disengage completely from countries that are not deemed to exercise a satisfactory level of control on their tanneries (a phenomenon also known as 'blacklisting') or from selling leather products entirely – thus excluding from the supply chain both responsible and non-responsible enterprises altogether.[5]

Companies operating in the apparel sector that produce, process or sell leather-based products at any stage of the supply chain have a responsibility to identify, prevent and mitigate adverse impacts linked to their activities, products or services, including through their supply chain, taking a risk-based approach. Therefore this session will seek to understand how deep in the supply chain visibility is necessary, the current trends and remaining challenges in terms of supply chain traceability, and the key stakeholders that should be engaged and at what stages.

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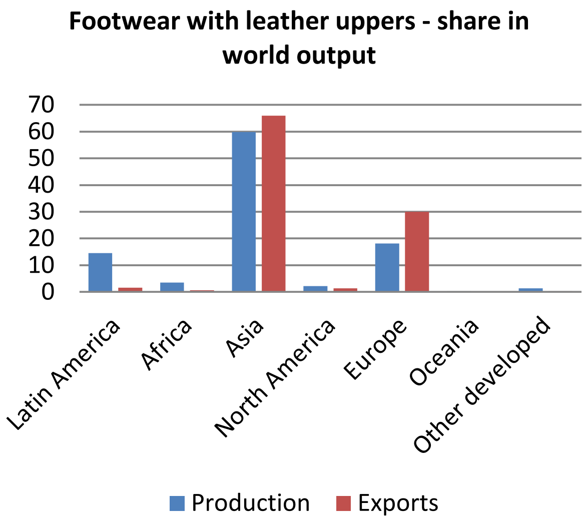
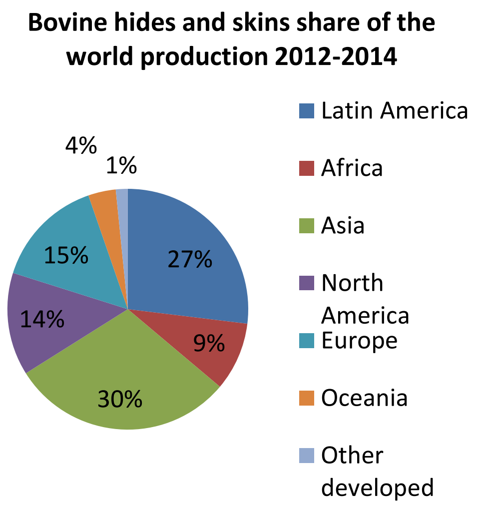




Note: Data for Europe include intra and extra-EU trade.
Source: World statistical compendium for raw hides and skins, leather and leather footwear 1999-2015, Food and Agriculture Organization of the United Nations, Rome, 2016

[6] In many cases the decision to blacklist is based on both the labour, human rights, environmental and corruption risks as well as quality concerns.

Structure of the session

Presentation of the leather supply chain

Moderated discussion

This section of the workshop will be participatory in nature and will facilitate discussion around the following questions.

- To what extent in the leather supply chain is visibility necessary to enable risk-based due diligence and the responsible sourcing of leather (i.e. to phase 3, phase 2 or phase 1 processes)[7]? What would the effect of greater visibility be on sourcing practices for companies? For example, would companies have the capacity to engage in higher risk contexts if traceability existed?
- How can information on labour and human rights, environment and corruption be passed down in a way that is complete, credible and not duplicative? What are the key stumbling blocks along the supply chain before, during and after the tanning process that impede the flow of information to be passed along the supply chain?
- Who are the primary actors that need to be engaged, at what stages and within what roles?

Looking forward and closing

Background resources

- United Nations Economic Commission for Europe (2016), *Traceability for Sustainable Trade: A Framework to Design Traceability Systems for Cross Border Trade*, United Nations, Geneva.
- FAO, *World statistical compendium for raw hides and skins, leather and leather footwear 1999 – 20915*, United Nations
- *Sub-sectoral Environmental and Social Guidelines: Tanneries and Leather Products*, European Bank for Reconstruction and Development

[7] A risk-based approach recognises that the measures taken by an enterprise to conduct due diligence should be commensurate to the likelihood and severity of the harm. The enterprise may priorities the order in which it takes action based on the likelihood of harm. For further information, see OECD (2017), *OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector*.

■ Company and multi-stakeholder learnings from implementing the OECD minerals due diligence guidance

31 January 2018, 13:00 — 14:00
Room CC7, OECD Conference Centre, Paris FRANCE

Objective

This session will provide an opportunity for representatives from the garment and footwear sector to hear from companies and initiatives operating in the minerals sector on how they have implemented the *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* seven years on. It will highlight good practices and lessons learned that may be relevant to actors seeking to implement the OECD Due Diligence Guidance in the garment and footwear sector.

Background

In conflict-affected and high-risk areas[8], companies involved in mining and trade in minerals have the potential to generate income, growth and prosperity, sustain livelihoods and foster local development. Yet, in such situations, companies may also be at risk of contributing to or being associated with significant adverse impacts.

Mostly found in the upstream stage of the supply chain, risks related to mineral production in and sourcing from conflict-affected and high-risk areas include serious human rights abuses, support to non-state armed groups, public or private security forces, bribery and fraudulent misrepresentation of the origin of minerals, money laundering and improper payment of taxes, fees and royalties due to governments. These risks affect large-, medium-, small-scale and artisanal mining alike. Illegally sourced minerals may include, for example, gold and those found in electronic equipment such as tin (used in laptops), tantalum (mobile phones, fibre optics), tungsten (light bulbs), cobalt (lithium-ion batteries).

About the OECD Minerals Guidance

Following a multi-stakeholder process with in-depth engagement from OECD and African countries, industry, civil society, as well as the United Nations, the *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* (the OECD Minerals Guidance) was adopted in May 2011 to foster sustainable corporate engagement in the mineral sector. Applicable to all minerals and global in scope, the OECD Minerals Guidance outlines a 5-step risk-based due diligence process applicable to all companies throughout the mineral supply chain. The Guidance is accompanied by a model supply chain policy that lays down expectations regarding identified risks, and associated responses. It also encompasses supplements on 3Ts (tin, tantalum, tungsten) and gold.

The Guidance is now referenced in domestic regulations on mineral supply chain due diligence in the United States (section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act) and in several countries in central Africa, notably DRC, Burundi and Rwanda. In May 2017, the European Union passed a new Regulation on Responsible Mineral Supply Chains – based on and aligned with the OECD Minerals Guidance – which aims to ensure sustainable sourcing for more than 95% of all EU imports of tin, tantalum, tungsten and gold as of 1 January 2021.

[8] Conflict-affected and high-risk areas are identified by the presence of armed conflict, widespread violence or other risks of harm to people. Armed conflict may take a variety of forms, such as a conflict of international or non-international character, which may involve two or more states, or may consist of wars of liberation, or insurgencies, civil wars, etc. High-risk areas may include areas of political instability or repression, institutional weakness, insecurity, collapse of civil infrastructure and widespread violence. Such areas are often characterised by widespread human rights abuses and violations of national or international law. OECD (2016), OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas: Third Edition, OECD Publishing, Paris, p. 13.

Figure 4. Five Step Framework for due diligence in the OECD Minerals Guidance

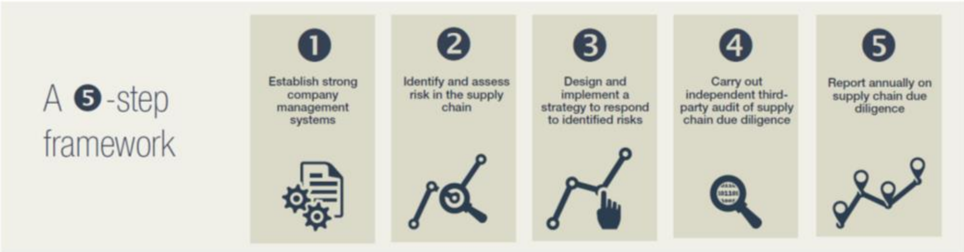
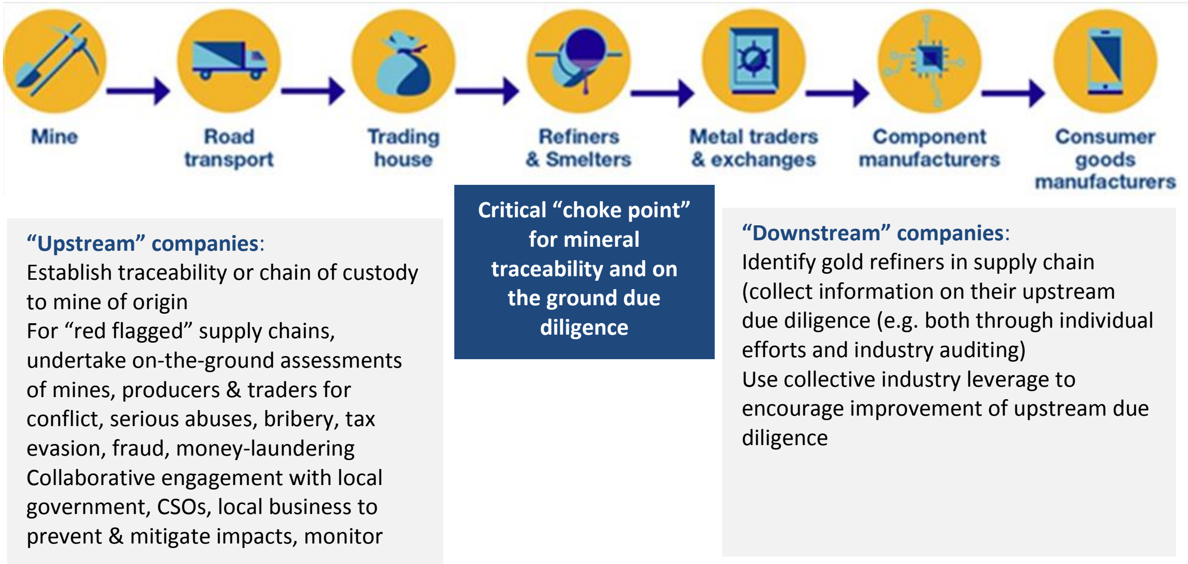


Figure 5. Designation of due diligence responsibilities for upstream and downstream companies in the minerals supply chain



Together with China's Chamber of Commerce for Metals and the Ministry of Commerce, the OECD supported the development of the Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains to implement responsible mineral sourcing and due diligence in conformity with the OECD Guidance. This encourages the uptake of the OECD Guidance in other major mineral trading countries and beyond China in South East Asia, West Africa and South America.

The OECD Minerals Guidance is used as the basis and benchmark by many industry initiatives created to ensure the responsible sourcing of minerals. To gauge the alignment, coherence and credibility of these initiatives - in particular at the smelter and refiner level - the OECD has initiated an assessment of the alignment of industry programmes' standards and systems, as well as of their implementation efforts, with the Guidance.

One of the main areas of OECD's work in the responsible sourcing of minerals is to ensure that international standards do not marginalise workers of the informal sector. For the minerals sector, this means working on the formalisation of Artisanal and Small-Scale Mining.

Background resources

- OECD minerals sector website
- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas: Third Edition, OECD.
- Alignment assessment of industry initiatives with the OECD Due Diligence Guidance for Responsible Mineral Supply Chains, OECD.
- Practical actions for companies to identify and address the worst forms of child labour in mineral supply chains, OECD.

■ Case studies – Integrating worker engagement into the due diligence process

31 January 2018, 14:15 — 15:45
Room CC6

Objective

Companies are called on to engage meaningfully with affected stakeholders as part of the due diligence process.[9] In practice, this can be a challenging process to navigate across diverse operating contexts and risks. This session will introduce three case studies to explore the various ways in which workers and trade unions can be actively and effectively involved in human rights and labour due diligence processes. The session will touch on both learnings and challenges and will seek to understand how the nature of worker involvement may vary based on the type of risk, the stage of engagement and the operating context.

Background

Under the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (OECD Due Diligence Guidance), companies are called on to engage meaningfully with affected stakeholders as part of the due diligence process. Such engagement should be two-way, conducted in good faith and responsive. Stakeholders should be provided with truthful and complete information and should be given opportunity to provide input prior to major decisions being made that may affect them.

Under the OECD Due Diligence Guidance, **stakeholders should be involved** – meaning that they should actively participate in their design and implementation – in the following due diligence processes:

- On-site supplier assessments. See section 2.3.
- Development of corrective action plans. See section 3.
- Verification, validation and monitoring of impacts. See section 4.
- Design of operational-level grievance mechanisms. See section 6.1.

In practice, this means that workers and trade unions and representative organisations of the workers' own choosing should be involved in the above due diligence processes for labour risks.

Enterprises are also **encouraged to consult stakeholders** – meaning that their input and feedback is requested – during the scoping of risks in the enterprise's operations and its supply chain.

Practically, there are a number of ways in which enterprises may engage with stakeholders. Together enterprises and stakeholders are encouraged to identify methods for engagement that are effective for them. Industrial relations can be considered an important form of stakeholder engagement in which management engages the workforce collectively.[10]

Case study 1 – Adapting due diligence approaches to the local context, a case-study from Inditex and IndustriALL Turkey

This case study will seek to address the following questions:

- What is the motivation for the collaboration between Inditex and IndustriALL in Turkey?

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[9] OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector, Introduction to due diligence under the OECD Guidelines and key concepts for implementing due diligence, Meaningful Stakeholder Engagement.

[10] OECD (2017), "Meaningful stakeholder engagement", OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector.

- How practically, does this collaboration play out in terms of adapting due diligence processes to the sourcing context in Turkey? Specifically, how has collaboration between the two organisations facilitated a more tailored approach to supplier assessments, corrective action plans, and ongoing monitoring?
- What are some of the challenges that Inditex and IndustriALL have faced in forging a collaboration and what are the lessons learned that may be applicable to other contexts?

Case study 2 – Facilitating on-going monitoring, a case study from H&M Global Framework Agreement

In November 2015, H&M signed a Global Framework Agreement (GFA) with IndustriALL Global Union. One component of the GFA was the establishment of national monitoring committees to oversee the implementation of the agreement in key sourcing countries and to facilitate dialogue between parties. This case study will examine how national monitoring committees have facilitated the ongoing monitoring of labour risks in sourcing countries. Specifically, this case study will seek to address the following questions:

- What is the role of national monitoring committees and how are they organised?
- How do the national monitoring committees operate at a practical level? When are issues raised and through what means?
- How have issues raised through national monitoring committees enabled H&M to respond to in-country risks or issues proactively?
- What are some of the challenges that H&M and IndustriALL have faced in establishing national monitoring committees and what are some of the key learnings to overcoming these challenge?

Case study 3 –Integrating workers in the design of training programmes, a case study from the Accord on Fire and Building Safety in Bangladesh

The Accord on Fire and Building Safety in Bangladesh (the Accord) was signed in May 2013 in the aftermath of the Rana Plaza building collapse. The agreement consists of six components, one of which is a worker training programme, complaints mechanism and right to refuse unsafe work. This case study will examine how the Accord integrated workers into the design of the training curriculum and materials. The case study will seek to address the following questions:

- What process did the Accord develop to integrate worker perspectives and expertise into the design of the training programmes?
- How are workers involved in the implementation of training programmes?
- How is sustainability and quality control integrated into the training programme?
- What are the challenges that the Accord faced in developing the training curriculum and lessons learned that may be applicable to other contexts?

Role of financial institutions in promoting responsible business conduct in the sector

31 January 2018, 14:15 — 15:45
Room CC6

Objective of the session

The session will provide an opportunity to hear from financial institutions on the processes that they take to identify risks with respect to their clients/investment portfolios in the garment and footwear sector and how they are using their leverage to encourage responsible business conduct. This session will also draw from the OECD's work on responsible institutional investment.

Background

There is increased attention paid to the role of investors to seek to mitigate environmental, labour, and human rights risks in their underlying companies as well as recognition of the financial materiality that such risks may bring. For example, the role of the financial sector in promoting responsible business conduct (RBC) is increasingly being discussed in the context of specific instance proceedings under the National Contact Points to the OECD Guidelines. Specific instances involving the financial sector have seen significant increases in terms of submissions of complaints, from about 8% of specific instances from 2000-2010 to 17% of specific instances from 2011. Increased attention has encouraged investors to take an active role in promoting responsible business conduct as evidenced by Chairman and Chief Executive Officer of BalckRock's, Larry Fink, recent letter to CEOs on 'a sense of purpose'.

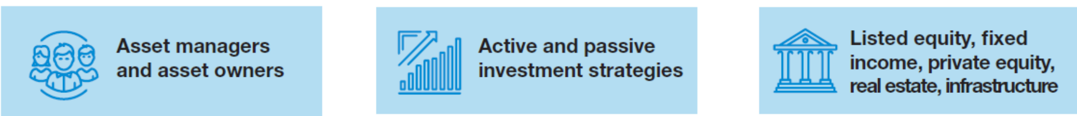
Due diligence expectations of the financial sector under the OECD Guidelines

Recommendations regarding due diligence under the OECD Guidelines apply across all sectors, including the financial sector and commercial investment enterprises. Importantly this does not mean that investors are expected to carry out due diligence on behalf of their investee companies. Instead, they are expected to undertake due diligence to identify, prevent and mitigate RBC risk and impacts in their own portfolios. In 2017, the OECD launched a paper that highlights key considerations for institutional investors in carrying out due diligence that. See Box 2.

Box 2. Responsible business conduct for Institutional Investors

The OECD paper *Responsible business conduct for Institutional Investors* explains key considerations for institutional investors in carrying out due diligence as recommended by the OECD Guidelines for Multinational Enterprises. The paper helps institutional investors to prevent and address adverse impacts related to human and labour rights, the environment, and corruption caused by companies in their investment portfolios.

It provides tailored recommendations for:



The paper articulates a common position on several complex issues which were previously not recognised nor well understood. Specifically:

- The relationship of responsible business conduct (RBC) standards to fiduciary duty.
- How minority shareholders, in a vast majority of cases, will be directly linked to adverse impacts caused or contributed to by companies in their portfolio.
- How investors should approach prioritisation when carrying out due diligence.

Identifying risks in an Investor's portfolio

Investors may screen their portfolios to identify general areas where RBC risk is most significant and use this information as a basis for more detailed investigation, either individually or collaboratively. Investors should apply more detailed investigations as part of their due diligence for investee companies that are actually, or likely to be, associated with more severe RBC risks. Follow up and additional fact-finding may be done through the investor's own desk-based research, using specialised research services, collaborative databases and engagement techniques, as well as direct engagement with the prioritised investee companies to obtain additional information on their approach to RBC issues (e.g. by requesting the investee to provide certain information, questionnaires, site visits etc.). Investors can work collaboratively to approach companies in these situations or to collect more information about them. For example, mechanisms such as the Principles for Responsible Investment Collaboration Platform can be used.[11] This session will provide an opportunity to hear from investors on how they are screening their garment and footwear portfolios.

Preventing and mitigating adverse impacts: appropriate responses from investors

In recent years there has been significant dialogue around how investment institutions should engage in due diligence to identify risks throughout their business relationships, particularly with regard to their investee entities. However there has been less discussion focused on what investors should do when their due diligence processes reveal a direct link to real or potential adverse impacts.

Many different types of engagement and response strategies are available to investors (e.g. individual engagement with investee entities through dialogue, letter writing, shareholder proposals, public advocacy, etc.). The question remains which types of investor responses are optimal and most effective to exerting influence to promote responsible business conduct taking into account that not all forms of engagement will be feasible for all categories of investment. For example, for investors managing a large asset portfolio direct engagement with investee entities may not be a realistic response. For indexed investments, investors may have to rely on engagement through shareholder voting strategies.[12]

Using leverage

As part of their due diligence process, investors are expected to use their so-called "leverage" with companies they invest in to influence those investee companies to prevent or mitigate adverse impacts. The relationship between an investor and an investee company is qualitatively different from the relationship between a brand, retailer or other buyer and supplier companies. In the former, there are no direct operational or contractual ties between the two, but the investor can seek to influence the investee through ownership.

The approaches investors can employ to use their leverage to influence companies they invest in are broad in scope. These are not limited to direct engagement with investee companies but could also involve, as appropriate, directing capital towards responsible investee companies over time, involvement in industry initiatives targeting certain RBC risks, collective action on specific geographic or company-specific issues, etc. What is appropriate will vary according to the characteristics of an investor, the investment strategy (e.g. active vs. passive investments) and relevant regulatory obligations. It is important that such leverage is also exerted within the framework of good corporate governance.[13] An investor's ability to exercise influence over the company concerned – to use its so-called leverage to mitigate the RBC risk – may be affected by a number of factors.[14]

[11] OECD (2017), *Responsible business conduct for Institutional Investors,* Section 2.2.

[12] Ibid.

[13] OECD (2017), "Business relationship responsibilities in the context of institutional investors" in *Responsible business conduct for Institutional Investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises.*

[14] OECD (2016), "Leverage limitations" in *Responsible business conduct for Institutional Investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises.*

Exclusions and divestment

Investors who lack (or have exhausted) leverage over an investee that is causing impacts may choose to maintain the relationship or divest. Both divestment from, and continued investment in, an investee company may be appropriate outcomes following risk-based prioritisations. If the investor chooses to remain in the relationship, it should continue to account for its ongoing risk mitigation efforts and be aware of the reputational, financial or legal risks of the continuing connection. [15]

Some factors to consider when deciding if divestment is an appropriate response are: the investor's leverage over the company; how crucial the relationship is to the investor; the severity of the impact; and whether terminating the relationship with the company would result in adverse impacts. This decision will also depend on the nature of the asset class and strategy and whether divestment is prudent as understood in the context of a relevant jurisdiction's laws on fiduciary duty or prudent investment. Generally the more severe the adverse impact, the more quickly the investor will need to see change before it takes a decision on whether it should end the relationship.[16]

Under the OECD Guidelines, divestment should in most cases be a last resort or reserved only for the most severe adverse impacts. However, in some cases, exclusion may be a first response to adverse impacts. For example, some investment institutions have exclusion policies for highly damaging industries or products or those with potential systemic negative impacts. [17]

Discussion questions

- What are the expectations of investors in relation to carrying out due diligence to identify, prevent and mitigate RBC risk and impacts in their own portfolios?
- How are investors identifying environmental, labour and human rights risks in their portfolio broadly and within the garment and footwear sector more specifically?
- How are investors using their so-called "leverage" with companies they invest in within the sector to influence those investee companies to prevent or mitigate adverse impacts?
- What factors do investors take into account when considering divestment?

Background resources

- Learn more about the OECD's work on responsible business conduct in the financial sector
- OECD (2017), *Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises*.
- Bijelic, Barbara "Preventing and Mitigating Adverse Impacts: Appropriate Responses from Investors", prepared for the Global Forum on Responsible Business Conduct, 18-19 June 2015, OECD.

[15] OECD (2017), "*Considering divestment and exclusions*" in *Responsible business conduct for Institutional Investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises.*

[16] Ibid.

[17] Ibid.

■ The link between transparency and supply chain due diligence

31 January 2018, 16:00 — 17:30
Room CC7

The term "transparency" in this session is used to explicitly refer to the disclosure of supplier information.

Objective of the session

The session will provide an opportunity to examine the link between supply chain due diligence and transparency as well as consider broader evolving norms on transparency. The session will likewise learn from the experience of business and initiatives on the practicalities of being transparent in terms of what information is disclosed, how information is disclosed, at what frequency, to whom and the results of that transparency?

Background

While a handful of garment and footwear companies have been publishing information on the manufacturers in their supply chains since the late 1990s, it is only in recent years that there has been a broader shift towards supply chain transparency in the sector. There are no exact figures to date on how many companies in the sector disclose supplier information, but in a study carried out by Fashion Revolution over 100 brands with over 40 million euros in annual turnover or who are part of a larger companies were identified to be disclosing supplier information in 2017.[18] While there remains a strong variance across companies in the specific information shared and the scope of suppliers that a company discloses (e.g. manufacturing, spinning, mills, components manufacturers, etc.), the figures do seem to indicate a movement towards transparency in the sector.

Although this movement may be *partially* energised by increasing legislation on due diligence, in the majority of cases, legislation does not require disclosure of specific supplier information but rather disclosure on due diligence processes (see Box 3).[19] Although not always enshrined in law, an increased focus on due diligence in the sector may nonetheless be driving supplier transparency in the recognition that transparency can enable workers and civil society to play a role in monitoring labour, human rights, corruption and environmental risks as well as unauthorised subcontracting in a company's supply chain. Campaigns and industry and multi-stakeholder initiatives have likewise played a key role in promoting the transparency agenda within the sector. While the objective of these efforts is generally aligned and focused on increased and harmonised disclosure of supplier information, the motivations behind these efforts at times diverge. Some initiatives are primarily focused on disclosure as a tool for enabling due diligence (specifically in relation to on-going monitoring and processes to enable remediation) while other initiatives focus on transparency as a normative standard for accountability.

The OECD Guideline for Multinational Enterprises and the OECD Principles of Corporate Governance include disclosure expectations for companies on material information as well as company codes of conduct, and performance in relation to these statements. These expectations are independent of the due diligence expectations of companies also included in the OECD Guidelines. The OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector recognises the role that transparency can play in identifying risks linked to suppliers and monitoring progress on preventing and

[18] Ditty, Sarah, "Transparency is Trending", Fashion Revolution, 2017.

[19] One exception is import disclosure requirements in the US. In the US, customs and border protection laws require formal entry of commercial shipments across sectors. As textile products are considered to be trade-sensitive, they are subject to a higher percentage of examinations than other commodities and a broader scope of disclosure requirements. See, Importing into the United States, a Guide for Commercial Importers, US Customs and Border Protection.

mitigating adverse impacts.[20] Neither the OECD Guidelines for Multinational Enterprises nor the OECD Due Diligence Guidance take an explicit stance on the disclosure of supplier information.

Despite a positive emerging direction towards transparency, concerns regarding retaining competitive advantage, particularly for smaller companies with potentially more limited leverage with their suppliers, and luxury companies, also remain pertinent. Additionally, some companies point to the resources necessary to disclose supplier information in a way that is complete and up to date as a constraint. Others point to the necessity of an enabling environment – including freedom of association and the establishment of other credible grievance mechanisms – for disclosure lists to be meaningfully used by trade unions, civil society or investors to monitor labour, human rights, environmental and integrity conditions linked to sourcing.

Box 3. Due diligence policy developments relevant to the global garment and footwear industry

2010 California Transparency in Supply Chains Act

This Act requires large retailers and manufacturers doing business in California to disclose on their websites their "efforts to eradicate slavery and human trafficking from [their] direct supply chain for tangible goods offered for sale." The law applies to any company doing business in California that has annual worldwide gross receipts of more than $100 million and that identifies itself as a retail seller or manufacturer on its California tax return. Companies subject to the Act must post disclosures on their Internet websites related to five specific areas: verification, audits, certification, internal accountability, and training.

2015 – UK Modern Slavery Act

Requires that companies publish annual statements on their efforts to tackle slavery or trafficking in their business and supply chain. Statements are encouraged to disclose:

- A description of the organisation's structure, business model and supply chain relationships.
- Information on policies in relation to slavery and human trafficking.
- Details of the due diligence processes the organisation undertakes in relation to its business and supply chains.
- The areas of the business and supply chains at risk of slavery and human trafficking and the steps taken to assess and manage that risk.
- The effectiveness in ensuring that slavery and human trafficking is not taking place in its business or supply chains, measured against such performance indicators considered appropriate.

2016 – French Duty of Care Law

Requires companies with over 5,000 employees to carry out and report on their due diligence efforts to identify and prevent human rights abuses in their supply chains. Companies meeting these criteria are required to develop and enact annual "vigilance plans" that detail the steps they will take to detect risks and prevent serious violations with respect to human rights and fundamental freedoms, and the health and safety of persons and the environment, which result from company, subsidiary, supplier and subcontractor activities.

…cont

[20] OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector, Section I, 5.1.

Box 3 (cont…) Due diligence policy developments relevant to the global garment and footwear industry

2016 – Dutch Covenant on Sustainable Garment and Textile

Government-backed agreement between companies, trade unions and civil society to carry out supply chain due diligence. The agreement covers issues related to discrimination, child labour, forced labour, wages, health and safety standards for workers and the rights of independent trade unions to negotiate.

2017 Update of the US Tariff Act of 1930

Prohibits the importation of merchandise produced by forced or child labour. Merchandise is subject to exclusion and/or seizure, and may lead to criminal investigation of the importer(s). Customs Border Protection regulations state that any person who has reason to believe that merchandise produced by forced labor is being, or is likely to be, imported into the United States may communicate his belief to any Port Director or the Commissioner of CBP.

2017 – Child Labour Due Diligence Bill

In February 2017 the Dutch Parliament adopted the Child Labour Due Diligence Bill. The law, if approved by the Dutch Senate, will require companies to identify whether child labour is present in their global value chains and, if this is the case, to develop a plan of action to combat it.

Australia - Modern Slavery in Supply Chains Reporting Requirement

The Australian Government has announced an intention to introduce a "Modern Slavery in Supply Chains Reporting Requirement" in Australia to combat modern slavery. Modelled on the UK Modern Slavery Act 2015, the Reporting Requirements will require large businesses and entities operating in Australia to publish an annual Modern Slavery Statement.

Sources: Modern slavery in supply chains – reporting requirements coming, Lexology; Freshfields Bruckhaus Deringer; The California Transparency in Supply Chains Act, A Resource Guide, The California Department of Justice.

Discussion questions

- What is the link between supply chain due diligence and supplier transparency?
- What are some of the practical considerations of transparency in terms of what information is disclosed, how information is disclosed, at what frequency, to whom and the results of transparency?

Background resources

- OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector, Section I, Communication 5.1
- The Apparel and Footwear Supply Chain Transparency Pledge "The Transparency Pledge"
- United Kingdom, Transparency in Supply Chains, A Practical Guide, Guidance issued under section 54(9) of the Modern Slavery Act 2015
- Stauffer, Brian (2017), Follow the thread, the need for transparency in the garment and footwear industry, Human Rights Watch.

■ Purchasing practices and due diligence

31 January 2018, 16:00 — 17:30
Room CC 7

Objective of the session

Following an introduction session to this topic at the 2017 OECD Roundtable on Due Diligence in the Garment and Footwear Sector, this session will provide an opportunity to review progress made in 2017 on scaling-up due diligence on company purchasing practices, as well as identify continued challenges and share objectives for the coming year. This session will include recent research carried out by the Joint Ethical Trading Initiatives in collaboration with the ILO as well as an update from ACT and an introduction to Better Buying. The session will likewise hear from the experiences of producers in Bangladesh and Turkey on responsible purchasing practices. While the session will primarily focus on production pressures and labour-related impacts, it will also provide an opportunity to explore possible environmental repercussions of some purchasing practices.

Background

The purchasing practices of retailers, brands and their buying intermediaries can result in unreasonable production pressures on suppliers and contribute to harmful impacts—such as excessive overtime and late payment of wages—in some cases. This is most notably the case when orders are changed, cancelled, placed late, rushed (particularly during peak times or holidays) or when lead times are set shorter than feasible. Inefficiencies in the purchasing process, such as poor technical specifications, can likewise contribute to undue production pressures on suppliers. For example, a study conducted by the Joint Ethical Trading Initiatives[21] found that, when lead times do not allow for sufficient production planning, 59 percent of suppliers surveyed indicated that the consequences are often additional overtime and increased production costs. Within the same study, suppliers pointed to the main consequences of inaccurate technical specifications by customers as being additional overtime (for 41 percent of respondents), increased production costs (for 66 percent of respondents) and financial loss to the company (for 50 percent of respondents). Late or delayed payment for products may also contribute to suppliers delaying payment of wages to their workers. Although less frequently highlighted, the consequences of a company's purchasing practices may also result in increased environmental risks, such as related to water consumption, pollution and wastewater management. In the longer-term, a company's price negotiation and purchasing practices may contribute to financial loss and decreased capacity to meet labour and environmental standards.

Due diligence

The OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector requires companies to establish a due diligence process to identify and address harmful impacts (e.g. child labour, excessive overtime, etc.) in their own operations and also in their supply chain. As a component of this due diligence process, companies should also make good faith efforts to understand whether they have caused, contributed to or are directly linked to these harmful impacts, and, once identified, to prevent, mitigate and address them. One way companies may contribute to adverse impacts is through their purchasing practices, and the OECD Due Diligence Guidance incorporates the expectation that companies address their purchasing practices as part of their due diligence.[22] Specifically, the OECD Due Diligence Guidance calls on companies to: assess whether purchasing practices are contributing to increased labour, environmental or human rights risks; establish control measures to prevent the company's contribution to harm; and establish red flag systems.

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[21] The Joint Ethical Trading Initiatives, Guide to Buying Responsibly.

[22] See Box 2 of the OECD Due Diligence Guidance.

Assess whether purchasing practices are contributing to increased labour, environmental or human rights risks:

- Companies are encouraged to engage with their suppliers to understand if and how their purchasing practices may be contributing to harm. Recognising that suppliers may be reluctant to provide such feedback candidly, the enterprise may seek to collect information from its suppliers anonymously (e.g. annual survey) or partner with a third party that aggregates the data and presents findings.
- Companies are called on to track relevant indicators of practices that may contribute to increased labour, environmental or human rights risks and to establish systems to track such information on an ongoing basis. Examples include: % of orders placed late, % of orders changed after order is placed; # of days between the last change and shipment.
- If the enterprise identifies through its tracking that poor purchasing practices are common, it should seek to identify why. Team members responsible for the placement of orders should be included in the analysis.

Establish control measures to prevent the company's contribution to harm

The enterprise is encouraged to implement control measures to prevent contributing to harm through its purchasing practices regardless of whether it has identified specific contributions to harm.

- Companies should develop pricing models that account for the cost of wages, benefits and investments in decent work. The above considerations should be reflected in freight on board (FOB) prices together with traditional pricing considerations such as quantities being purchased, cost of materials, skill requirements, etc.
- Additional control measures may include: Setting final order placement dates with the supplier; Communicating the deadlines to everyone in the purchasing teams; Sharing the purchasing plan with suppliers and communicating updates in a timely manner; Improving forecasting alignment, which involves coordination across geographies, categories and product designs to get the right information and decisions made at the right time; Optimising the sourcing base to handle fluctuations in capacity and to adopt and implement the technologies needed to respond to the demand for emerging styles and products.

Establish red-flag systems

The enterprise should 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, the enterprise may mitigate risks by a) paying for rushed order delivery b) changing the delivery date or c) providing a list of pre-qualified subcontractors to fill a portion of the order.

Box 4. Summary of purchasing practices initiatives

The Joint Ethical Trading Initiatives (ETIs)

The ETIs is a collaboration between Ethical Trading Initiative Norway (IEH), Ethical Trading Initiative and Danish Ethical Trading Imitative (DIEH). They have produced a guide for organisations seeking to develop and implement responsible purchasing practices. It draws on the findings of a major supplier survey conducted by the ETIs and the International Labour Organization (ILO) in 2016, delivers robust insights and analysis, and provides comprehensive, practical recommendations for senior managers and buyers.

ACT

ACT is an initiative that brings together brands and retailers, trade unions and manufacturers to address wages and working conditions in the garment and footwear sector at manufacturing. ACT aims to improve wages in the industry by establishing industry collective bargaining in key garment and textile sourcing countries, supported by world class manufacturing standards and linked to responsible purchasing practices.

Better Buying

Better Buying supports industry-wide transformation of buyer purchasing practices to enable buyers and suppliers to achieve their financial, social and environmental goals. Buying Better:

- Gathers, analyses and disseminates detailed analysis on the purchasing practices of buying companies using suppliers' evaluations of their customers; and
- Promotes best practice and works in partnership to accelerate industry-wide improvements.

Discussion questions

- Where do challenges persist to achieving wide-spread responsible purchasing practices. What specifically is needed to meet these challenges?
- Based on this discussion, what could be an objective for 2018 in moving towards responsible purchasing practices? How can this be monitored?
- What is the role of the various actors in the room?

Background resources

- The Joint Ethical Trading Initiatives, Guide to Buying Responsibly.
- ILO Policy Brief: Purchasing practices and working conditions in global supply chains; Global Survey results.

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