

CASE STUDIES ON ENVIRONMENTAL DUE DILIGENCE: EXAMPLES FROM JAPANESE BUSINESSES



OVERVIEW

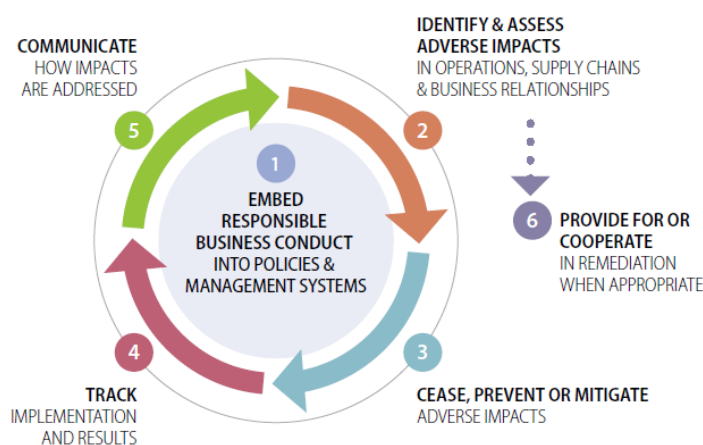
The six case studies enclosed in this series provide examples of corporate efforts to conduct environmental due diligence, drawing on the experience of Japanese companies. The case studies aim to support business in the practical implementation of environmental due diligence across supply chains. The [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



Source: OECD (2018), OECD Due Diligence Guidance for Responsible Business Conduct. Available in multiple languages at <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>

NOTES

¹The 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
<http://mneguidelines.oecd.org/due-diligence-for-responsible-corporate-lending-and-securities-underwriting.pdf>

OECD (2018), OECD Due Diligence Guidance for Responsible Business Conduct. Available in multiple languages at <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>

OECD (2011), OECD Guidelines for Multinational Enterprises. Available in multiple languages at <https://mneguidelines.oecd.org/mneguidelines/>

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



CASE STUDY ON ENVIRONMENTAL DUE DILIGENCE ADDRESSING DEFORESTATION & BIODIVERSITY LOSS



These case studies provide examples of salient environmental risks and how companies are working to mitigate these risks through supply chain due diligence. They are designed to assist companies and other stakeholders in understanding how key processes outlined in the OECD Due Diligence Guidance for Responsible Business Conduct can be implemented in avoiding and addressing adverse environmental impacts associated with company operations, supply chains and other business relationships.

Each case study provides examples of company actions that relate to the six recommended due diligence processes set out in the OECD Due Diligence Guidance (see cover note). Not each case study includes examples across all six processes, rather, they draw on the relevant practical experiences of Japanese companies.

OVERVIEW

The organisation: The Company is a business-to-business food ingredients manufacturer, and specializes in: 1) vegetable oils and fats, 2) industrial chocolate, 3) emulsified and fermented ingredients, and 4) soy-based ingredients. It engages in the research and development, production, and sale of industrial use food ingredients, and procures palm oil, mainly from plantations in Malaysia and Indonesia, for the vegetable fats and oils used in its products.

The Challenge: The challenges associated with the conventional cultivation of palm oil are multidimensional and entrenched within complex supply chains.¹

Investors, customers and stakeholders continue to express strong concerns about adverse environmental and social impacts in the palm oil supply chain including: deforestation, loss of biodiversity, and human rights abuses such as forced labour and child labour.² In response to these social and environmental risks, and to meet rising expectations of clients and investors, the Company is promoting sustainable procurement of palm oil.

This case study provides examples of how the Company is implementing supply chain due diligence into the Company's policies and management systems in order to address actual and potential adverse impacts on the environment. It focuses on two environmental risks commonly identified in the procurement of palm oil: deforestation and biodiversity loss.

Sector: Food ingredients

Position in the supply chain: Manufacturing (mid-stream)

Scope of operations: Asia

Ownership form: Publicly listed company

Size: 5,874 employees (2020)

1

EMBED RESPONSIBLE BUSINESS CONDUCT INTO POLICIES AND MANAGEMENT SYSTEMS

As set out in the OECD Due Diligence Guidance for Responsible Business Conduct (OECD Due Diligence Guidance),³ 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 in supply chains.

The Company appointed a Chief ESG (Environmental, Social and Governance) Officer who chairs an ESG committee which serves as an advisory body to the Board of Directors.



The committee meets at least twice a year to review progress, and reports to the Board. The committee has elevated sustainable procurement of palm oil as one of the Company's top priorities. This is part of the Company's broader efforts to ensure sound management of environmental and social issues. It also provides training to employees and group companies to help them integrate ESG considerations as part of regular business processes and management activities. The Company incentivises such actions through an annual awards programme aimed at recognising effective management of ESG issues.

The Company became a member of the Roundtable on Sustainable Palm Oil (RSPO) in 2004,⁴ and reports annually on its sustainable and responsible sourcing practices. In 2016, the Company introduced its own Responsible Palm Oil Sourcing Policy, which refers to the RSPO manual, the United Nation Guiding Principles on Business and Human Rights (UNGPs), International Labour Organization (ILO) Conventions, and the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGGT). Through this Policy, the Company reinforced its commitment to engaging with business partners and relevant stakeholders on environmental and human rights issues related to its procurement of palm oil. The promotion of sustainability has attracted new business partners including consumer food manufacturers, retailers, and investors who focus on ESG.

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, pages 57-59, Q16, and Table 5 "Example of departments and functions potentially relevant to implementation of due diligence" of the OECD Due Diligence Guidance. For information on developing RBC policies, see page 56, Q15. Information on the role of the board and management in embedding RBC can be found on page 59, Q17. Information on how companies collaborate at an industry level and with relevant stakeholders can be found on pages 51-53, Q12 and Box 3 on "Good governance for due diligence collaborative initiatives".



IDENTIFY AND ASSESS ACTUAL AND POTENTIAL ADVERSE IMPACTS ASSOCIATED WITH THE ENTERPRISE’S OPERATIONS, PRODUCTS OR SERVICES

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.

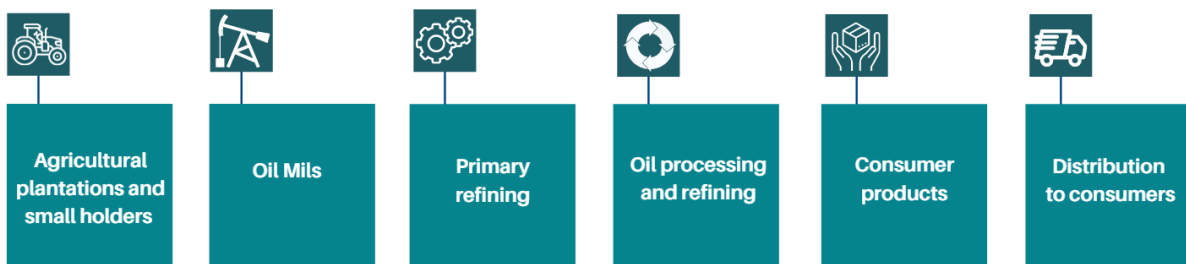
In 2020, the Company reported that it achieved its target of delivering full traceability of oil mills. It mapped its suppliers by tier, region and product and product type, and published details on its webpage together with a list of nearly 1,400 oil mills in its supply chain. See Figure 1 for an overview of the palm oil supply chain.

The Company procures part of its supply of palm oil from its own group companies operating refineries (primary refineries) in Malaysia. These refineries are a control point in the palm oil supply chain, operating at a key point of transformation in the supply chain with good visibility and leverage over their suppliers, including oil mills and plantations.

The Company engages with these primary refineries to increase its own understanding and visibility of the palm oil supply chain to identify and address environmental risks. In collaboration with an environmental non-governmental organisations (NGO), the Company and these primary refineries have requested oil mills to complete self-assessment questionnaires to help identify risks further up the supply chain.

The Company also conducts on-site visits to the oil mills associated with high environmental and social risks and supports these sub-suppliers in mitigating these risks.

Figure 1. SIMPLIFIED PALM OIL SUPPLY CHAIN



The Company has also engaged with its external (non-company group) primary refineries and is supporting these suppliers' understanding of the Company’s Sourcing Policy. These external primary refineries are also asked to complete a self-assessment questionnaire relating to environmental and social risks, enabling the Company to understand and monitor progress of each supplier's risk management process.

The Company also encouraged external primary refineries to develop grievance mechanisms with their suppliers, to facilitate information gathering on negative impacts.

For examples of practical steps that companies can take to identify and assess high-risk operations and business relationships, see pages 66-67, Q24-Q25 of the OECD Due Diligence Guidance. For examples of actions to engage with suppliers beyond Tier 1, see pages 68-69, Q27-28.

To better understand supply chain mapping and control points in the supply chain, see pages 61-62, Box 4 “Where does supply chain mapping fit into the scoping and assessment process?” and page 69, Box 5 “Engagement with business relationships operating at control points in the supply chain”.

3 CEASE, PREVENT AND MITIGATE ADVERSE IMPACTS

While companies always remain responsible for ensuring that their due diligence is effective, collaboration can be beneficial in pooling knowledge on sector risks, increasing leverage with shared business relationships, finding solutions and making due diligence more efficient for all. Collaboration can help companies prevent and mitigate specific risks.

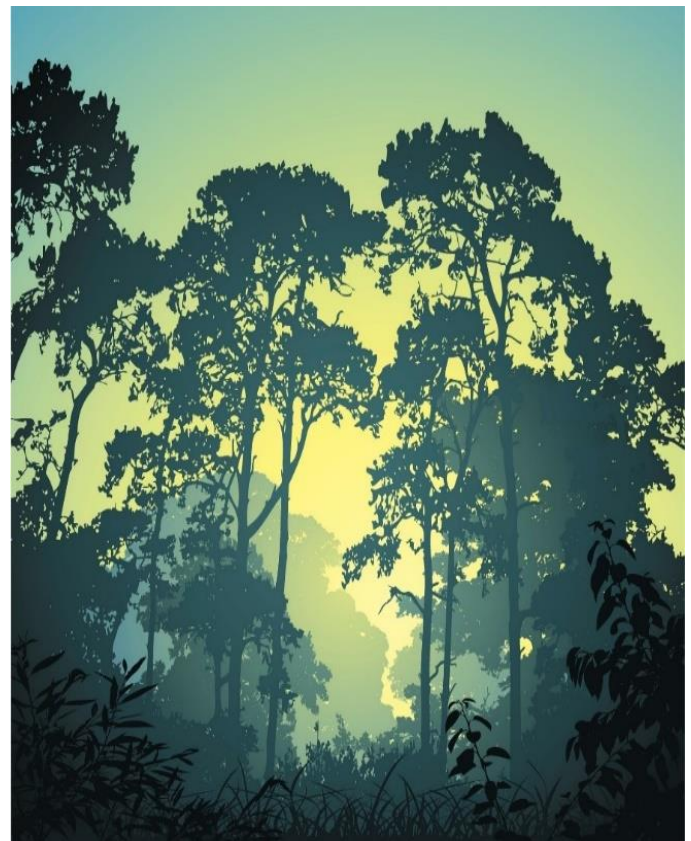
Research on oil mills in Sumatra, Indonesia revealed that natural areas rich in biodiversity have been exposed to deforestation. Since 2018, the Company has financially supported the Areas for Priority Transformation programme (APT)⁵ to help prevent and mitigate such risks.

The APT is a multi-stakeholder initiative in which local governments, NGOs, companies and farms work together to tackle deforestation in two tropical rainforest regions (Aceh Tamiang and Southern Aceh).

This initiative has adopted a “landscape approach”, which aims to support the entire community across sectors. The goal of this programme is to reduce deforestation and demonstrate the feasibility of balancing commodity production, conservation and good social and labour practices at scale.

To accomplish this, the programme focuses on three mutually reinforcing areas of work: integrated land use planning with government, NDPE (No Deforestation, Peat, and Exploitation) support and training for industry, and intensive capacity-building for communities on the forest frontier.

For information on how companies can increase their leverage to effect change, see page 19, Box 2 “Collaboration in carrying out due diligence” and pages 78-80 Q36-Q38 of the OECD Due Diligence Guidance.





5

COMMUNICATE HOW IMPACTS ARE ADDRESSED

The Company reports on its management of ESG issues and sustainability-related actions through its website. It reports on initiatives to strengthen Company capacity for sustainable palm oil procurement, as well as the results of its supply chain mapping including details on the supply chain structure and the list of oil mills associated with the Company.

In addition, the Company also reports on the risks identified in its supply chain and the measures taken, in co-operation with suppliers, to identify and address these risks such as through the implementation of a grievance process. The Company also shares information on collective efforts to promote sustainable palm oil supply chains across the industry.

Finally, the Company sets specific targets related to sustainable palm oil procurement each year and reports publicly on the results and next steps. It aggregates performance data and publishes progress reports on the Company's Supply Chain Data Base webpage.

For examples of appropriate forms of public communication of information related to due diligence for RBC, see page 33, item 5.1 and pages 85-87, Q46-Q47 of the OECD Due Diligence Guidance.

Reporting publicly on company RBC policies, due diligence processes and activities conducted to identify and address risks, including the findings and outcomes of those activities, is part of the due diligence process itself.

It enables companies to build trust in their actions and decision-making, and demonstrate good faith.



6

PROVIDE FOR OR COOPERATE IN REMEDIATION

Grievance and remediation processes interact with and support due diligence by providing channels through which companies can become aware of and respond to adverse impacts of their activities.

Effective implementation of grievance mechanisms can help companies enhance risk-based due diligence across all issues related to RBC.

As part of its Responsible Palm Oil Sourcing Policy, the Company established a grievance mechanism in 2018 to receive and handle complaints on environmental and human rights issues related to operations and its palm oil supply chain.

To improve the effectiveness of its grievance mechanism in line with the UNGPs effectiveness criteria

for non-judicial grievance mechanisms,⁶ the Company published its Grievance Procedure which describes the workflow process, timelines and other information of the grievance mechanism such as the templates for reporting and action-planning on grievances.

To increase transparency, the Company publishes a list of grievances received with an update on progress on its webpage every quarter. This quarterly grievance list includes information on who has raised a grievance (at

an organisation level only), dates, issues (i.e. deforestation, illegal sourcing), alleged upstream suppliers potentially involved, supply chain linkages with the Company and the progress and status of the complaint.

As of March 2021, the company had received 228 cases. As a result of the grievance procedure, the Company has decided in certain cases to stop sourcing from a specific supplier. In other cases, the Company worked with the supplier to develop a solution such as enhancing traceability or engaging with communities to prevent deforestation.

To better understand on-going supply chain risks and develop solutions, the Company has also been participating in a multi-stakeholder initiative led by the Global Compact Network Japan and the Japan Business and Human Rights Lawyers Network. Through this engagement, the Company is collaborating with other companies and stakeholders to solve issues through facilitated dialogue between business and NGOs.

For examples of practical actions that companies can take to cooperate with legitimate remediation mechanisms and enable remediation, see pages 34-35, items 6.1 and 6.2 and pages 90-91, Q52-Q54 of the OECD Due Diligence Guidance.

NOTES

¹ See for instance: Understanding the Journey: Shared experiences from companies on their transition to 100% sustainable palm oil. WWF (2020).

https://wwf.panda.org/discover/our_focus/food_practice/sustainable_production/palm_oil/news_updates/?950941/Tackling-sustainability-issues-in-the-palm-oil-sector-Major-brands-and-retailers-share-their-experiences-with-WWF

² See for instance: Study on the environmental impact of palm oil consumption and on existing sustainability standards. For the European Commission, DG Environment. 2018 (07.0201/2016/743217/ETU/ENV.F3).

https://ec.europa.eu/environment/forests/pdf/palm_oil_study_kh0218208enn_new.pdf. Or Rainforest Alliance Network “Conflict Palm Oil: How U.S. Snack Food Brands are Contributing to Orangutan Extinction, Climate Change and Human Rights Violations” [https://www.ran.org/wp-content/uploads/2018/06/conflict_palm_oil_lowres_\(1\)..pdf](https://www.ran.org/wp-content/uploads/2018/06/conflict_palm_oil_lowres_(1)..pdf)

³ OECD (2018), OECD Due Diligence Guidance for Responsible Business Conduct. Available in multiple languages at

<https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>

⁴ The Roundtable on Sustainable Palm Oil (RSPO). See: <https://rspo.org/>

⁵ The Earthworm Foundation. <https://www.earthworm.org/our-work/projects/aceh-tamiang-sumatra-indonesia>

⁶ The OECD Guidelines recommend when the enterprise identifies that it has caused or contributed to actual adverse impacts, it addresses such impacts by providing for or cooperating in their remediation. The OECD Guidelines provides core criteria for operational-level grievance mechanisms in line with the UNGPs. See pages 34-35. OECD Due Diligence Guidance for Responsible Business Conduct. 2018: <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>. The UN Guiding Principles on Business and Human Rights also provides eight effectiveness criteria for company grievance mechanisms. These effectiveness criteria provide a benchmark for designing, revising or assessing a non-judicial grievance mechanism to help ensure that it is effective in practice. Poorly designed or implemented grievance mechanisms can risk compounding a sense of grievance amongst affected stakeholders by heightening their sense of disempowerment and disrespect by the process. See the Commentary to Guiding Principle 31, UN Guiding Principles on Business and Human Rights (2011): https://www.ohchr.org/documents/publications/guidingprinciplesbusinessshr_en.pdf

REFERENCES

OECD (2018), OECD Due Diligence Guidance for Responsible Business Conduct. Available in multiple languages at <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>

OECD (2011), OECD Guidelines for Multinational Enterprises. Available in multiple languages at <https://mneguidelines.oecd.org/mneguidelines/>

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.

The case study is based on the information shared by the company and it is outside the scope of this case study to confirm or evaluate the information provided. 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.

CASE STUDY ON ENVIRONMENTAL DUE DILIGENCE ADDRESSING DEFORESTATION & BIODIVERSITY LOSS



These case studies provide examples of salient environmental risks and how organisations are working to mitigate these risks through supply chain due diligence. They are designed to assist companies and other stakeholders in understanding how key processes outlined in the OECD Due Diligence Guidance for Responsible Business Conduct can be implemented in avoiding and addressing adverse environmental impacts associated with company operations, supply chains and other business relationships.

Each case study provides examples of organisational actions that relate to the six recommended due diligence processes set out in the OECD Due Diligence Guidance (see cover note). Not each case study includes examples across all six processes, rather, they draw on the relevant practical experiences of Japanese organisations.

OVERVIEW

The organisation: The Tokyo Organising Committee of the Olympic and Paralympic Games (the Committee) was established in 2014 to deliver the 2020 Olympic and Paralympic Games in Tokyo, due to be held in 2021. Its Executive Board members are from various stakeholders including the Japanese Olympic Committee, the Japanese Paralympic Committee, the Tokyo Metropolitan Government (TMG) and the national government. As part of its wide ranging responsibilities, the organisation is responsible for procuring various goods and services across the globe; the Committee's total procurement budget for 2014 to 2019 was more than JPY 490 billion (Japanese Yen).

The Challenge: Demands from stakeholders for major events to be delivered responsibly and in line with international standards on responsible business conduct (RBC) are increasing. Specific concerns have been raised relating to the Committee's procurement practices and risks of deforestation and biodiversity loss linked to its international supply chains.¹

In response to these challenges, the Committee has worked to implement supply chain due diligence expectations into its policies and has established an operational-level grievance mechanism (OLGM) to address negative impacts. The Committee has publicly committed to promoting environmental standards as part of its Sustainability Plan,² building on the good practices from the London 2012 games³ and Rio 2016 games.

Sector: Mega Sporting Events

Position in the supply chain: Buyer of goods and services

Scope of operations: Global

Ownership form: Public interest incorporated foundation

Size: 3,800 employees (2020)

This case study provides examples of how the Committee is implementing supply chain due diligence, with a focus on two environmental risks commonly identified with large infrastructure projects of this nature, specifically deforestation and biodiversity loss.



EMBED RESPONSIBLE BUSINESS CONDUCT INTO POLICIES AND MANAGEMENT SYSTEMS

As set out in the OECD Due Diligence Guidance for Responsible Business Conduct (OECD Due Diligence Guidance),⁴ embedding responsible business conduct (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 and organisations 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.



INCLUDING RBC EXPECTATIONS IN CONTRACTS OR OTHER FORMS OF WRITTEN AGREEMENTS

Stakeholders have urged the Committee to address adverse impacts on people, the environment and society stemming from procurement practices, and to contribute to achieving the Sustainable Development Goals (SDGs).⁵ In response, the Committee adopted a Sustainable Sourcing Code (the Code) in 2017.⁶ The Code requires suppliers and licensees to ensure compliance with sustainability standards throughout their supply chains, and clarifies procurement criteria and operating methods for products and services.

Box 1: ENVIRONMENTAL STANDARDS INCLUDED IN THE CODE FOCUS ON:

- i. Energy savings
- ii. Use of low carbon / carbon-free energy
- iii. Reduction of greenhouse gas emissions by other means
- iv. Promotion of the 3 Rs ("Reduce, Reuse, and Recycle")
- v. Reduced use of containers, packaging, etc
- vi. Prevention of contamination, management of chemicals, and waste disposal
- vii. Collection of raw materials with consideration for resource conservation
- viii. Conservation of biodiversity

The Code was produced through a broad scoping exercise involving a multi-stakeholder working group.⁷ It includes environmental, human rights, labour, and economic sustainability standards and provides for specific environmental standards to be applied in the procurement of particular products, including timber, agricultural products, livestock products, fishery products, paper, and palm oil (see Box 1).

The Committee requires all suppliers to express their commitment to comply with the Code in writing as part of its contractual arrangement. The Code's commentary clarifies the expectation that suppliers should take a risk-based approach to due diligence.⁸ The Committee also mandates that suppliers fill out a questionnaire to review their practices and efforts to address environment, human rights, and labour-related issues in supply chains to comply with the Code.

The Code's commentary provides model contractual clauses on sustainability for suppliers to include in their own contractual arrangements with their suppliers. The Committee has also sought to continually improve the Code and has revised it twice since 2018.

For examples of practical actions to incorporate RBC expectations and policies into engagement with suppliers and other business relationships can be found on page 24, item 1.3 and page 60, Q18 of the OECD Due Diligence Guidance.

DEVELOPING SPECIFIC POLICIES ON AN ENTERPRISE'S MOST SIGNIFICANT RISKS

Illegal and unsustainable logging can contribute to deforestation, forest degradation and biodiversity loss, as well as other adverse environmental and social impacts.

In 2017, environmental NGOs raised concerns relating to degradation of tropical forests and potential human rights violations connected to timber supply chains associated with the Tokyo 2020 Olympics.⁹ Preventing and mitigating risks associated with deforestation and biodiversity loss are central to establishing responsible timber supply chains.

In addition to the Sustainable Sourcing Code (the Code), the Committee developed criteria under a Sustainable Sourcing Code for Timber (Timber Code), which provides suppliers with a detailed framework for the

Box 2: ADDITIONAL CONDITIONS FOR SUSTAINABLE PROCUREMENT OF TIMBER (EXCERPT)

- i. Timber that is harvested through an appropriate procedure with reference to relevant laws, ordinances, etc. of timber-producing countries or territories.
- ii. Timber that derives from forests maintained and managed based on mid- to long term plans or policies and does not derive from conversion of forest to non-forest area such as farmland.
- iii. Timber that is harvested through logging activity that is considerate toward conservation of the ecosystem.
- iv. Timber that is harvested through logging activity that is considerate toward the rights of indigenous people and other local residents.
- v. Timber that is harvested by workers who are protected through appropriate safety measures.

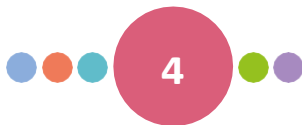
procurement of timber.¹⁰ The Timber Code includes forestry-related certification programmes and aims to address specific risks linked to deforestation and biodiversity loss, as well as impacts to the rights of indigenous people (see Box 2). The Committee requires its suppliers to demonstrate adherence to these standards which extend beyond requirements in existing domestic regulations.¹¹

Concerns were also raised by stakeholders about the suitability of an early version of the Timber Code.¹² In revising the Timber Code, the Committee held meetings with a multi-stakeholder working group and conducted interviews with environmental NGOs, research institutes, certification programmes and timber importers. Discussions fed into a revision published in 2019.¹³

The revised Code requires suppliers to confirm in writing that timber is not derived from the conversion of forests to agricultural land. It also includes recommendations for suppliers to collect information relating to the traceability and source of timber and production sites, to improve visibility of supply chains.

For information on risk-based due diligence approaches and the prioritisation of risks, see pages 42-45, Q3-Q5, including Table 3 “Examples of indicators of scale, scope and irremediable character” of the OECD Due Diligence Guidance.

For information on developing RBC policies, see page 56, Q15. Information on how companies collaborate at an industry level and with relevant stakeholders can be found on pages 51-53, Q12 and Box 3 on “Good governance for due diligence collaborative initiatives”.



TRACK IMPLEMENTATION AND RESULTS

Tracking the implementation and effectiveness of due diligence activities may help improve these processes in the future.

The Committee undertook a number of steps to address challenges in monitoring and engaging with suppliers in order to improve compliance with its sustainability standards.

Working with the Tokyo Metropolitan Government, the Committee organised field surveys at plywood logging and processing sites in Indonesia and Malaysia exporting plywood procured by the Committee.

These survey findings were published in the Sustainability Pre-Games Report in 2020¹⁴.

For examples of practical actions to track implementation and results of due diligence, see page 32, item 4.1 and pages 82-84, Q41-Q45 of the OECD Due Diligence Guidance.

Verifying effectiveness of due diligence practices can help ensure that companies have adequately identified, prevented or mitigated risks, and where appropriate, supported remediation of impacts, including through business relationships.



6 PROVIDE FOR OR COOPERATE IN REMEDIATION

Grievance and remediation processes support due diligence by providing channels through which companies can become aware of and respond to adverse impacts of their activities. Effective implementation of grievance mechanisms can help companies enhance risk-based due diligence across all issues related to RBC.¹⁵

Building on the London 2012 Grievance and Complaints Mechanism model set up by the London Organising Committee (LOGOC), the Committee established its own grievance mechanism to handle alleged cases of non-compliance with the Sustainable Sourcing Code (the Code).¹⁶

The Committee took steps to address and boost trust in grievance mechanisms by establishing an external advisory panel comprised of experts in human rights, environmental issues and conflict resolution.¹⁷

The advisory panel supervises the engagement process and provides independent opinions on each case within the grievance mechanism's scope.



For examples of practical actions that companies can take to cooperate with legitimate remediation mechanisms and enable remediation, see pages 34-35, items 6.1 and 6.2 and pages 90-91, Q52-Q54 of the OECD Due Diligence Guidance.

NOTES

¹ See for example: Joint NGO Statement on Tokyo 2020 Olympics' "Fake Sustainability".
<https://www.ran.org/press-releases/olympics-fake-sustainability/>

² The Sustainability Concept of the Tokyo 2020 Games. See: <https://tokyo2020.org/en/games/sustainability/>

³ https://library.olympic.org/Default/doc/SYRACUSE/47420/locog-sustainable-sourcing-code-london-organizing-committee-for-the-olympic-and-paralympic-games?_lg=en-GB

⁴ OECD (2018), OECD Due Diligence Guidance for Responsible Business Conduct. Available in multiple languages at <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>

⁵ See for instance Public Consultation on Draft Sustainable Sourcing Policy for Tokyo 2020. IHRB. 2015.
<https://www.ihrb.org/focus-areas/mega-sporting-events/public-consultation-draft-sustainable-sourcing-policy-tokyo-2020>
and High-Level Sustainability Plan and Sourcing Code for Tokyo 2020 Olympics Submission. IHRB. 2016:
<https://www.ihrb.org/focus-areas/mega-sporting-events/submission-high-level-sustainability-plan-sourcing-code-tokyo-2020-olympics>

⁶ Tokyo 2020 Olympic and Paralympic Games Sustainable Sourcing Code.
See: <https://tokyo2020.org/en/games/sustainability/sus-code>

⁷ This including members from international environmental and human rights non-governmental organisations (NGOs), in consultation with lawyers and other experts.

⁸ Tokyo 2020 Olympic and Paralympic Games Sustainable Sourcing Code (3rd edition). Page 3.
<https://gtimg.tokyo2020.org/image/upload/production/c7upgxneht8jclnxygp8.pdf>

⁹ An Open Letter to Tokyo 2020 Olympic Authorities. Friends of the Earth. 2017.
https://www.foejapan.org/forest/library/pdf/20170911_Letter_to_Tokyo2020_authorities_e.pdf

¹⁰ Sustainable Sourcing Code for Timber. Tokyo 2020 Organising Committee.
<https://gtimg.tokyo2020.org/image/upload/production/ionsexo2hw0bvjhcollc.pdf>

¹¹ The Act on Promotion of Use and Distribution of Legally-harvested Wood and Wood Products (the Clean Wood Act) went into force in May 2017. It aims to promote the use and distribution of wood and wood products made from trees harvested in compliance with the laws and regulations of Japan or the countries of origin.
<https://www.rinya.maff.go.jp/j/riyou/goho/english/english-index.html>

¹² An Open Letter to Tokyo 2020 Olympic Authorities. Friends of the Earth. 2017.
https://www.foejapan.org/forest/library/pdf/20170911_Letter_to_Tokyo2020_authorities_e.pdf

¹³ Revision of procurement code in consideration of sustainability. The Tokyo Organizing Committee for the Olympic and Paralympic Games. 2019. <https://tokyo2020.org/ja/games/sustainability/si-20190118-01>

¹⁴ Sustainability Report. The Tokyo Organizing Committee for the Olympic and Paralympic Games. 2020.
<https://tokyo2020.org/en/games/sustainability/report>

¹⁵ The OECD Guidelines recommend when the enterprise identifies that it has caused or contributed to actual adverse impacts, it addresses such impacts by providing for or cooperating in their remediation. The OECD Guidelines provides core criteria for operational-level grievance mechanisms in line with the UNGPs. See pages 34-35. OECD Due Diligence Guidance for Responsible Business Conduct. 2018. <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>.

¹⁶ Establishment of a Grievance Mechanism to handle reports of non-compliance with the Tokyo 2020 Sustainable Sourcing Code. Tokyo 2020 Olympic and Paralympic Games Sustainable Sourcing Code.

<https://olympics.com/tokyo-2020/en/games/sustainability/sus-code#01>. See also: Tokyo 2020 Olympic and Paralympic Games Sustainable Sourcing Code (3rd edition) [Commentary. See Page 50 on Grievance Mechanisms.

<https://gtimg.tokyo2020.org/image/upload/production/c7upgxneht8jclnxygp8.pdf>

¹⁷ Regarding the establishment and operation of Advisory Panel in the Grievance Mechanism for the Tokyo 2020 Sustainable Sourcing Code. 2018. See: <https://gtimg.tokyo2020.org/image/upload/production/jpsbnkfk7eymeenlmyyx.pdf>

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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.

The case study is based on the information shared by the organisation and it is outside the scope of this case study to confirm or evaluate the information provided. 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.

CASE STUDY ON ENVIRONMENTAL DUE DILIGENCE ADDRESSING DEFORESTATION & CLIMATE CHANGE



These case studies provide examples of salient environmental risks and how companies are working to mitigate these risks through supply chain due diligence. They are designed to assist companies and other stakeholders in understanding how key processes outlined in the OECD Due Diligence Guidance for Responsible Business Conduct can be implemented in avoiding and addressing adverse environmental impacts associated with company operations, supply chains and other business relationships.

Each case study provides examples of company actions that relate to the six recommended due diligence processes set out in the OECD Due Diligence Guidance (see cover note). Not each case study includes examples across all six processes, rather, they draw on the relevant practical experiences of Japanese companies.

OVERVIEW

The organisation: The Company is one of the largest commercial banking groups in Japan. It provides banking and lending services to both individual and corporate clients, and manages assets for pension funds and other asset owners as an institutional investor through its asset management division. As of 2020, the Company held approximately JPY 28 trillion (Japanese yen) in assets under management.

The Challenge: Financial institutions have a key role to play in driving sustainability by directing financing towards projects and businesses that support the Sustainable Development Goals (SDGs) and the goals of the Paris Climate Agreement. To contribute to sustainability goals, financial institutions should address environmental and social risks associated with

their own activities and embed responsible business conduct (RBC) processes into their activities and value chains in line with the OECD Guidelines for Multinational Enterprises¹ and the related OECD Guidance on Due Diligence for Responsible Corporate Lending and Securities Underwriting and Responsible Business Conduct for Institutional Investors paper.²

Financial institutions can be a positive driving force in changing attitudes and practices in the management of supply chains. However, the inherent complexities in the financial sector such as extensive and complex business relationships or the rapidity of transactions can make practical application of effective due diligence systems challenging. In response to these challenges, the Company has developed responsible investment policies and strategies, and works to support its investees in identifying, preventing, and mitigating environmental and social risks.

This case study provides examples of how the Company is implementing supply chain due diligence, and in particular, its efforts to promote responsible investing in line with the Principles for Responsible Investment

Sector: Financial Sector
Scope of operations: Asia
Ownership form: Publicly listed company
Size: 20,760 employees (2020)

(PRI)³ and the Principles for Responsible Institutional Investors (Japan’s Stewardship Code).⁴ It focuses on two key environmental risks - deforestation and climate change, identified as key priorities by the Company through interaction with various stakeholders including non-governmental organisations (NGOs).



EMBED RESPONSIBLE BUSINESS CONDUCT INTO POLICIES AND MANAGEMENT SYSTEMS

By carrying out due diligence in line with the OECD Due Diligence Guidance for Responsible Business Conduct (OECD Guidance), banks can ensure that financing flows to projects and companies that behave responsibly, prevent negative impacts and ultimately benefit people and the planet. Due diligence can help banks identify, prevent or address adverse environmental impacts associated with their clients, as well as avoid financial and reputational risks.

Embedding RBC into policies and management systems and communicating expectations to clients and business partners 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.



EMBEDDING RBC IN INVESTOR POLICIES

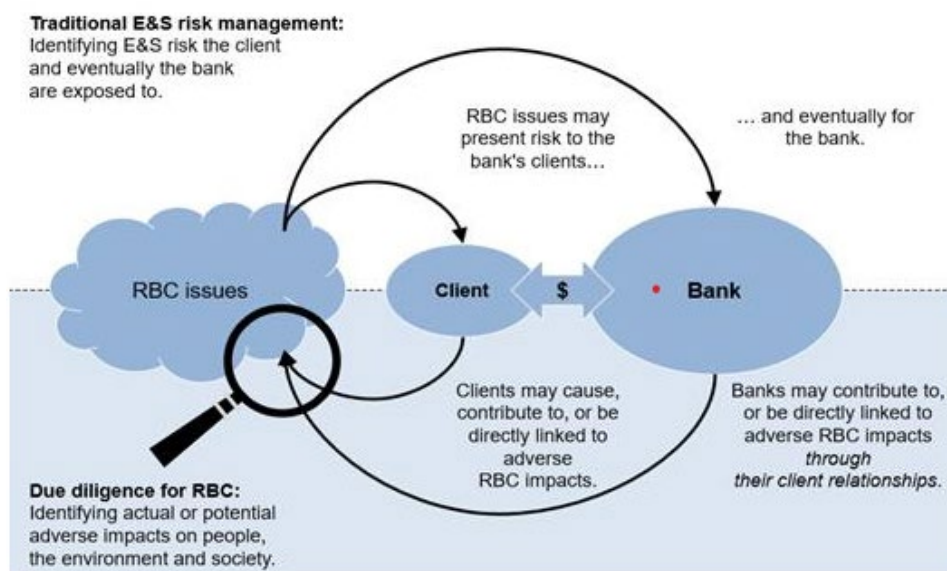
The Company is a signatory to the PRI since 2008. It promotes responsible investing policies and practices and supports investees in managing their environmental, social and governance (ESG) risks in line with its commitments under the PRI.⁵ In 2014, the Company’s asset management division adopted a policy on responsible investment. The policy clarifies the Company’s commitment to social responsibility and achieving sustainable socioeconomic growth in the corporate value of investee companies as well as developing solutions to social challenges. It seeks to incorporate ESG factors into its investment decisions and to promote value creation and sustainable growth of investee companies over the medium to long-term. Box 1 outlines why there may be some difference in scope between ESG and RBC risks.⁶

Box 1: “RBC” and “ESG” criteria both relate to environmental, social and governance considerations, however, there may be some differences. RBC risk refers specifically to the risk of adverse impacts with respect to the issues covered by the OECD Guidelines — in other words, the risks to society and the environment, not to the company itself. Figure 1 illustrates the scope of RBC impacts and the difference to traditional Environmental & Social (E&S) risk management.

The Company has also signed Japan’s Stewardship Code, published by the Financial Services Agency of Japan⁷. The Code encourages institutional investors and asset managers to monitor and engage with investees regarding the sustainable growth of their companies. The Company now monitors the ESG risks of investee companies and engages on ESG issues through stewardship activities.

For examples of practical actions that companies can take to build RBC expectations into business relationships, see page 60, Q18 of the OECD Guidance. See also the OECD report on RBC for Institutional Investors: Key considerations for due diligence under the OECD Guidelines. Pages 21-25 detail how investors can integrate RBC into existing risk management frameworks, including ESG criteria.

Figure 1. DUE DILIGENCE FOR RBC: AN OUTWARD FACING APPROACH



Source: OECD (2019), Due Diligence for Responsible Corporate Lending and Securities Underwriting.
<https://mneguidelines.oecd.org/due-diligence-for-responsible-corporate-lending-and-securities-underwriting.pdf>

COMMUNICATING RBC EXPECTATIONS IN BANKING TRANSACTIONS WITH CLIENTS

The OECD Guidance for Responsible Corporate Lending and Securities Underwriting recommends that the first step in communicating RBC expectations is to ensure that a bank’s RBC policies are publicly available and are actively communicated to the client. Banks should articulate their RBC expectations in a way that can be understood by the companies the bank engages with.

As corporate lending and underwriting transactions represent the vast majority of the Company’s banking activities, it promotes responsible lending through its banking division. The Company’s lending policy publicly communicates its commitment relating to transactions in sectors that may negatively affect communities and the environment. It has said it will not engage in project finance activities for projects that may have serious adverse impacts on the environment or society. (see Box 2 for excerpts).

The Company has also set out additional lending policies for specific businesses and sectors that are categorised as high-risk such as: a) Coal-fired thermal power generation; b) Large-scale hydroelectric power generation; c) Coal mining; d) Palm oil farm development; e) Oil and gas extraction and pipeline construction; and f) Wood and paper pulp production and timber harvesting.

Box 2: EXCERPT OF THE BANK'S RESPONSIBLE LENDING POLICY

- *We will not lend to businesses that exert a seriously negative impact on wetland sites designated by the Ramsar Convention or the World Heritage Sites designated by UNESCO, neither will we provide lending to businesses in violation of the Washington Convention.*
- *We will take a cautious stance towards lending to businesses that negatively affect indigenous local communities and other areas of high conservation value and also exercise caution in lending to businesses that entail the involuntary resettlement of residents. To this end, we will give due consideration to their social, environmental, and other impacts and confirm the status of dealing to mitigate risks prior to lending.*

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.

Detailed recommendations can also be found in the OECD report on Due Diligence for Responsible Corporate Lending and Securities Underwriting: Key considerations for banks implementing the OECD Guidelines. See pages 27-34 on embedding RBC into bank's policies and management systems.

**3 CEASE, PREVENT AND MITIGATE ADVERSE IMPACTS**

Once a company gathers information from risk assessments and prioritizes risks across its different portfolios, it can design and implement a risk management strategy to prevent and mitigate adverse impacts. Taking proactive measures to address risks facilitates progress towards meeting RBC expectations in a systematic way. This may include a conditioning provision on financing based on RBC performance, temporary divestment or a reduction in exposure to companies that do not demonstrate progress on RBC, and moving portfolio allocation towards responsible companies.

Adverse impacts caused by a client or an investee company of a bank would, in the majority of cases, be “directly linked” to the financing, underwriting or investment services of the bank, which has a business relationship with the client. In these situations, the bank is expected to use its leverage to influence the entity causing the adverse impact to prevent or mitigate, and where relevant, remedy the impact.⁸ In cases where an enterprise is contributing to adverse impacts or risks caused by another entity, it should take the necessary steps to cease or prevent its contribution, and look to build and use its leverage to mitigate any remaining impacts to the greatest extent possible.

CARRYING OUT MEASURES TO ADDRESS DEFORESTATION RISKS IN PALM OIL SUPPLY CHAINS

The palm oil industry has been linked to several adverse environmental, social, and human rights impacts including deforestation.

Adverse environmental, social, and human rights impacts have been linked to palm oil supply chains. Through engagement with its investee companies and by evaluating reports on their business practices, the Company has identified a number of investees that are potentially linked to negative impacts through palm oil supply chains. In

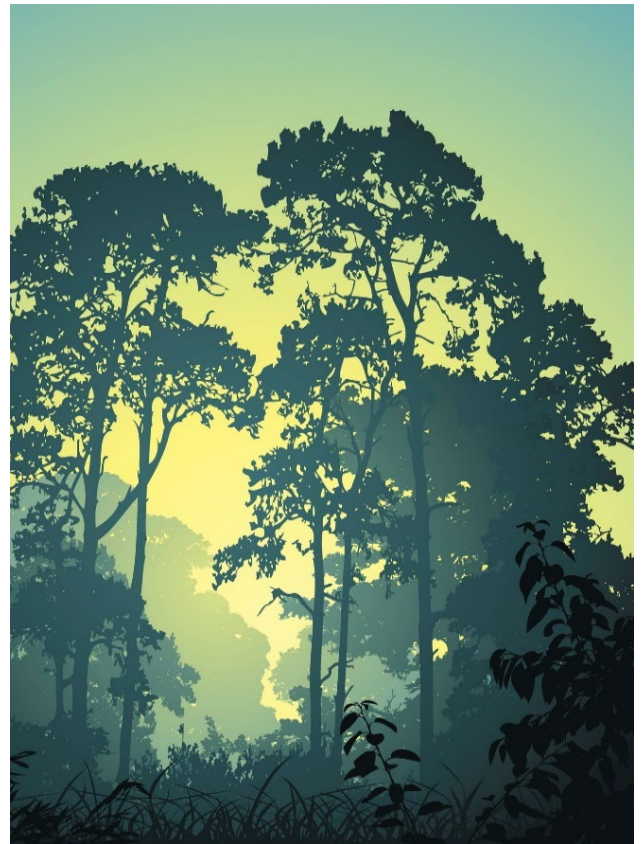
response, the Company organised a task force on palm oil in 2016 which engaged experts and stakeholders, including environmental NGOs, to help shape the Company's strategy to address deforestation risks.

The Company also created and is maintaining a list of investees associated with palm oil supply chains. It conducted meetings with 52 of these investees between August 2017 and June 2019. The investees included 18 companies operating in the retail, restaurant, and service industries; 6 toiletry manufacturers; 18 food manufacturers; 5 oil and chemical companies; and 5 general trading companies. As part of these meetings, the Company shared information relating to environmental and human rights risks inherent in palm oil supply chains, highlighted progress made on investee initiatives for sustainable palm oil, and profiled examples of actions companies can take to address specific risks.

Between January 2018 and March 2019, the Company identified seven major high risk palm oil plantation operators in Malaysia and Singapore. The Company reviewed the operators' procurement practices and efforts to comply with No Deforestation, No Peat, No Exploitation (NDPE) policies,⁹ and encouraged them to extend traceability efforts to the level of small independent plantation operators.

In October 2018, the Company participated in a working group at the PRI which contacted nine regional banks that provide funding to small and medium sized palm oil operators. The working group engaged directly with four of these banks to help improve frameworks for management and disclosure of ESG risks related to palm oil supply chains.

For information on addressing systemic issues, please see Box 6 "Addressing systemic issues" on page 76 of the OECD Due Diligence Guidance. Examples of practical actions to develop a company's leverage to prevent or mitigate risks can be found on pages 78-79, Q36-Q37.



USING LEVERAGE TO ADDRESS CLIMATE CHANGE

Based on an assessment of relevant ESG issues, including interaction with NGOs, the Company identified climate change and marine plastic pollution as significant and common risks among its investees. To prevent and mitigate these risks, the Company is working to increase its leverage in order to influence investee actions through investor-led collective initiatives and tailored support to SMEs (see Box X below).

The Company participates in Climate Action 100+,¹⁰ an investor-led initiative that aims to facilitate collaboration with companies to transition to net-zero emissions and address climate issues at scale. The initiative identified industries producing high volumes of greenhouse gas (GHG) emissions such as the automobile, electronics, and oil & gas sectors, and targets engagement with companies with large market capitalization, which includes ten Japanese businesses.

Working in partnership with other investors, the Company has engaged with these ten businesses to reduce CO₂ emissions throughout their value chains, and to enhance climate-related financial disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD).¹¹ The Company monitored the progress of the target companies' CO₂ emission reductions as well as governance and disclosure practices over five years. The Company also engaged with 20 investee companies on their use of plastics and the adverse impacts of plastics on marine life.

The majority of these investee companies are retailers that rely heavily on the use of polyethylene bags and beverage manufacturers that produce and sell drinks packaged in polyethylene terephthalate (PET) bottles. The Company conducted interviews to verify progress to reduce the use of plastic bags, single-use plastic straws and food containers, and promote a shift to using biomass plastic.

Box 3: PROVIDING SUPPORT TO SME'S FOR INCREASING THE UPTAKE OF DUE DILIGENCE FOR RBC

Most of the Company's borrowers are small and medium-sized enterprises (SMEs), with limited capacity and resources to address environmental and social impacts beyond direct (Tier 1) suppliers.

The Company's consulting division has developed tools and services to support SMEs in their supply chain due diligence processes. As part of its awareness raising of sustainability issues among SMEs, the Company developed a loan product for SMEs coupled with a free consulting service related to the Sustainable Development Goals (SDGs). When providing these services, the Company requests that their client SMEs assess their sustainability practices by using the common Supplier Assurance Questionnaires (SAQ) developed by the Global Compact Network Japan (GCNJ).

The SAQ covers questions related to RBC-related issues and supports companies in conducting broad scoping exercises to identify social and environmental risks in their supply chains. Based on this assessment, the Company provides their SME clients with tailored advice on preventing and mitigating RBC-related risks in the supply chain.

For examples of actions that companies can take to support business partners in their implementation of risk prevention and mitigation measures, see page 80, Q38 of the OECD Due Diligence Guidance.

For information on how companies can increase their leverage to effect change, see page 19, Box 2 “Collaboration in carrying out due diligence” and pages 78-80 Q36-Q38 of the OECD Due Diligence Guidance.



6 PROVIDE FOR OR COOPERATE IN REMEDIATION

Grievance and remediation processes support due diligence by providing channels through which companies can become aware of and respond to adverse impacts of their activities.

Effective implementation of grievance mechanisms can help companies enhance risk-based due diligence across all issues related to RBC. In 2019, the Company supported the UN Global Compact Network Japan and the Business and Human Rights Lawyers Network Japan in formulating the Engagement and Remedy Guidelines for Promotion of Responsible Business Conduct and Supply Chains.¹²

The Remedy Guidelines provide information to Japanese business on how to enhance their capacity to handle complaints raised by communities or workers along supply chains, for instance in setting up operational grievance mechanisms (OLGMs) to receive complaints from workers at plantations and oil extractors. The Company has been encouraging its investee companies to develop such operational-level grievance mechanisms (OLGM).

For examples of practical actions that companies can take to cooperate with legitimate remediation mechanisms and enable remediation, see pages 34-35, items 6.1 and 6.2 and pages 90-91, Q52-Q54 of the OECD Due Diligence Guidance.

Companies may carry out due diligence processes and supporting measures, including the raising of grievances, in collaboration with others, such as other industry actors and in partnership with trade unions or through multi-stakeholder initiatives. For information on determining whether a collaborative initiative is credible, see p.52 Box 3 “Good governance for due diligence collaborative initiatives”.

NOTES

¹ OECD (2011), OECD Guidelines for Multinational Enterprises, Chapter VI. Environment, pages 42-46.
<http://dx.doi.org/10.1787/9789264115415-en>

² Responsible business conduct in the financial sector. See: <https://www.oecd.org/industry/inv/mne/rbc-financial-sector.htm>

³ The Principles for Responsible Investment. See: <https://www.unpri.org/>

⁴ Principles for Responsible Institutional Investors. Japan's Stewardship Code. 2020. See:
<https://www.fsa.go.jp/en/refer/councils/stewardship/index.html>

⁵ Japan's Government Pension Investment Fund (GPIF), the largest asset owners in Japan, also became a signatory to the PRI in 2015. The GPIF has requested that the company promote responsible investing.
https://www.gpif.go.jp/en/investment/esg/gpif_publishes_the_fy2019_esg_report.html

⁶ There may be some difference in scope between ESG and RBC risks, so investors should seek to understand the content of Guidelines and assess the differences to ensure they understand the overlaps and differences. See OECD Responsible business conduct for institutional investors. 2017. <https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf>

⁷ <https://www.fsa.go.jp/en/refer/councils/stewardship/index.html>

⁸ OECD (2019), Due Diligence for Responsible Corporate Lending and Securities Underwriting.
<http://mneguidelines.oecd.org/due-diligence-for-responsible-corporate-lending-and-securities-underwriting.pdf>

⁹ The NDPE policies were created in 2013, aiming to ensure sustainable palm oil supply chains. Many palm oil traders and refiners have NDPE policies in place to address risks beyond legal or certification requirements. Yet they are not controlled by a standard body, and the scope vary between companies or many company's policies are not consistently verified by an independent body.

¹⁰ Climate Action 100+. See: <https://www.climateaction100.org>

¹¹ Task Force on Climate-related Financial Disclosures. See: <https://www.fsb-tcf.org/>

¹² The Engagement and Remedy Guidelines for Promotion of Responsible Business Conduct and Responsible Supply Chains. 2019. <https://www.bhrlawyers.org/en-erguidelines>

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CASE STUDY ON ENVIRONMENTAL DUE DILIGENCE ADDRESSING DEFORESTATION & USE OF PLASTICS



These case studies provide examples of salient environmental risks and how companies are working to mitigate these risks through supply chain due diligence. They are designed to assist companies and other stakeholders in understanding how key processes outlined in the OECD Due Diligence Guidance for Responsible Business Conduct can be implemented in avoiding and addressing adverse environmental impacts associated with company operations, supply chains and other business relationships.

Each case study provides examples of company actions that relate to the six recommended due diligence processes set out in the OECD Due Diligence Guidance (see cover note). Not each case study includes examples across all six processes, rather, they draw on the relevant practical experiences of Japanese companies.

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.

Sector: Office Supplies Distribution
Position in the supply chain: Manufacturing, distribution
Scope of operations: Asia
Ownership form: Publicly listed company
Size: 3,550 employees (2020)

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.

1

EMBED RESPONSIBLE BUSINESS CONDUCT INTO POLICIES AND MANAGEMENT SYSTEMS

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),⁶ 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.

2

IDENTIFY AND ASSESS ACTUAL AND POTENTIAL ADVERSE IMPACTS ASSOCIATED WITH THE ENTERPRISE'S OPERATIONS, PRODUCTS OR SERVICES

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.



3

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 2014.⁷

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

The impact of plastic waste and pollution on the environment, health and the economy is an important global issue.

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.⁸

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.⁹ 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.

NOTES

- ¹ The Act on Promoting the Distribution and Use of Legally-harvested Wood and Wood Products (2016). Ministry of Agriculture, Forestry and Fisheries, the Ministry of Economy, Trade and Industry, and the Ministry of Land, Infrastructure, Transport and Tourism. Government of Japan. See: <http://www.japaneselawtranslation.go.jp/law/detail/?re=02&dn=1&x=0&y=0&co=1&ia=03&ja=04&yo=&gn=&sy=&ht=&no=&bu=&ta=&ky=wood&page=14>
- ² Directive (EU) 2019/904 of the European Parliament and of the Council of 5 June 2019 on the reduction of the impact of certain plastic products on the environment. <https://eur-lex.europa.eu/eli/dir/2019/904/oj>
- ³ Cabinet Decision on the Bill for the Act on Promotion of Resource Circulation for Plastics. Ministry of Economy, Trade and Industry (2021). Government of Japan. https://www.meti.go.jp/english/press/2021/0309_001.html
- ⁴ For examples of new certification programmes and eco-labels, see: <https://www.env.go.jp/policy/hozen/green/ecolabel/f01.html>
- ⁵ Estimated Market Size of Japan's Environmental Industries of 2011 & Report of Japan's Environmental Industry Growth Engine. Ministry of the Environment (2013), Government of Japan. <https://www.env.go.jp/press/files/en/533.pdf>. Economic Survey of Environmental Industries in December 2013. Ministry of the Environment (2014), Government of Japan.: <https://www.env.go.jp/press/files/en/566.pdf>
- ⁶ OECD (2018), OECD Due Diligence Guidance for Responsible Business Conduct. Available in multiple languages at <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>
- 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/>
- ⁸ See for instance The Price of Plastic Waste and Solutions to Turn the Tide. United Nations Economic and Social Commission for Asia and the Pacific. 2021. <https://www.unescap.org/blog/price-plastic-waste-and-solutions-turn-tide>
- ⁹ OECD (2011), OECD Guidelines for Multinational Enterprises, Chapter VI. Environment, pages 42-46. <http://dx.doi.org/10.1787/9789264115415-en>

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OECD (2018), OECD Due Diligence Guidance for Responsible Business Conduct. Available in multiple languages at <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>

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CASE STUDY ON ENVIRONMENTAL DUE DILIGENCE ADDRESSING DEFORESTATION & USE OF PLASTICS



These case studies provide examples of salient environmental risks and how companies are working to mitigate these risks through supply chain due diligence. They are designed to assist companies and other stakeholders in understanding how key processes outlined in the OECD Due Diligence Guidance for Responsible Business Conduct can be implemented in avoiding and addressing adverse environmental impacts associated with company operations, supply chains and other business relationships.

Each case study provides examples of company actions that relate to the six recommended due diligence processes set out in the OECD Due Diligence Guidance (see cover note). Not each case study includes examples across all six processes, rather, they draw on the relevant practical experiences of Japanese companies.

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.

Sector: Auto parts

Position in the supply chain: Manufacturing (mid-stream)

Scope of operations: Global

Ownership form: Publicly listed company

Size: 26,109 employees (2020)

1

EMBED RESPONSIBLE BUSINESS CONDUCT INTO POLICIES AND MANAGEMENT SYSTEMS

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),¹ 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.

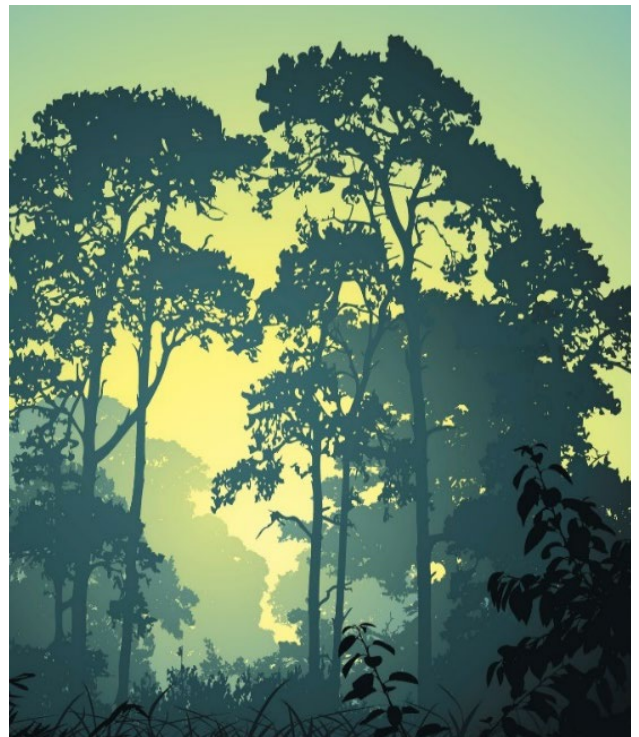
In 2014, the Company established a sub-committee to oversee corporate actions to promote responsible supply chains and responsible procurement in line with its Supplier Guidelines and other relevant policies. This sub-committee sits under the CSR committee which is currently chaired by a managing executive 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).² 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,³ the EU’s Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation,⁴ the EU's Directive on end-of-life vehicles,⁵ 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.

Box 1: COMPANY GROUP CORPORATE ACTION CHARTER – GLOBAL ENVIRONMENT

Recognizing that global environmental issues pose challenges to all humankind, and that it is an integral part of our existence and activities, we shall proactively tackle these issues. We shall:

1. implement measures to mitigate global warming and work to establish a recycling-based society;
2. comply with laws and regulations of countries and regions concerning prevention of pollution of air, water, and soil, etc. and prevent environmental contamination through continuous monitoring and reduction of pollutants;
3. manage potentially environmentally harmful chemical substances to ensure safety;
4. ensure that our products of each country and region do not contain chemical substances prohibited by laws and regulations of that country and region;
5. not use prohibited chemical substances in manufacturing processes, and regarding chemical substances that are specified by laws and regulations of countries and regions, monitor their emission volumes and report to governmental agencies; and
6. engage in nature conservancy activities, including conservation of biodiversity.

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.

2

IDENTIFY AND ASSESS ACTUAL AND POTENTIAL ADVERSE IMPACTS ASSOCIATED WITH THE ENTERPRISE’S OPERATIONS, PRODUCTS OR SERVICES

Starting with significant areas of risk identified, businesses should carry out iterative and increasingly in-depth assessments of prioritised operations, suppliers, and other business relationships in order to identify and assess specific actual and potential adverse RBC impacts.

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.⁶

Due to the large quantity of water used in its production processes, the Company uses AQUEDUCT,⁷ 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.



TRACK IMPLEMENTATION AND RESULTS

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.

TRACKING THE IMPLEMENTATION OF THE COMPANY'S DUE DILIGENCE ACTIONS

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.

The Company sources the majority of its natural rubber from Southeast Asia. It has started in-depth assessments on actions taken by secondary and tertiary suppliers, which include natural rubber farms and processors, to verify that they meet the expectations set out in its Supplier Guidelines.

NOTES

¹ OECD (2018), OECD Due Diligence Guidance for Responsible Business Conduct. Available in multiple languages at <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>

² Charter of Corporate Behavior. Keidanren (Japan Business Federation). 2017. See: <https://www.keidanren.or.jp/en/policy/csr/>

³ Directive 2011/65/EU Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical Equipment

⁴ Regulation (EC) No 1907/2006 of the European Parliament and of the Council on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).

⁵ Directive 2000/53/EC on end-of life vehicles <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32000L0053>

⁶ World Economic Forum “The Global Risks Report 2021” http://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2021.pdf

⁷ Aquaduct Alliance and tools, see: Aquaduct | World Resources Institute (wri.org)

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CASE STUDY ON ENVIRONMENTAL DUE DILIGENCE CLIMATE CHANGE MITIGATION & ADAPTATION



These case studies provide examples of salient environmental risks and how companies are working to mitigate these risks through supply chain due diligence. They are designed to assist companies and other stakeholders in understanding how key processes outlined in the OECD Due Diligence Guidance for Responsible Business Conduct can be implemented in avoiding and addressing adverse environmental impacts associated with company operations, supply chains and other business relationships.

Each case study provides examples of company actions that relate to the six recommended due diligence processes set out in the OECD Due Diligence Guidance (see cover note). Not each case study includes examples across all six processes, rather, they draw on the relevant practical experiences of Japanese companies.

OVERVIEW

The organisation: The Company is one of the largest electronics and information technology (IT) enterprises in Japan, with consolidated revenue of JPY 3,095 billion (Japanese Yen) in 2020. The majority of its revenue is from selling IT, network and other relevant systems, solutions and services to public and private sector customers.

It has a global supply chain network. The majority of its procurement is from Japan (72% of total procurement), with Asia accounting for 13%, North America 12%, EMEA (Europe, Middle East, and Africa) 2% and Central and South America 1%.

The Challenge: Supply chains in the electronics and IT industry are typically long, complex and stretch across multiple international borders.¹ See Figure 1 for an overview of the different processes in an electronics supply chain.

Concerns about climate change adaptation and pollution are on the rise, and new legal standards have been developed to meet specific environmental challenges. Regulatory initiatives include the European Union (EU) Restriction of Hazardous Substances (RoHS) Directive,² and the EU Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) Regulation.³

Sector: Electronics and Information Technology
Position in the supply chain: Manufacturing
Scope of operations: Global
Ownership form: Publicly listed company
Size: 112,638 employees (2020)

In responding to increasing expectations around preventing and addressing adverse environmental and social impacts, the Company has taken various measures to reduce carbon emissions in its operations and value chains. It is also working to communicate sustainability expectations and to build leverage with its suppliers through on-site assessments, meetings and training.

Figure 1: SIMPLIFIED ILLUSTRATION OF AN ELECTRONICS SUPPLY CHAIN⁴



This case study provides examples of how the Company is implementing supply chain due diligence and is working to embed OECD standards on Responsible Business Conduct (RBC) into its policies and management systems. It focuses on two environmental risks commonly identified across the electronics sector – climate change and chemical pollution.

1 EMBED RESPONSIBLE BUSINESS CONDUCT INTO POLICIES AND MANAGEMENT SYSTEMS

As set out in the OECD Due Diligence Guidance for Responsible Business Conduct (OECD Due Diligence Guidance),⁵ 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 global supply chains.

INCREASING VISIBILITY OF SUPPLY CHAINS

To promote sustainable procurement in its supply chains, the Company appointed a Chief Supply Chain Officer in 2011, responsible for sustainable procurement activities across the Company, who reports to the CEO. It also assigned oversight and responsibility for climate change mitigation and adaptation to senior management to ensure accountability.

The Company updated its Corporate Social Responsibility Procurement Guidelines and created Guidelines for Responsible Business Conduct in Supply Chains (Company RBC Guidelines) in 2020, which reference the OECD Guidelines for Multinational Enterprises⁶ and the OECD Due Diligence Guidance. The Code of Conduct, set out in the Company RBC Guidelines, requires suppliers to take proactive steps to prevent and address various RBC-related environmental issues, including the depletion of natural resources, climate change and pollution.

The Company RBC Guidelines call for strong management systems and for due diligence to be conducted in line with the OECD Due Diligence Guidance and the OECD Due Diligence Guidance for Responsible Supply Chains of

Minerals from Conflict-Affected and High-Risk Areas. The Company RBC Guidelines were developed to align with the Japan Electronics and Information Technology Industries Association (JEITA) “Responsible Business Conduct Guidelines”, published in March 2020.⁷ The Company requires supplier adherence to the Code of Conduct.

To promote effective implementation and continued improvement, the Company engages with external experts such as non-governmental organisations (NGOs), investors, international organizations and consultants specialised in RBC issues, on a regular basis.

COMMUNICATING RBC EXPECTATIONS WITH SUPPLIERS

The Company set out its expectations for suppliers in its Green Procurement Guidelines to strengthen efforts to address environmental risks in its supply chain.

A number of environmental expectations (such as the creation of an Environmental Management System; appropriate management of substances with environmental impacts used in manufacturing processes; and providing information on the use of chemical substances) are framed as “essential requirements.”

The most recent revision of the Guidelines in 2018 included an additional request for suppliers to take on board climate change mitigation and adaptation measures. Mitigation includes a reduction in greenhouse gas emissions, whereas adaptation calls for improved preparation for the effects of climate change.

In response to industrial regulations, such as the EU’s RoHS Directive and REACH Regulation, the Company developed a set of “Environmental Specifications Pertaining to Procurement Restrictions for the Inclusion of Chemical Substances in Products”, to supplement the Green Procurement Guidelines and to meet requirements in export markets such as the EU.

For examples of practical actions to develop RBC policies and to embed them into management systems, see pages 22-24, items 1.2 and 1.3 and pages 56-60, Q14-Q18 including Table 5 “Example of departments and functions potentially relevant to implementation of due diligence” of the OECD Due Diligence Guidance.



2

IDENTIFY AND ASSESS ACTUAL AND POTENTIAL ADVERSE IMPACTS ASSOCIATED WITH THE ENTERPRISE'S OPERATIONS, PRODUCTS OR SERVICES

INCREASING VISIBILITY OVER SUPPLY CHAINS

Starting with the significant areas of risk identified, iterative and increasingly in-depth assessments should be undertaken of prioritised operations, suppliers, and other business relationships in order to identify and assess specific actual and potential adverse RBC impacts.

Supplier assessments can help companies understand actual and potential adverse impacts in their supply chain, prioritise risks and determine appropriate responses.

The Company's procurement division carries out on-site assessments of suppliers to monitor adherence to the Company RBC Guidelines. The Company began on-site assessments in 2019 and has started to select suppliers based on human rights, occupational health and safety, and environmental risks.

For examples of practical actions to assess company's business relationships, 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.

3

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.

TRAINING EMPLOYEES AND SUPPORTING SUPPLIERS IN IMPLEMENTING RISK MANAGEMENT MEASURES

As part of its risk prevention and mitigation measures, the Company provided online training to all employees across 40 countries in multiple languages to increase awareness of specific environmental risks.

The Company conducts environmental auditor training with employees in relevant business units to improve the quality of audits. This helps the Company respond to identified risks more effectively.

To provide suppliers with support on chemical substance control, the Company has developed an IT solution to measure the amount of chemical substances contained in each product analysing

product composition and the product bill of materials (BOM). It requests suppliers to provide this information via questionnaires and evaluates the response data. The Company has also established a system to train evaluators to assess suppliers' maturity of chemical substance control and to recommend actions for improvement.

The Company holds annual meetings with its key suppliers to facilitate co-operation in sustainable procurement activities and to develop stronger relationships. The 2020 meeting brought together 444 members of suppliers' management teams from 188 suppliers across the world. In these annual meetings, the Company reports on its reviews of human rights and environmental impacts, and presents awards to recognise suppliers that have made significant contributions to preventing and mitigating environmental risks.

For examples of proactive measures on preventing and mitigating risks in supply chains, see page 75, Q33 and page 80, Q38 of the OECD Due Diligence Guidance. For examples of actions that a company may take to use and increase its leverage, see page 19, Box 2 "Collaboration in carrying out due diligence", page 69, Box 5 "Engagement with business relationships operating at control points in the supply chain", and pages 78-79, Q36-Q37.

DEVELOP AND IMPLEMENT PLANS TO MITIGATE ADVERSE IMPACTS ON CLIMATE CHANGE



The Company recognises that an increase in climate-related disasters poses risks in its supply chains. Expectations of stakeholders to address climate change, are growing. For example, in October 2020, the Japanese government pledged to achieve net carbon neutrality by 2050.⁸ In response, the Company has been promoting climate change mitigation and adaptation measures.

Since its endorsement of the Task Force on Climate-related Financial Disclosures (TCFD) in 2018, the Company has disclosed risks and opportunities associated with climate change in line with the Recommendations of the TCFD. The TCFD Recommendations cover four thematic areas: governance, strategy, risk management, and metrics and targets.

The Company has developed a risk management plan to mitigate risks and to measure change, and communicates progress publicly.

For example, the Company has set a goal of reducing CO₂ emissions linked to business operations (Scope 1⁹ and Scope 2¹⁰) to zero by 2050, including specific reduction targets to be achieved by 2030. To accomplish these

milestones, the Company is implementing rigorous energy saving plans, shifting to renewable energy sources and offsetting its final CO2 emissions.

The Company has also been disclosing its Scope 3 emissions (often referred to as value chain emissions)¹¹ since 2014. Among the 15 Categories of Scope 3 emissions,¹² the Company identified Category 11 "Use of sold products" as the most significant contributor to emissions, followed by Category 1 "Purchased goods and services". The Company is accelerating efforts to improve the energy efficiency of products to decrease Category 11 emissions and is collaborating with suppliers to reduce Category 1 emissions through promotion of its Green Procurement Guidelines.

To build on and improve its climate change mitigation and adaptation measures, the Company is developing information and communication technology (ICT) and artificial intelligence (AI) solutions for its customers. These solutions can help customers increase the efficiency of their business operations, reduce movement of people and goods, cut diesel fuel consumption and energy costs, and support the transition to digital operations. These measures enable customers to reduce their overall CO2 emissions and mitigate climate change.

The Company is also focusing on developing its social infrastructure business, and has developed ICT solutions aimed at climate change adaptation, including a variety of sensor technologies that monitor and forecast climate change. For example, the Company has developed technology to improve crop quality and to increase the efficiency of agricultural operations by collecting data from farms. It then accumulates and analyses the data which contributes to eliminating the risk of food shortages resulting from climate change.

For examples of recommended actions that a company can take to modify its operations or activities to prevent and mitigate adverse impacts linked to its operations, products or services, including climate change, see pages 30-31, item 3.2 and pages 77-78, Q34-35 of the OECD Due Diligence Guidance

NOTES

¹ See Guidelines on Promoting Responsible Corporate Behavior in the Supply Chain. Japan Electronics and Information Technology Industries Association (JEITA). 2020. <https://www.jeita.or.jp/cgi-bin/public/detail.cgi?id=769&cateid=1>

² Directive 2011/65/EU Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical Equipment

³ Regulation (EC) No 1907/2006 of the European Parliament and of the Council on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).

⁴ For electronics supply chains, the relevant OECD tools are the Minerals Guidance (for addressing risks related to minerals and metals sourcing) and the Due Diligence Guidance for RBC (for addressing a broader set of risks, including those associated with the manufacturing process). Companies should first refer to the Minerals Guidance and complement the process using the Due Diligence Guidance for RBC. <https://mneguidelines.oecd.org/oecd-electronics-supply-chain.pdf>

⁵ OECD (2018), OECD Due Diligence Guidance for Responsible Business Conduct. Available in multiple languages at <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>

⁶ OECD (2011), OECD Guidelines for Multinational Enterprises, Chapter VI. Environment, pages 42-46. <http://dx.doi.org/10.1787/9789264115415-en>

⁷ See Guidelines on Promoting Responsible Corporate Behavior in the Supply Chain. Japan Electronics and Information Technology Industries Association (JEITA). 2020. <https://www.jeita.or.jp/cgi-bin/public/detail.cgi?id=769&cateid=1>.

⁸ Toward the 2050 carbon-neutral realization. Ministry of Environment, Japan. 環境省_2050年カーボンニュートラルの実現に向けて (env.go.jp)

⁹ Direct emissions from owned or controlled sources.

¹⁰ Indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company

¹¹ See the Corporate Value Chain (Scope 3) Accounting and Reporting Standard, published by the GHG Protocol to enable companies to assess their entire value chain CO2 emissions. <https://ghgprotocol.org/standards/scope-3-standard>

¹² Scope 3 emissions are comprised GHG emissions through 15 categories of such as purchased goods and services, transportation and distribution, and use of sold products <https://ghgprotocol.org/scope-3-technical-calculation-guidance>

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OECD (2011), OECD Guidelines for Multinational Enterprises. Available in multiple languages at <https://mneguidelines.oecd.org/mneguidelines/>

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