



## SESSION NOTE

# Responsible global supply chains through due diligence

Thursday 29 June 2017 - 9:30-11:00  
Room CC1 - OECD Conference Centre

Global supply chains are increasingly fragmented with production processes carried out wherever the necessary skills and materials are available at a competitive cost and quality. The rapid globalization of supply chains has contributed to societal benefits such as job creation, skills development, and technology transfer. For example, Bangladesh's economy has grown steadily at around 5% annually over the last couple of decades. Much of this is due to the growth in the garment and textile sector in Bangladesh, which accounts for \$19 billion in annual exports, 80% of total export earnings, and 20% of gross domestic product.<sup>1</sup> One out of eight Bangladeshi, around 20 million people, is directly or indirectly dependent on the garment and textile industry.

Despite the benefits that access to global market can bring, there is a growing recognition of the human rights, labour, environment and integrity risks that directly result from business operations in global supply chains. For example, figures related to child labour, forced labour, unsafe work places, water pollution, air emissions and the use of hazardous chemicals remain strikingly high in many industries. For example, the ILO estimates that almost 21 million people are victims of forced labour; other estimates present almost double that number. An estimated 168 million children are trapped in child labour with more than half working in hazardous conditions. While these statistics are not only a result of global supply chains, the size and complexity of global supply chains, which is a result of sub-contracting, the use of intermediaries, the increasing specialisation of suppliers, and in some cases high rates of informality, often results in a decreased visibility of these risks.

## Expectations of business on supply chain due diligence

The OECD Guidelines for Multinational Enterprises (OECD Guidelines) call on businesses to conduct due diligence on their business operations and throughout their supply chains to identify, prevent and mitigate actual or potential adverse impacts in relation to matters covered by the OECD Guidelines (e.g. disclosure, human rights, employment and industrial relations, environment, combatting bribery, bribe solicitation and extortion and consumer interests) and account for how adverse impacts are addressed.<sup>2</sup> In relation to human rights impacts, this language is aligned with that of the UN Guiding Principles on Business and Human Rights (UNGPs). To assist companies in carrying out due diligence and to address the specific challenges arising in various sectors, the OECD has developed due diligence guidance in the minerals, agriculture, extractives, and garment and footwear sectors as well as a paper on responsible business conduct in the financial sector (See Box 1).

### Box 1. What is due diligence?

Responsible Business Conduct (RBC) due diligence describes the process through which enterprises identify, prevent, mitigate and account for how they address their actual and potential adverse impacts on issues covered under the OECD Guidelines. Due diligence can be included within broader enterprise risk management systems, provided that it goes beyond simply identifying and managing material risk to the enterprise itself to include the risks of harm related to matters covered by the Guidelines.<sup>3</sup>

#### Issues covered under RBC due diligence

- Disclosure
- Human rights
- Combatting bribery & bribe solicitation & extortion
- Employment & Industrial Relations
- Consumer interests
- Environment

#### Due diligence steps

1. Embed responsible business conduct into policies and management systems
2. Identify and assess actual and potential harms in the enterprise operations, products or services
3. Prevent and mitigate harms
4. Track performance
5. Communicate
6. Provide for or cooperate in remediation when appropriate

#### OECD Guidance on Due Diligence



### Policy frameworks incorporating due diligence

While a range of policy tools are available to governments to create an enabling environment for companies to carry out due diligence, there has been a trend towards regulation in recent years. For example, the UK enacted the Modern Slavery Act in 2015 which references the Guidelines in its statutory guidance. In 2017 the EU passed regulations on responsible mineral

Figure 1. Examples of Due Diligence Legislation



supply chains that is based on the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. In addition, there has been progress in regulation of non-financial reporting. Most significantly, the EU Directive on disclosure of nonfinancial disclosure chapter of the Guidelines as an appropriate reporting framework and promotes reporting on supply chain due diligence.<sup>4</sup>

In addition to legislation, RBC criteria and references to the Guidelines were also included in economic instruments and agreements, including in the context of export credit agencies' (ECA) policy, and trade and investment agreements. Furthermore, Governments, such as the government of the Netherlands, have developed multi-stakeholder agreements to develop and implement national strategies to apply due diligence to specific sectors. Finally, many adherent countries have developed or are in the process of developing National Action Plans on Business and Human Rights which rely on the Guidelines as a core framework, and reference the National Contact Point as a key mechanism to promoting access to remedy.

## Purpose of the session

This opening session will be an opportunity to discuss the role of due diligence in addressing environmental, labour and human rights risks linked to business activities in global supply chains. The session will explore the development away from check-the-box approaches to proactive due diligence processes and the driving factors for this evolution. It will look at the challenge of balancing between engagement and disengagement when operating in high-risk contexts and the practical challenges to engaging in due diligence in sectors with largely opaque supply chains and/or informal workforces. Finally, the role of the international community, including national governments and intergovernmental bodies in creating an enabling environment for responsible supply chains, and the most effective policy tools to do so will be discussed.

### Resources

- [OECD Guidelines for Multinational Enterprises](#)
- [OECD Sector Specific Guidance](#)

### Notes

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<sup>1</sup> IFC, "[Transforming Bangladesh's Garment Sector](#)", World Bank Group.

<sup>2</sup> OECD Guidelines for Multinational Enterprises, General Principles, Paragraph 14.

<sup>3</sup> OECD Guidelines for Multinational Enterprises, II, Commentary 14.

<sup>4</sup> OECD (2016), [Annual Report on the OECD Guidelines for Multinational Enterprises 2015](#).