

Statement on G7 Topic “Trade and Supply Chain Standards”

Together, the G7 states produce 32 per cent of the global gross domestic product. A large number of companies located in the G7 countries are active on a global scale, each working with a multitude of suppliers. The companies in the G7 countries thus have a decisive influence on working and production conditions around the world. Many companies benefit from human rights abuses or pollution which result from their supply chains, and are thus indirectly responsible for these problems and/or contribute directly to them through their procurement policies. Examples include the violation of employment rights by subcontractors of textile companies, IT manufacturers or supermarket chains; or displacement and destruction of the environment and livelihoods through raw material or infrastructure projects. Corruption often causes or aggravates these problems. . While companies continue to receive more rights through investment protection agreements, state regulation for the protection of people and the environment is not promoted to the same extent. Those affected abroad by the corporate abuses of foreign companies have limited options to pursue their rights in the G7 countries..

As such, the signatory organisations welcome the German government’s decision to make trade and supplier chain standards one of the focal points of Germany’s presidency of the G7 summit this year. To this effect, the German government has named six desired results for the summit:

- Creation of a “Vision Zero” fund for the prevention of accidents at work; companies should pay into the fund on a voluntary basis
- More transparency for consumers through investigations and recommendations by way of sustainability labels (beginning in the textile sector)
- Improvement of state-based non-judicial grievance mechanisms and non-state based grievance mechanisms for workers in production countries
- Creation of multi-stakeholder initiatives, such as the Partnership for Sustainable Textiles of the German Development Ministry, in other G7 countries
- Support for SMEs in adhering to supply-- chain standards
- Support for producing countries as part of development cooperation which enables such countries to independently ensure adherence to social and ecological minimum standards

The German government emphasises that the voluntary nature of all these activities is of paramount importance.

Voluntary initiatives alone cannot solve these problems

Of course, the signatory organisations consider these topics, as well as the desired results for the summit, to be important. However, the experiences of recent years have shown that voluntary initiatives alone are not sufficient to solve the structural problems behind the violation of social and ecological minimum standards in global supply chains. We regard the G7 summit as a chance to appeal on an

international scale for a clear legal framework which would ensure the global prevention of human rights abuses and of environmental destruction by corporations. The German government should set a good example: only through binding regulations will it be possible to ensure that companies which take a leading role do not suffer any competitive disadvantages resulting from their commitment.

Preventive measures from a new perspective: developing criteria for a Vision Zero fund and for binding due diligence obligations

On the one hand, the concept of taking preventive measures is to be welcomed; however, such measures need to be effective. For this reason, exact criteria must first be developed for the following questions: where is the fund and its administration located? How much money is needed for the meaningful implementation of the measures? Who is to pay into the fund; companies as well as governments? At the moment, it is planned that companies will contribute to the fund voluntarily. How much should they pay and are these amounts regulated or unregulated? Who makes decisions about the award of the funds? Which country and/or which measure shall take priority initially?? Should the money be used to finance accident insurance? One fund alone cannot guarantee that minimum standards are upheld along global supply chains. For this reason, further preventive measures should be developed alongside the fund. An agreement on the introduction of legally binding due diligence obligations in the G7 countries would have a strong preventive impact: the risk of liability will have a positive effect on companies' willingness to do business with due diligence. Once the adherence to human rights due diligence in terms of the UN guiding principles is mandatory, companies will know what is expected of them in terms of human rights compliance in their global business. Such legally binding due diligence obligations would set limits on the "race to the bottom" and help give rise to a global "level playing field".

Transparency must not limit itself to labelling recommendations

The German government has announced that as part of the G7 summit, it wants to campaign for more transparency for consumers. To this end, it wants to convince the other G7 states to conduct a publicly available assessment of labelling. The Federal Ministry for Economic Cooperation and Development (BMZ) started publishing an assessment of textile labelling at the end of February, and intends to expand their assessments to include food, paper and timber labelling soon. The assessment of labelling cannot, however, guarantee transparency concerning social and ecological risks and their negative effects on the people and environment involved in the supply chain. As such, the German government should itself implement the EU Directive on the Disclosure of Non-Financial Information (Directive 2014/95/EU) and in particular provide for the verification of the information. The government should also urge the other EU countries, Canada, the USA and Japan to create laws which help consumers understand under which conditions the products they buy were produced.

Improvement of the complaints procedure according to the OECD Guidelines for multinational corporations

The signatory organisations welcome the German government's decision to promote the improvement of the complaints procedures according to the OECD Guidelines for multinational corporations within the framework of the G7 summit. They support the idea of strengthening the existing voluntary Peer Review System. However, they demand that the modalities of the Peer Review be specified – including adequate funding – and the review cycle accelerated. The threshold applied for assessing cases should be lowered; fact-finding investigations following failed mediation and, determination of a violation of the OECD Guidelines should be introduced; refusal of participation in the mediation process should have consequences; and monitoring should be offered upon successful mediation. Furthermore, national

points of contact must be equipped with adequate staff and financial means, their neutrality must be ensured and their work must be monitored by supervisory bodies made up of the relevant stakeholders.

An expansion of the initiatives to include other sectors than the textile sector must be carried out from the start

The factory fires in Pakistan and Bangladesh in autumn 2012, and the collapse of the Rana Plaza building in April 2013, with their thousands of casualties, gained a high level of public interest and helped create awareness for the problems in the clothing industry. Yet the textile sector is just one of many in which companies fail to comply with ecological and social minimum standards. Through their studies and reports in recent years, NGOs have raised awareness about various social and ecological problems in agriculture and the production of agricultural products and foods, in the extraction of raw materials, and in the production of consumer goods such as cars, IT devices and toys. Apart from these problems, there are the issues of environmental destruction, displacement and other human rights abuses through infrastructure projects, which companies are involved in either directly or indirectly by way of their supply chain. These studies and reports demonstrate clearly the extent of abuses of ecological and social minimum standards in global supply chains. As such, the German government should not limit itself to the textile industry. This applies all the more so since the industry's relevant actors have not joined the German textile partnership, designed to be an example for international multi-stakeholder initiatives.

There are already examples of binding regulations and transparency within supply chains

There are already a number of examples in Germany and other G7 countries of successful binding regulations, which help ensure the traceability and safeguarding of social and ecological standards within supply chains:

- With regard to the conflict minerals tin, tantalum (from coltan ore), tungsten and gold, the Dodd Frank Act (paragraph 1502) was passed in the USA. Since 1st January 2013, all companies listed on a US stock exchange must prove and make publicly accessible the origin of certain conflict minerals. The corresponding draft of an EU Regulation does not, however, contain any binding regulations concerning due diligence. Furthermore, the proposed Regulation is intended to be limited to those companies which market conflict minerals directly.
- With regard to human trafficking and slavery, since 1st January 2012, companies in California with business operations worth more than USD 100m annually must report on their efforts to prevent slavery and human trafficking in their supply chains ("California Transparency in Supply Chains Act"). In Great Britain, a similar law – the "Modern Slavery Bill" – is currently being passed.
- With regard to timber, the EU, USA and Australia have legislated against illegal logging and to prevent the social and ecological problems which arise due to it. The EU Timber Regulation (EUTR), which came into force on 3rd March 2013, requires all companies importing timber or wood products to the EU for the first time to adhere to particular due diligence obligations and to document that the wood and the traded products originate from legal logging sources. Timber merchants from within the EU must also be able to verify the merchant from whom they bought the timber or wood products, and to whom they have sold these on to, the along the entire supply chain. This information must be conserved for five years.
- Concerning the raw materials industry, an EU Directive was adopted on 26th June 2013 obliging large oil, gas, mining and forestry companies to disclose to government authorities their payments such as taxes and concessions. Due to the high susceptibility of this sector to corruption, the payments must be published for individual projects as well as by country. The Directive is currently being implemented in the EU member states. According to the Dodd Frank

Act (paragraph 1504), companies are already required to report on their cash flows in the raw materials sector. The corresponding implementation rules of the Securities and Exchange Commission are expected this year.

Furthermore, France and Switzerland have initiatives for the introduction of general legal due diligence obligations for companies concerning their negative impact on human rights and the environment. In France, a corresponding law has already been passed by parliament. As such, there are already laws and initiatives in many countries for binding regulations for companies' entire supply chains, which could serve as an example.

Demands on the German government and the other G7 states:

Legally binding corporate responsibility

1. We demand that the G7 states create a clear legislative framework with regard to the impact of corporate activity on people and the environment, and that they introduce binding human rights due diligence obligations along the entire supply chain, such as those proposed in the UN Guiding Principles on Business and Human Rights.

2. We demand that the G7 states support the initiative for the development of a binding mechanism for the regulation of transnational companies at UN-level.

Transparency:

3. We demand that those G7 states which are also members of the EU implement the EU Directive on the Disclosure of Non-Financial Information (Directive 2014/95/EU) in its entirety in their countries, so that companies may be obliged, independently of their legal form, to publish status reports containing non-financial information on the social and ecological impact of their own companies, their subsidiaries and suppliers, and on their anti-corruption measures. The reports should be comparable, and appropriate verification and sanction mechanisms should be implemented.

4. We demand that those G7 states which are also members of the EU implement in their national law the EU Directive on the introduction of disclosure obligations for cash flows of companies in the raw materials and forestry sectors, and to ensure that the collected data are freely accessible, can be evaluated automatically, and that violations against the provisions are sanctioned appropriately. Furthermore, this obligation to report should be expanded to include companies in other industries, because cash flow transparency is an important factor influencing whether the income of developing countries benefits their populations.

5. In order to increase the efficiency of factory audits, we demand that the G7 states codify in law that the results of factory audits and planned countermeasures be published and that they be made accessible to all, in particular to employees, their representative bodies and to consumers.

Foreign trade and investment promotion, and public procurement:

6. We demand that the governments of the G7 states enshrine in law the adherence to ecological and human rights standards in public procurement and state foreign trade and investment promotion and to give due consideration to convictions on charges of corruption. Additionally, they should work towards a

systematic approach to the procurement of international institutions such as the World Bank and the IMF concerning social and ecological criteria.

Policy coherence:

7. We demand that the G7 states pursue human rights-oriented trade policies. These should include:

- a systematic investigation of possible impacts that trade agreements may have on human rights, before such agreements are signed;

- a reform of the previously standard human rights clauses in trade agreements. To date, the implementation of human rights and social clauses in trade agreements is rarely verified, and violations usually go unsanctioned. In the future, human rights clauses should enable the suspension and review of contractual provisions if these have proven to endanger human and/or employment rights;

- a systematic review of the adherence of EU trade agreements to the human rights and employment law requirements of the Generalized System of Preferences (GSP), under which several countries enjoy duty and quota-free access (EBA) or preferential access (GSP+ and general GSP) to the EU market. In the case of serious and systematic violation of human rights agreements and core labour standards of the ILO, the EU should make use of the suspension of trade preferences as provided for in the GSP.