



## Back to the beginning Sustainable supply chains

Combined forces Interview with Maren Barthel

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# Standards and rules

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“Back to the beginning” is often the motto in our projects when we analyse the environmental impacts of products, processes or services. There are already numerous schemes that attempt to bolster the importance of fairness and environmental performance in the production chain. Sometimes it is individual companies who get things moving, sometimes initiatives cover an entire sector. Businesses may be motivated to get involved because responsible management is an important aspect of their corporate values or because they recognise that the assurance of responsible business practices is an additional attraction for their customers. We analyse the broad picture in a self-financed project on sustainable supply chains that is described in this issue. Yet despite the usefulness of voluntary commitments, we at the Oeko-Institut believe that compulsory statutory rules for social and environmental standards are needed.

This issue focuses on “cradle to grave” issues: it looks at the present situation and the challenges for business that want to do things right – or at least a lot better – in their supply chain. We highlight ways of improving sustainability at every stage from materials procurement to disposal.

I hope you enjoy reading eco@work and wish you all the best for 2017.

Yours,

Michael Sailer

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## “The power of the many should not be underestimated”

She is just back from India: a few days before the interview, Maren Barthel of the Otto Group was helping to run a supplier training programme for textile factories there. Much of the company's clothing is made in China, Bangladesh, India and Turkey. In conversation with *eco@work* the Otto Group's Corporate Responsibility Manager describes her experiences of local textile factories, the standards that the Otto Group sets for its suppliers and the challenges involved in establishing sustainable supply chains.

### Can you give us an idea of what the supplier training programme is like?

It is global programme run by the Otto Group: it is designed to help factories that have been working with us for some time to move away from seeing sustainability as a stand-alone task and to integrate it comprehensively into their processes. In fact in India our suppliers are now so good that we have had to set up more advanced programmes.

### What standards do you set for your suppliers in terms of sustainability?

They are based largely on the Code of Conduct of the Business Social Compliance Initiative, or BSCI, which sets out key standards in areas such as working hours, safety at work and protection of the environment. The Otto Group has added some additional standards, for instance to address environmental issues and corruption.

### How do you monitor compliance with these standards?

Each factory that wants to work with us must complete our onboarding process before the first order is placed. This is a sort of inventory of the producer: it includes both a quality assessment and a social audit. We use it to see whether the standards of the BSCI's Code of Conduct are being met. These audits are then repeated at regular intervals –

sooner in the case of those who score badly than for those who perform well.

### Do you also assess your suppliers' upstream suppliers?

No, with such a complex supply chain as ours that wouldn't be feasible. We rely on a cascade effect: we expect our suppliers to impose the necessary standards in their own supply chain – and we train them to do that. Of course that doesn't provide a guarantee.

### Are consumers now demanding more sustainable textiles?

There is greater awareness and greater demand for sustainable products. But I have the impression that a lot of consumers are still not prepared to pay more for sustainable goods. Furthermore, they are constantly wanting something new, which sadly isn't very sustainable either.

### Who can help to increase sustainability in the textile industry?

That requires a combined effort. Governments must put the right conditions in place and NGOs make a contribution with their campaigns. Companies, too, have already achieved a lot through their activities. In addition, customers must review their shopping habits and consider not just the price of clothing but also what lies behind it, what pro-

duction and disposal mean for people and for the environment.

### How useful are business schemes such as the Partnership for Sustainable Textiles?

They are very useful. The power of the many should not be underestimated. For example, if several companies put a supplier on their blacklist for failing to comply with environmental or social standards, that automatically has a greater effect. The Partnership provides a platform for sharing experience, learning from each other and working together to improve social and environmental conditions in the textile industry.

**Thank you for talking to *eco@work*.**  
The interviewer was Christiane Weihe.









# Sustainable supply chains

## 9 propositions for greater responsibility

In 2013 the Rana Plaza building in Bangladesh collapsed, killing 1,138 people. People around the world who might not previously have thought about these things began to ask important questions: Where does the T-shirt that I'm wearing come from? Who cut the fabric, sewed the seams – and above all: under what conditions? Many western companies were having clothes made at the Rana Plaza, despite the clearly inadequate safety standards. It is difficult for individual consumers to obtain a clear picture of the intricate supply chains: the "Made in ..." label in the T-shirt is nothing but a rough guide. Even for companies, the path to sustainable production is often highly complex and stony. The Oeko-Institut is campaigning for sustainable supply chains and has drawn up nine propositions calling for greater responsibility. They are addressed not only to businesses but also to politicians, whose task it is to establish appropriate conditions, set standards and monitor compliance.



“The nine propositions emerged out of the IMPACT research project, which investigated the effectiveness of Corporate Social Responsibility (CSR) activities for the EU Commission,” explains Christoph Brunn of the Oeko-Institut. IMPACT showed that CSR activities have an identifiable but only slightly positive effect. “We also found that voluntary activities are not enough: greater sustainability in business requires political measures,” says the expert from the institute’s Environmental Law and Governance Division. At the end of the project the researchers drew up some clear statements on CSR; from these there emerged nine propositions that deal explicitly with supply chains.

The first proposition emphasises the scope of corporate responsibility:

**1 CSR TODAY MEANS ASSUMING RESPONSIBILITY FOR THE COMPANY’S SOCIAL IMPACTS – INCLUDING THROUGHOUT THE SUPPLY CHAIN.**

“That may sound trivial, but it isn’t,” says Brunn. “For a long time corporate responsibility was considered to involve voluntary measures that apply only to your own operations. But in fact it involves all the social impacts of a company’s activities and hence covers the entire supply chain.” In the case of the T-shirt, this means that it goes right back to the planting of the cotton.

But the problems vary at different points in the supply chain:

**2 THERE ARE SPECIFIC HIGH-RISK AREAS IN GLOBAL SUPPLY CHAINS – THESE MUST BE IDENTIFIED.**

“The Rana Plaza incident has highlighted a high-risk area in the textile industry: clothing workshops in a low-wage country with appalling working conditions and poor safety standards,” says the expert.

Ecolabels such as Germany’s Blue Angel are designed to encourage consumers to buy products produced under socially and environmentally responsible conditions. In a feasibility study

conducted on behalf of the German Federal Environment Agency that is looking at the inclusion of social criteria in the Blue Angel ecolabel, using tablet computers as an example, the Oeko-Institut’s researchers are currently investigating whether and how social issues can be incorporated and how compliance with defined criteria can be demonstrated. “Until now social aspects have been included in the Blue Angel only for the product group of shoes and textiles,” says Tobias Schleicher of the Oeko-Institut. “For these products, label holders must ensure that the core labour standards of the International Labour Organization (ILO) are complied with throughout the value chain.” In connection with the tablet computers being studied in the present research project, the experts consider the social risks to be particularly high in the areas of resource extraction, electronics production and recycling and disposal. “The studies show that it is essential to oblige businesses in these areas to fulfil their duty of care with regard to human rights,” explains Schleicher, who works in the Sustainable Products and Material Flows Division, “because a voluntary approach alone is not enough, as the experiences of recent years have shown.”

Certification schemes and ecolabels are an important step on the way towards more sustainable supply chains – and better guidance for consumers. But the state must also be involved:

**3 CSR AND REGULATION ARE NOT AN EITHER/OR OPTION BUT COMPLEMENTARY TO EACH OTHER.**

“The IMPACT project has shown that voluntary measures exist even where regulations are in place. In fact this creates incentives for business to go beyond their obligations, because the regulations raise awareness of sustainability factors,” says Brunn. “To think that voluntary measures or self-commitments mean that state intervention can be dispensed with is therefore a fallacy.” However, state intervention must achieve a desirable result:

**4 REGULATION MUST ENSURE THAT POSITIVE IMPACTS ARE ACTUALLY ACHIEVED.**

Measures that are intended to bring about social or environmental improvements can in practice produce completely different results. “For example, this has been the case with some commodity certification schemes that were intended to improve conditions for small-scale producers but in fact often present an additional obstacle to market access for the very people they were designed to help,” says Schleicher. Furthermore:

**5 THE CALL FOR COMPREHENSIVE TRANSPARENCY DOES NOT GO FAR ENOUGH AND DOES NOT DO JUSTICE TO THE COMPLEXITY OF GLOBAL SUPPLY CHAINS.**

The desire for perfect traceability of all material flows can quickly generate excessive bureaucracy. “Even if all materials could be traced back to their origin, that would not solve all the problems. There is a risk that much of the funding will be channelled into schemes to increase transparency while efforts to tackle the cause of the problems make no headway,” explains Schleicher. This is one of the findings of a study of conflict minerals conducted by the Oeko-Institut for the Federation of German Industries (BDI). “This project showed that policy instruments must go beyond transparency alone; in the case of conflict minerals, for example, promoting responsible mining plays a very important part in improving the situation for local people.”

The complexities of establishing sustainable supply chains are also illustrated by the Oeko-Institut’s sixth proposition:

**6 THE QUESTION OF THE SCOPE OF CORPORATE RESPONSIBILITY MUST BE ANSWERED – INCLUDING LEGALLY.**

“If we ask about responsibility for the supply chain, that has been understood in the past as moral responsibility,” says Brunn. “Legally, the extent to

which businesses are liable has not yet been fully clarified." He describes a case that is currently being heard in the regional court in Dortmund. Four Pakistanis are suing the clothing company KiK on account of a fire in a factory in Karachi. They have been awarded legal aid in order to do this. "It is important to clarify how far corporate responsibility extends in legal terms and what the state is responsible for. It will be some time before that is finally settled," says Brunn. Tobias Schleicher adds that a starting point could be the UN Guiding Principles on Business and Human Rights, which in Germany are due to be implemented in a National Action Plan for Business and Human Rights. "The principles are based on the three pillars of Protect, Respect and Remedy – that is, on state protection of human rights, on companies' respect for these rights and on opportunities for compensation when human rights are infringed. However, the German government's current draft once again proposes only voluntary commitments for German companies. That would be a major disappointment and would do little to improve the present situation," says Schleicher. And at present:

**7 KNOWLEDGE OF THE IMPACTS OF SUPPLY CHAIN MANAGEMENT MEASURES IS OFTEN POOR AND MUST BE IMPROVED.**

In the Global Value project, which is continuing until the middle of 2017, Oeko-Institut researchers are investigating the impacts of different sustainability instruments. Using case studies of tea, gold and textiles, they are analysing the influence of external structures – such as certification schemes and product labels – on conditions in commodity-producing countries. For example, they have studied tea production in Tanzania by considering plantations there that produce tea for two European dealers. "The analysis shows that international certification standards such as Fairtrade and the Rainforest Alliance have an influence here. However, it is difficult to make any general statement about how big that influence is," explains Brunn.

How can sustainable supply chains be established, what instruments are effective and are the present measures enough? The Oeko-Institut says:

**8 FOR SUPPLY CHAIN MANAGEMENT TO BE DEVELOPED FURTHER, NEW APPROACHES MUST BE SUPPORTED.**

"This could involve cooperation between countries or within sectors, or it could be a matter of compulsory, standardised reporting," says Tobias Schleicher. The ninth proposition follows on from this:

**9 THIS MUST INVOLVE COMPANIES RECEIVING BOTH POLITICAL AND TECHNICAL SUPPORT.**

This requires among other things a definition of high-risk areas that call for a particular duty of care, and better knowledge of successful methods of supply chain management and the existing obstacles. "We can't simply push everything onto the companies' plate. A lot of things are more effectively organised by the state; for example, it doesn't make sense to leave each company to identify high-risk areas for itself," explains Brunn.

The two Oeko-Institut experts are familiar with the problems of sustainable supply chains. They both know that there are no simple solutions: global supply chains are too ramified, the links with the political and social systems in different countries too intricate and the tasks therefore too complex. " In connection

with supply chains it is often hard to say exactly what is meant by the positive impact of a measure," says Christoph Brunn. "For example, in some situations doing away with poor working conditions means that the jobs simply disappear." But both experts agree that good approaches exist. "For example, not simply shrugging off our responsibilities in high-risk areas but instead making a point of supporting initiatives that operate responsibly," comments Tobias Schleicher. "This can really help to improve the lives of people in the countries of origin."

*Christiane Weihe*



*Christoph Brunn of the Oeko-Institut studies all aspects of corporate responsibility. Among other things, he is developing sustainability criteria for companies, products and services. His colleague Tobias Schleicher explores sustainability issues throughout the product lifecycle, including areas such as resource extraction, ecolabels for particularly sustainable products and recycling – for example, of electronic waste in African countries.*  
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## In the initiative jungle

### What sort of schemes really work?

The steak comes with an assurance that the animal was not fed genetically modified crops. The jeans state that they are made from certified organic cotton. The cosmetics declare that no rainforest was destroyed for their palm oil. Companies decorate their products with all sorts of sustainability seals and promises; there is scarcely a sector that does not have its sustainability initiatives. But how seriously can we take them? What schemes not only promise sustainability but actually implement it effectively? In its own study of the challenges of global supply chains and possible solution strategies the Oeko-Institut is currently investigating around 80 standards and initiatives from five different sectors and analysing promising approaches, including their mechanisms and success factors.

Researcher Dr Nele Kampffmeyer's first task was to identify which imported goods are most important to Germany as an industrialised country and to choose which sectors and commodities to analyse. "In a project like this it would be impossible to study every sector. It therefore focuses on the oil and coal industry, the mining of metals and conflict minerals, soya and cotton, textile manufacture and information and communication technology," says Kampffmeyer, who has studied business administration and social sciences. "I started out by gathering information

on hot spots in these areas so that I could then consider initiatives that address them."

In the oil industry the hot spots are mostly environmental ones – such as oil extraction in nature conservation areas or at sea, and the pollution of whole swathes of land. But social issues also crop up here, for example with regard to extreme corruption, distribution of the generated profits or how civil rights campaigners and environmental activists are dealt with. On the other hand, sustainability initiatives are rare: "Under

pressure from the UN, the International Petroleum Industry Environmental Association IPIECA was formed. But all it has done so far is set up a couple of working groups: there is not yet even a hint of compulsory standards," says Kampffmeyer. With regard to coal the situation is similarly difficult. "Here there is Bettercoal, which is a serious initiative but still in its infancy." In coal mining, too, there are major social and environmental hot spots, such as health problems and environmental damage as a result of coal dust in Colombia. "Because of their CO<sub>2</sub> emissions, oil and



coal don't become environmentally friendly sources of energy even if they are dressed up as a green product, and most of the time there is no direct link to the end consumer. At the same time, and given our current economic structure, almost no one can completely avoid the use of fossil resources. These are certainly a couple of the reasons why more isn't happening here," says the Oeko-Institut expert.

The mining of metal ores and minerals also has consequences for people and the environment – for example in terms of poor working conditions in artisanal mining, the financing of conflict, relocation of people to enable new reserves to be accessed, and the contamination of large areas with mercury, as is occurring in gold mining in Peru. Compulsory initiatives are more common in this sector than they are with oil and coal. For example, there is the Mining Association of Canada, which lays down clear sustainability standards for its members and requires regular audits of mines. There is also the London Bullion Market Association, which is an important trading centre for fine gold: it has introduced sustainability criteria covering issues such as human rights and the avoidance of conflict financing that apply to all companies that want to trade their products here.

If one considers soya production, on the other hand, the hot spots lie in completely different areas: vast plantations in countries such as Brazil, Argentina and the USA are causing environmental and social problems. One such problem is competition for land. "There are hot spots in Argentina, for example, where small farmers are being displaced or even expropriated, and in Brazil, where rainforest is being felled to make more space for crops," explains Kampffmeyer. "Moreover, virtually all the soya on the world market is genetically modified – and GM soya is associated with large-scale use of pesticides and herbicides and with many unclarified risks." One of the initiatives working for a responsible approach to soya growing is

the Round Table on Responsible Soy, which is addressing the issues of pesticides, biodiversity and workers' rights through its certification scheme. "But the most advanced sector in terms of initiatives is the textile sector, which has schemes such as the Fair Wear Foundation, Detox and the Bangladesh Accord. A lot has happened there as a result of public pressure," says the researcher. "In addition to the well-known social problems in the clothing workshops, the hot spots here include the use of chemicals in dyeworks and the cultivation of genetically modified cotton, which now accounts for 80 percent of the total market and is another crop that is associated with large-scale use of pesticides and herbicides." An approach that Kampffmeyer regards as particularly interesting is the Higg Index, an extensive database operated by the Sustainable Apparel Coalition. "All the stakeholders in the supply chain, such as dyeworks, clothing workshops and transport providers, can enter information about their sustainability practices and enable other businesses to view them."

### SIGNPOSTS IN THE INITIATIVE JUNGLE

After considering some 80 initiatives and noting their key variables – such as their originators, the stakeholders involved, their mechanisms, scope and transparency and the positive impacts already achieved – Dr Nele Kampffmeyer will select up to ten particularly promising schemes and subject them a detailed strengths and weaknesses analysis. "They will include the Mining Association of Canada and the Higg Index, and also broader schemes such as the Extractive Industries Transparency Initiative, which focuses on transparency and anti-corruption throughout the extractive sector, and the ISEAL Alliance, which develops standards for standards and thus is seeking to boost uniformity. The Business Social Compliance Initiative will also be included in this more detailed analysis. It is try-

ing to prevent fragmentation into too many standards and initiatives: one of the things it is doing is to collate the audits of different suppliers so that they don't have to be performed repeatedly."

One of the aims of this study is to identify sound and successful schemes, analyse the basis of their success and consider how their success factors can be transferred to other sectors. "When new initiatives are launched – such as the European Garment Initiative, which recently came into being in the textile sector – this analysis can highlight key problems as well as successful stakeholders and suitable mechanisms." This information will therefore be made available to policy-makers, who in Dr Kampffmeyer's view need to assume greater responsibility, both in Germany and elsewhere. "The initiatives and standards provide the basis for implementing sustainable supply chains in practice. But politicians are responsible for enshrining corresponding social and environmental standards in law and creating conditions that enable these standards to be complied with. Despite the concerns of industry, this would also help businesses by creating a more uniform competitive environment."

*Christiane Weihe*



*Corporate sustainability strategies and sustainable supply chains are the focus of Dr Nele Kampffmeyer's work. After completing her PhD she worked at the Institute for Ecological Economy Research (IÖW). She has been a researcher in the Oeko-Institut's Environmental Law & Governance Division since March 2016. n.kampffmeyer@oeko.de*