GLOBAL FORUM ON RESPONSIBLE BUSINESS CONDUCT

18-19 JUNE 2015 / OECD CONFERENCE CENTRE / PARIS, FRANCE

Due Diligence Along Agricultural Supply Chains

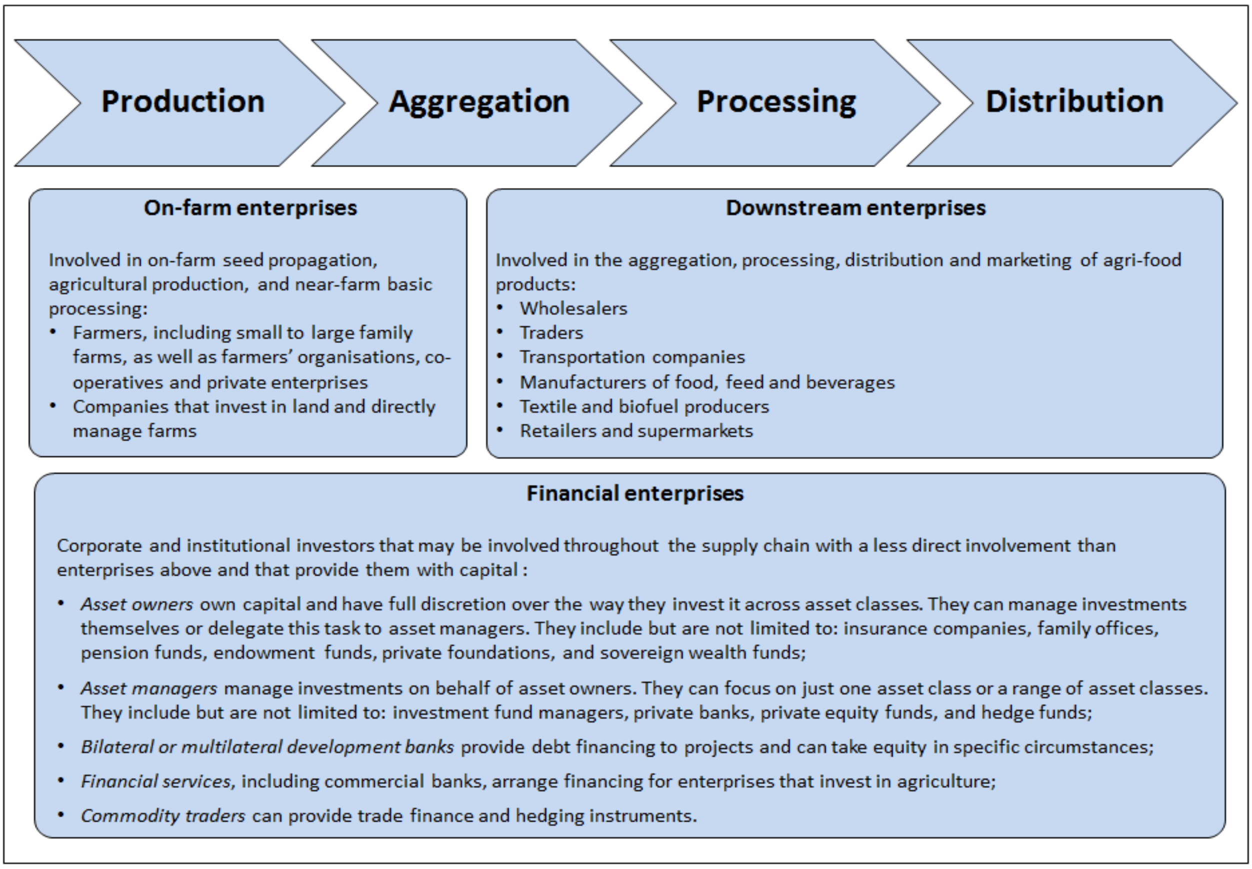
19 June 2015, 11:30 – 13:00
Room CC1, OECD Conference Centre

Which enterprises operate along agricultural supply chains and how do they interact?

Agricultural supply chains encompass enterprises, resources and activities ranging from the supply of agricultural inputs to the production, processing, transportation, marketing and distribution of agri-food products. As such, they comprise a wide range of enterprises that could be grouped, in a simplified way, in three categories as described in the diagram below: on-farm, downstream, and financial enterprises. These categories are often difficult to delineate in practice. For instance, co-operatives often own or manage agricultural equipment as well as downstream assets (e.g. sugar mill) and could thus be considered not only as on-farm enterprises but also as downstream enterprises.

These enterprises operate through diverse relationships and arrangements. Downstream enterprises secure access to agricultural products through various types of contracts with on-farm enterprises. While some impose standards and specifications on producers with little involvement beyond a buying contract, others are more actively involved, particularly through contract farming, to co-ordinate production and ensure quality. Institutional investors may be involved in a more indirect way by providing capital to on-farm and downstream enterprises.

Various enterprises involved along agricultural supply chains



What are their respective responsibilities when carrying out due diligence?

Due diligence refers to the process through which enterprises can identify, assess, mitigate, prevent and account for how they address actual and potential adverse impacts. It concerns adverse impacts they cause or contribute to as well as adverse impacts that are directly linked to their operations, products and services through a business relationship. Due diligence should be risk-based, with the greatest risks of adverse impact receiving the highest attention, so that resources can be allocated efficiently to mitigate those risks. A risk-based approach should not prohibit enterprises from engaging in high-risk contexts, but rather assist them in effectively managing related risks.

Due diligence can help enterprises comply with domestic law and observe international standards. It can also help them identify opportunities for maximising positive impacts and bringing benefits to home and host countries, especially small-scale farmers and rural communities.

While all enterprises should take reasonable steps and make good gaith efforts to conduct due diligence, the nature and extent of due diligence is affected by factors such as their size, the context and location of their operations, the nature of their products or services, and the severity of adverse impacts. Due diligence also depends on the type of investment. For greenfield investments, due diligence must be thorough and comprehensive as no prior due diligence has been undertaken. In the case of brownfield investments, joint ventures and mergers and acquisition, prior due diligence may have already been carried out and provide useful information that can feed into the new due diligence process.

Due diligence also varies according to the position of enterprises in the supply chain:

- *On-farm enterprises* may establish on-the-ground assessment teams for generating and sharing verifiable, reliable and up-to-date information on the qualitative circumstances of agricultural production. They should provide the results of risk assessments to their downstream purchasers. Although smallholder farmers have limited capacity to undertake due diligence, they are encouraged to remain involved in due diligence efforts of their customers and formalise so that they can carry out due diligence in the future;
- *Downstream enterprises* should identify risks, to the best of their efforts, and review the due diligence process of their suppliers to assess whether they observe required standards. They may participate in industry-wide schemes that assess their suppliers' compliance with relevant standards. Establishing long-term relationships with suppliers can increase their leverage to encourage the adoption of standards and allow them to improve the observance of the standards. For instance, small-scale farmers might have difficulties meeting stringent and costly requirements, and downstream enterprises can help build their capacities to improve their performance.
- *Financial enterprises* may have hundreds to thousands of clients. Thus, it may not always be practical to conduct extensive due diligence on each of them. The OECD Guidelines for Multinational Enterprises expect them to identify areas where risks are most significant and to prioritise due diligence on their clients accordingly. The appropriate scope of due diligence responsibilities would depend on the nature of their operations, products and services.

How can they collaborate to enhance the effectiveness of due diligence?

While considering competition and data privacy issues, enterprises can collaborate to ensure that the due diligence process is mutually reinforcing and to reduce costs, including through:

- Industry-wide co-operation, for instance by participating in initiatives managed by an industry organisation to support and advance adherence to specific standards, such as the Roundtable on Sustainable Palm Oil. Such programmes are most credible when they involve not only business but also civil society and relevant experts;
- Cost-sharing within industry for specific due diligence tasks;
- Co-ordination between industry members who share the same suppliers;
- Co-operation between different segments of the supply chain, such as on-farm and downstream enterprises. Due diligence information passed on from upstream to downstream enterprises can increase transparency and facilitate traceability;
- Partnerships with international and civil society organisations.

For further information, you can refer to the FAO-OECD guidance for responsible agricultural supply chains that is already available online and will be finalised in the coming months.

FAO-OECD guidance for responsible agricultural supply chains

The guidance aims to help enterprises observe standards of responsible business conduct along agricultural supply chains, including, among others, the OECD Guidelines for Multinational Enterprises, the Principles for Responsible Investment in Agriculture and Food Systems of the Committee on World Food Security (CFS-RAI), and the FAO Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGGT). The guidance targets private and state-owned enterprises as well as institutional investors, such as commercial banks, investment funds, private equity funds, and pension funds.

The guidance was developed with the support of a multi-stakeholder advisory group comprising OECD and non-OECD countries, agri-food companies, institutional investors, civil society organisations, academics, and international organisations.

It comprises three main sections:

- A five-step framework for risk-based due diligence spelling out the procedural steps for undertaking due diligence along agricultural supply chains;
- A model enterprise policy outlining the content of the substantive standards for responsible agricultural supply chains for each of the various risks of adverse impacts: human rights, labour rights, health, food security and nutrition, tenure rights over and access to natural resources, animal welfare, environmental protection and sustainable use of natural resources, governance, and technology and innovation;
- Specific measures for mitigating the risks of adverse impacts, drawing from existing standards.