

CASE STUDIES ON ENVIRONMENTAL DUE DILIGENCE: EXAMPLES FROM JAPANESE BUSINESSES



OVERVIEW

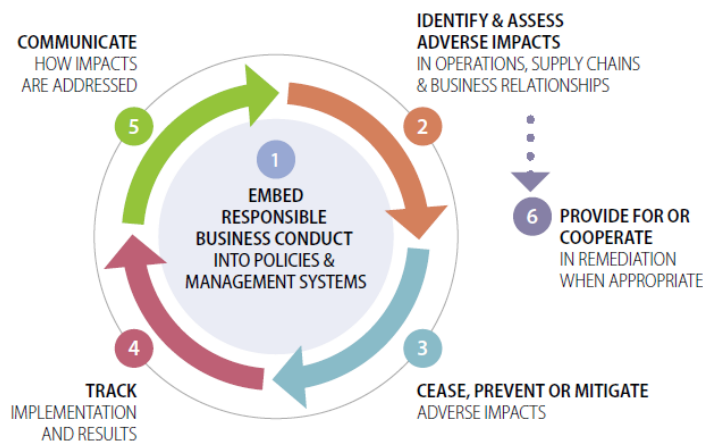
The six case studies enclosed in this series provide examples of corporate efforts to conduct environmental due diligence, drawing on the experience of Japanese companies. The case studies aim to support business in the practical implementation of environmental due diligence across supply chains. The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

REFERENCES

OECD (2016) OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD Minerals Guidance). Available in multiple languages at <https://www.oecd.org/daf/inv/mne/mining.htm>

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.

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