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Employers' Workshop on Global Supply Chains
Bangkok, Thailand 8 – 9 December 2015

Summary Report

Background

The topic of “Decent Work in Global Supply Chains” is on the agenda of the 105th Session of the International Labour Conference (ILC) in June 2016, which will develop joint conclusions that will shape the ILO’s vision, strategy and activities on global supply chains (GSCs) for the next three to five years. As a general discussion item, the ILC will not develop a new ILO standard on global supply chains at this session, but some parties, including the trade unions, are already calling for the ILC to develop a standard on GSCs in the future.

To prepare for the ILC 2016 discussion on GSCs, the ILO Bureau for Employers’ Activities (ACT/EMP) and the International Organisation of Employers (IOE) organised a workshop for employers on 8 - 9 December 2015 in Bangkok to bring together the full range of business actors in the supply chain – suppliers, buyers, sectoral associations and employer organisations (EOs) – with the aim to:

- get a better understanding of the impact of supply chains on competitiveness and productivity; job creation and working conditions; challenges and opportunities for buyers and suppliers;
- identify possible areas of work for the ILO and discuss the successes and shortcomings of ILO supply chain interventions thus far;
- elaborate on the anticipated draft background report for the 2016 ILC discussion and formulate possible approaches from the Employers’ Group; and
- identify areas of work to be done before June by the IOE Secretariat, ACT/EMP and national employers’ federations.

Overview of key international policy initiatives and national regulation

There is an increased focus on GSCs by governments as well as regional and international organisations, including

- International initiatives
 - G7 Supply Chain Initiative
 - G7 Vision Zero Fund
 - OECD General Guidance on Risk-Based Due Diligence for Responsible Business Conduct
 - Priorities of the Dutch EU Presidency
 - EU flagship project on responsible business conduct in the garment and textile sector
 - IndustriALL Global Union and Action Collaboration Transformation initiative

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- National Regulations
 - UK Anti-Slavery legislation
 - US Dodd-Frank Act on conflict minerals

For more information on these initiatives, see the attached presentation. Some of these initiatives will have direct implications for the 2016 ILC discussion on GSC:

- The G7 leaders agreed as part of their supply chain initiative to develop a common understanding of due diligence and responsible supply chain management and to support a due diligence approach within the 2016 ILC discussion.
- The Netherlands will hold the EU presidency for the first half of 2016 and will speak in the 2016 ILC discussion on behalf of EU member states. GSCs are a priority of the Dutch EU presidency. Their work will be reflected in the EU approach in the 2016 ILC GSC discussion.
- IndustriALL will propose a “Global Supply Chain industrial relations system” as a key demand at the 2016 ILC discussion and will use the “Action, Collaboration, Transformation” initiative as an example.

The growing interlinkages between different initiatives demand close cooperation between the international business organisations (i.e. IOE, BUSINESSEUROPE, BIAC) to ensure that business speaks with one voice in the range of forums.

Break-Out Sessions for Suppliers and Buyers

Suppliers and buyers – and their respective federations – met in parallel sessions to discuss the key challenges and opportunities they face regarding working conditions and global supply chains.

Main Points for Suppliers	Main Points for Buyers
<ul style="list-style-type: none">• Lack of clarity with regard to legal compliance (conflicting regulations between local, national and international level; gap between local law and MNE regulations). There is a role for the ILO in clarifying some of these issues.• Governments are not providing adequate access to remedy at national level.• Too much auditing and inspection	<ul style="list-style-type: none">• Trends: More countries are seeking to access GSCs as a means for development (e.g. Myanmar and Ethiopia) and there is increasing automation in existing sourcing countries (e.g. China).• Growing regulation on responsible supply chain conduct: Buyers now obligated to take action.• Too many social auditing schemes. Quality of auditing is an issue.

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<p>from buyers, over-lapping among different auditing and too much auditing costs for suppliers.</p> <ul style="list-style-type: none">• Productivity: need to strengthen the competitiveness of suppliers. Wages also linked to productivity.• Suppliers need fair pricing in order to make improvements.• One-size-fits-all approach cannot be taken – extensive variations exist even within the same country.• Informal economy: minimum standards for all are needed to create a level playing field.• Collaboration between buyers and suppliers needs to improve.	<ul style="list-style-type: none">• Need to better educate procurement staff within companies on the impact of procurement practices and pricing on working conditions in supply chains.• National Labor inspection: Governments have to step up action and fulfil their duty to protect.• The ILC 2016 supply chain discussion should not lead to standard setting.• What the ILO should do:<ul style="list-style-type: none">○ Understand how GSCs work.○ Conduct more objective research○ Review existing ILO programs to determine what works and what does not.○ Better use of ILO convening power○ ILO: one-stop shop
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Conclusions from buyer and supplier breakout session: Issues of common concern

- Need to strengthen collaboration between suppliers and buyers.
- Capacity building for suppliers.
- Auditing fatigue: improving social auditing.
- Responsible procurement (fair pricing).
- Non-compliance in informal and domestic economies is a challenge for suppliers as well as buyers. Governments have to fulfil their duty to protect to ensure a level playing field.
- There should be no ILO standard setting on GSCs.
- Need for more data on GCS: research role for ILO.

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Roles and Responsibilities in Global Supply Chains

Given the evolving nature of supply chain management programs, there has been considerable debate about the scope of responsibility of the various actors along supply chains: national governments, suppliers and their customers (buyers). In this respect, the unanimous adoption of the UN Guiding Principles on Business and Human Rights in 2011 played a critical role in defining the scope of responsibility in a globally agreed framework, namely that all governments are required to establish and enforce adequate national laws, that all enterprises – including suppliers – are required to comply with applicable national laws and have a responsibility to respect human rights.

Respecting human rights means that enterprises should not infringe the human rights of others:

- Avoid causing or contributing to adverse impacts through own activities (i.e. where the enterprise has direct control over the activities and is responsible for the adverse impacts); and
- Seek to prevent or mitigate adverse impacts directly linked to company through business relationships (i.e. where another enterprise has direct control and is responsible for the adverse impacts).

Enterprises should implement a due diligence process to identify, prevent, mitigate and account for actual and potential human rights impacts.

Similarly, the OECD Guidelines for Multinational Enterprises state:

- “There are practical limitations on the ability of enterprises to effect change in the behaviour of their [business partners].”
- The responsibility to seek to use leverage “is not intended to shift responsibility from the entity causing an adverse human rights impact to the enterprise with which it has a business relationship.”

In view of the 2016 ILC discussion on GSCs, there was agreement that there is no “governance gap” with regard to GSCs: all companies are regulated by national law. The challenge is that, although most countries have adequate national laws and regulations in place, those laws are not consistently implemented or effectively enforced in many countries, particularly in the domestic and informal economies. When only 10% of the national workforce works in the formal sector, compliance at national level is the core issue.

The ILO had a general ILC discussion on Labour Inspection in 2011, but implementation of agreed action by the ILO as well as governments has been very poor so far. There needs to be much better follow up to earlier commitments to improve labour administration and inspection. The implementation of ILO Recommendation No. 204 concerning the Transition from the Informal to the Formal Economy (2015) is of importance in addressing the challenges in the informal economy.

There was full agreement that there is no substitute for governments in the application of the law. Governments have much greater scope for implementing and enforcing the law than companies can through contracts and supplier codes of conduct, where the only consequence is lost future business. Additionally, strong national inspection systems cover

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the entire economy and create a level-playing field, while supply chain programs only cover some exporters.

Overview of the 2016 International Labour Conference general discussion on “Global Supply Chains and Decent Work”

The ILO Office (Sector Department) is currently preparing the background report for the 2016 ILC discussion, which will be finalised by the end of January 2016 and published in April 2016.

When the ILO Governing Body decided to put this issues on the ILC agenda in March 2014, it proposed that the discussion cover:

- Key structural changes, trends and drivers, as well as the economic dimension of GSCs and their inter-linkages, including their contributions to national and local economic development;
- The implications of GSCs on job creation, skills development, distribution of employment, and working conditions, including wages, working time and occupational health and safety;
- The effects of GSCs on the nature of the employment relationship, as well as on collective bargaining and social dialogue;
- Policies and good practices to promote backward and forward linkages, the integration of local SMEs, cooperatives and other companies into GSCs, and transitions to formality;
- Strategies to accelerate skills upgrading, improve organizational procedures and increase productivity and sustainability;
- The role of international labour standards and, in particular, fundamental principles and rights at work;
- Strategies that build on multiple, complementary approaches to achieving workplace compliance;
- The role of organizations representing workers and employers at the global level, including by sector, in view of the opportunities for cross-border social dialogue; and
- The role of multinational enterprises in the promotion of decent work in GSCs.

The proposed structure of the Office report covers the following main issues:

- Global Supply Chains and the World of Work.
- Economic and Social Upgrading for Decent Work in GSCs.
- Governance in GSC.

The key areas of debate in the discussion are anticipated to be:

1. The belief by trade unions and parts of the Office that there is a “regulatory gap” in GSCs and thus that more regulation on GSCs is needed. Trade unions will call for the development of an ILO Convention on Global Supply Chains. Although the general discussion in 2016 will not create a standard, the conclusions could call on the ILO to develop such a standard in a future ILC.

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2. The scope of the discussion is unclear: All countries are engaged in GSCs, which flow not just South-North, but also South-South, North-South and North-North. Yet the debate seems focused only on supply chains flowing from developing countries to G7 countries. Additionally, the diversity of supply chains is not properly reflected and too often the debate is limited to challenges in the garment/textile industry. And lastly it is unclear which stakeholders are covered: will the discussion focus only on big international brands or will it address GSCs where there are no global brands involved? . .

Participants agreed that it is necessary to start lobbying governments at an early point. Moreover, it was regarded as useful also to engage with trade ministries, who are usually more aligned with the business community perspective.

Contribution of Supply Chains to Development

The participants agreed on the need for the ILC discussion to address the various ways GSCs contribute to development, notably:

- Global Supply Chains as job creator:
 - It is estimated that GSC-related jobs represent 20.6 per cent of total employment, up from 16.4 per cent in 1995.
 - GSCs have moved people from subsistence agriculture into paid employment.
 - Job creation in related sectors such as logistics and transport.
 - Improvement of the status of women through paid employment:
- Global Supply Chains enhance productivity and stimulate innovation
 - Global Supply Chains help to facilitate the transfer of knowledge from buyers to suppliers.
 - New technologies in production processes lead to enhanced productivity and competitiveness.
 - Product upgrading: evolution from simple products to more high-tech products.
 - Suppliers invest more in R&D themselves.
 - The ability to meet international standards that enhance suppliers access to new markets.
 - New technologies lead to skills upgrading.
- Global Supply Chains as ladder for development
 - GSCs are especially important for developing countries, for which the best metaphor would not be a chain but a ladder.
 - The disaggregation of production into separate stages allows supplier firms not only to find their place on the ladder, but to move up the rungs as capabilities improve. GSCs encourage upward movement by rewarding skills, learning, and innovation.
 - Overcoming obstacles to GSC participation can pay big dividends; developing economies with the fastest growing GSC participation have GDP per capita growth rates 2% above average.

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- Participation in GSCs has also led to rapidly rising wages and incomes in many developing countries.
- Shifts of manufacturing activities within a country, for instance China, are creating opportunities in new territories.

However, not all countries have taken advantage of the potential of global trade and access to GSCs. Findings of OECD, WTO and WB say:

- “Not all firms and countries are equally involved in GVCs. Some of these factors are permanent, such as a country’s geographic location, while others can be shaped by the laws and policies that a country enacts (...) These include the modernity of the infrastructure, the skills of its workforce, and – perhaps most important of all – the friendliness of the business climate.”
- “The principal role of governments is not to create, subsidise, or tax GVCs, nor to regulate them more than is necessary. Instead, governments should foster environments that are friendly to production, investment, transportation, communication, and trade. (...) Key elements of a welcoming business environment include macroeconomic stability, access to finance, and the overall ease of doing business.”

The meeting participants stressed the need to demonstrate beneficial wage gains for workers in GSC to counter the argument from trade unions that wages still remain low. Moreover, more data are needed to show the economic upgrading through GSCs more generally and to show to governments what is at stake.

Links with working conditions and living standards

One of the key questions in the discussion will be how GSCs impact wages and working conditions. Studies show that:

- Improved wages, working conditions and labour rights during expanding global supply chains;
- Higher wages (without longer hours);
- Reduced fatal injuries;
- Reduced child labour;
- That the greatest influence on working conditions is the level of development; and
- That over time, countries that grow most rapidly have the most rapid advances in working conditions.

How do wages and working conditions in global supply chains compare to those in the domestic economy? Studies show that:

- exporters pay higher wages than non-exporters;
- export wage premiums range from 10-12% in Korea to 40% in sub-Saharan Africa;
- wages, compliance rates and non-wage benefits are higher in EPZs than in the domestic economy.

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Moreover, most anecdotal evidence shows that exporters have better performance than domestic firms and much better performance than firms operating in the informal economy.

In the discussion, it was emphasised that although the export industry has higher wage growth, sooner or later national wages will also rise to match the wages in GSC companies. Moreover, because the export industry creates subsidiary industry, it creates new jobs which bring people out of poverty. At the same time, it was stressed that data should not be oversold and that there are also examples where companies in GSCs pay much lower wages than local companies.

Participants stressed that wages need to be set or negotiated locally and that wage levels are not part of the ILO Fundamental Principles and Rights at Work, which recognizes the right of countries to benefit from their comparative advantage. Moreover, it was emphasised by some participants that local regulation needs to be respected, but that business owners in GSCs should not be asked to go above and beyond local law to ensure a level playing field.

What areas of work should the ILO undertake on supply chains?

The question about ILO's engagement with regard to GSCs needs to be seen in terms of the mandate of the Organisation: The four main strategic objectives of the ILO are

- International labour standards and fundamental principles and rights at work;
- Employment;
- Social Protection;
- Social Dialogue and tripartism.

The ILO is already active in many areas relevant to GSCs:



Possible future ILO action:

- Regular exchange of practical experiences on supply chains.
- Building the capacity of national governments for effective implementation of national laws;
- Transfer of knowledge between companies and local institutions.

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- Research relevant to GSCs.
- Capacity building of social partners.
- Promoting transitions towards formality.
- Building on convergence of existing tools for auditing.
- Increase ownership of Governments for existing ILO tools (for example SCORE).
- Understanding what works and what does not in existing ILO programmes.
- Better access for companies to the ILO through IOE and ACT/EMP.

In the discussion the positive experiences with the ILO Better Work programme were highlighted by some participants, particularly where it has led to the improved capacity of the national government to conduct labour inspections. It was recognised that the Better Work assessments are more credible than assessments conducted by the brands themselves. Moreover, Better Work was regarded as a relevant programme when there is lack of trust in the inspection systems of governments, even though a proper transfer of knowledge is needed to reinforce Government capacities in the Better Work countries.. It was expected that the Better Work Programme, as well as SCORE, could provide a lot of data about economic and social upgrading in GSC companies.

There was also the view that there was a lack of appreciation of how the ILO's different activities are already directly and indirectly impacting working conditions in GSCs. This should be clearly presented in advance of the ILC discussion.

Employer Priorities for the 2016 ILC discussion on “Global Supply Chains and Decent Work”

Participants broadly confirmed the draft Employers' position outlined in the IOE paper of August 2015:

1. The need for verifiable data on GSCs – and therefore the need to reinforce capacities to obtain and analyse relevant data.
2. Fact-based picture of Supply Chains is required.
3. GSCs contribute to Decent Work and act as a driver for job creation and growth.
4. Focus needed on ILO action so far – what works and why, what does not work?
5. That there is no “regulatory gap” at international level – and thus no need for ILO standard setting, including on “living wages”.
6. The ILC discussion must align with the “Protect-Respect-Remedy” framework in the Un Guiding Principles – no shifting of the State duty to protect onto companies, whether domestic or global.
7. GSCs are highly diverse, as are national circumstances. The ILC discussion should fully reflect this diversity.
8. The need for governments to create conducive business environments to support the creation of more and better jobs generally, both within and outside supply chains.
9. Pro-growth strategies required that facilitate the participation of an economy and its enterprises in GSCs.
10. Capacity building within GSCs important.

The participants stressed that any approach that is limited to improving working conditions in global supply chains would only benefit a fraction of workers and would exclude the vast majority, who work in the domestic and informal economies. The aim must be to improve

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working conditions for all workers and in all companies to ensure a level playing field. The Fundamental Principles and Rights at Work must apply to all workers.

Moreover, it must be stressed that buyers have limited leverage and consequently only limited possibilities to influence working conditions in GSCs.

Finally, there was a consensus that the scope of the discussion should include all companies that had supply chains that extend beyond national borders, not just brand MNEs.

Conclusions and the Way Forward:

- ACT/EMP and IOE will try to ensure that the background report, which is currently being drafted by the ILO Office, is neutral, fact-based and is a suitable basis for the ILC discussion.
- IOE will publish a monthly blog in the run up to the ILC on the GSC topic.
- IOE will produce a fact sheet on GSCs with data.
- The IOE ad-hoc Task Force will follow-up on the outcomes of the Bangkok meeting.
- The IOE ILC position paper on GSCs will be updated in February/March, taking into account the finalised background report prepared by the ILO Office.
- The IOE will engage with the missions in Geneva.
- IOE member federations are invited to engage with governments as soon as the Employers` position paper is revised to influence the discussion.
