

Civil society organisations call on policymakers to define meaningful supply chain reporting requirements

About this initiative: The Supply Chains Transparency project was launched by Frank Bold in 2020, in order to develop consensus on relevant data-related, standardisable reporting requirements for supply chain issues. The initiative builds on the findings and the work of the Alliance for Corporate Transparency, which highlight lack of understanding and alignment on appropriate and meaningful supply chain disclosure criteria.

Based on an extensive mapping and assessment of existing reporting initiatives and the engagement of over 30 supply chain experts through various consultation rounds and online workshops, the project has led to the identification of relevant sector-specific supply chain related human rights and environmental indicators for corporate reporting.

INTRODUCTION

Corporate sustainability transparency is a complex issue, which requires a careful selection of meaningful reporting requirements. Due to the climate emergency and the advances in science and political agreements, there is greater clarity on which climate metrics and targets, as well as risk management-related information should be disclosed. However, there is less agreement on how to define these for other environmental issues and even less so for human rights matters. As highlighted by the research of the Alliance for Corporate Transparency, which analysed 1000 European companies' disclosures, this is particularly problematic in the context of supply chains.

For these reasons, **the undersigned expert organisations have come together to develop recommendations for standardizable supply chain data and indicators applicable across high-risk sectors**, as well as providing sector-specifications for the Garment & Footwear, Food & Beverage, Extractive and Electronics industries.

Our recommendations are provided with regard to the following issues:

- › Baseline requirements for the description of the supply chain
- › Mandatory disclosures of Tier 1 suppliers
- › Salient workforce information on composition, wages, and collective rights
- › Sector-specific data on procurement practices
- › Sector-specific salient environmental issues and indicators
- › Garment & footwear: Priority issues for a roadmap for disclosure beyond Tier 1
- › Food & Beverage: Specification of categories of suppliers and farmers, living wage and land-grabbing indicators
- › Extractives: Specification of essential project-level data
- › Electronics: Product and components related disclosures

The purpose of the recommended supply chain reporting criteria is to provide a standardised insight into company's exposure to risks and impacts, and by that support the disclosure of a company's human rights and environmental due diligence (HREDD). This specific supply chains data should not be mistaken for a comprehensive reporting standard on HREDD, which is necessary to specify qualitative elements of corporate disclosures, in particular on the assessment of a company's entire value chain in order to identify salient issues and company's involvement and business relationships linking the company to such identified salient issues. Defining a detailed disclosure standard for HREDD was beyond the scope of this project. However, in the final section of the document, we provide a basic outline of content criteria for such a standard. The requirements outlined herein would be particularly effective if introduced alongside mandatory human rights and environmental due diligence.

Please also note that the focus of this statement is on supply chain reporting requirements; this does not cover disclosure criteria for the downstream value chain, which is equally important, yet beyond the scope of this initiative.

CROSS-SECTORAL DISCLOSURE REQUIREMENTS

For sectors where negative impacts on human rights and the environment are common in supply chains, mandatory reporting standards should at a minimum require the disclosure of the following criteria:

› **Supply chain description:**

- % suppliers by region, preferably by sourcing country
- % of suppliers that have collective bargaining agreements in place
- GHG Scope 3 emissions

› **Mandatory full disclosure of tier 1 suppliers:**

- Name of supplier facilities and addresses
- Type of products by supplier
- Duration of relationship with suppliers
- Workforce information by supplier:
 - Estimated number of workers per location, disaggregated by gender (job roles and % of women in management positions)
 - % of migrant (internal and cross-border) workers broken down by nationality, type of contract and gender
 - Gender pay gap and living wage gap, including details on the calculation methodology adopted
 - Details on whether the supplier has a trade union and worker committee and all its workers are covered by a collective bargaining agreement

Mandatory reporting standards should further define sector-specific reporting requirements and related thresholds, including:

- › Categorisation of suppliers, specification of thresholds for disclosure of suppliers, and definition of Tiers
- › Disclosure requirements concerning specific categories of suppliers beyond Tier 1
- › Disclosure of sourcing countries for the main commodities or raw materials

SECTOR-SPECIFIC REQUIREMENTS

Garment and footwear

Mandatory reporting standards should define a sector roadmap for disclosures beyond Tier 1¹, covering:

- › Names and addresses of Tier 2² suppliers including at least wet processes (washing, dyeing), and additional Tiers including fabric, yarn, trims and tanneries
- › Sourcing countries for the main agricultural commodities used in products
- › Water consumption in supply chain in areas with water stress
- › Release of pollutants in water in the supply chain disaggregated by hazardous chemical pollutants, and by water quality parameters

The standards should also require disclosure of data on procurement practices, including:

- › % of orders/volume for which wages and other labour costs (such as wage increases) are isolated/ring-fenced
- › % of orders with on-time payment to suppliers, according to agreed terms
- › Details on payment times (including average and maximum payment times)
- › % of purchases where retrospective changes were made to orders or payment terms
- › % of contracts cancelled by the brand after start of production by the supplier

¹ UNECE has launched a multi-stakeholder project on traceability and transparency in the supply chain for the garment and footwear sector. The project is nearing its end and the resulting standards could be taken into account by the future EU Standard-Setter.

² There are important examples of companies from the sector reporting on Tier 2 suppliers. Puma has been disclosing their Tier 2 suppliers for many years ([here](#)); Adidas publishes their Tier 2 “wet processes” list too ([here](#)); H&M has recently started publishing processing locations (washing, dyeing, etc), and Tier 2 fabric, yarn and tanneries ([here](#)).

Food & Beverage

As farmers and workers operating beyond Tier 1 are those most highly exposed to risks, mandatory reporting standards should define a sector roadmap for disclosures concerning agricultural production until the bottom of the supply chain*:

- › Categorisation of suppliers/farmers (size & ownership), including % of small-scale producers and % of suppliers whose business models and/or governance systems and structures give greater power to workers, small-scale farmers and local communities
- › % of suppliers and volume where living wage or income benchmarks are factored in as a non-negotiable cost into price negotiations and contract terms
- › % of products produced on land where there is evidence or allegations of land grabbing
- › Information should include estimation / quantification of adverse environmental impacts, including:
 - % of commodities sustainably produced under organic certification
 - % of products sourced from regions with High or Extremely High Baseline Water Stress
 - Overview of water use
 - Deforestation

*Information should be disclosed for high risk food categories, beginning with at least 3 high risk food categories. For meat and seafood supply chains, this should extend to the feed-level.

Extractives

Supply chain transparency needs to be disaggregated by project, using the definition provided in the EU Accounting Directive, including with respect to the project-specific policies and standards that detail how procurement processes should take place and how the project ensures that major suppliers align with company and project-specific policies on integrity, social and environmental criteria. The reporting standards should support these disclosures by specifying transparency requirements³ for the following:

- › Name of project, including the stage of the asset, any significant expansion development under way and estimated year of project closure;
- › The breakdown of procurement spend for each category of supplier and in relation to total spend, including details on how the project categorizes suppliers based on:
 - Geographic location, such as proximity to the site;
 - Level of participation, including level of ownership and/ or employment by local individuals or particular groups (Indigenous people, vulnerable groups, etc.);
 - Level of value addition.

Reporting standards should further lay out recommendations and priorities for the sector roadmap for disclosures beyond Tier 1. Such a roadmap should explore transparency concerning suppliers related to 1st tier suppliers, suppliers who implement the largest contracts or high volume of contracts, and suppliers with unknown or high-risk beneficial owners.

Electronics

Supply chain transparency needs to be provided at product level. The standards should require disclosure of the following information:

- › Name of supplier and physical address of the final assembly plant/plants manufacturing the product model (with aspirations in the mid-term to reach stock keeping unit - SKU level)
- › For the main 10 components (defined by value): Component name, name of supplier and physical address of the factory where the component was manufactured, and product models in which the component is used
- › List of chemicals used and stored for specific final assembly and component factories

³ See '[Mining Local Procurement Mechanisms](#)' Report, pp.20-21.

The standards should also require disclosure of data on procurement practices, including:

- › % of orders/volume for which wages and other labour costs (such as wage increases) are isolated/ring-fenced
- › Order placement and lead times
- › Details on payment times (Including average and maximum payment times)

RELATIONSHIP WITH HUMAN RIGHTS AND ENVIRONMENTAL DUE DILIGENCE REPORTING REQUIREMENTS

In addition to the indicators presented in this document, the standards also need to provide content and quality criteria for the key elements of due diligence reporting as such, including:

- › Policies on salient cross-sectoral (e.g. gender discrimination and violence, and environmental standards) and sectoral issues (e.g. purchasing practices and recruitment in garment, food, and ICT sectors; procurement processes and conditions, local development and corruption in extractives);
- › Allocation of responsibilities, transparency of board oversight and incentives;
- › Due diligence, including impact assessment across the company's value chain, the company's involvement and business relationships, targets relevant for the prevention or mitigation of the impacts, compliance findings, monitoring effects of actions and grievance mechanisms on reducing negative outcomes, and engagement of affected people in all stages of due diligence.

Such a general due diligence reporting standard should build on and incorporate sectoral standards, especially those which are already reflected in public policy such as the supply chain due diligence requirements for conflict minerals.

PRINCIPLES FOR DETERMINATION OF RELIABLE, RELEVANT AND STANDARDIZABLE INDICATORS

The indicators recommended in this document were selected based on the following principles:

- › Capacity to convey information regarding risk exposure or the likelihood that the company's practices are reducing negative outcomes and increasing positive outcomes for people and planet;
- › Measurability, reliability of the data, and methodological clarity;
- › Intrinsic value of the information, namely the extent to which an indicator can be relied upon for insight into a company's impacts / risks in the absence of contextual information to enable its interpretation;
- › Low risk of undesirable consequences with regard to company practices.

The application of these criteria led to the exclusion from these recommendations of several commonly recommended indicators such as on audits, number of incidents, proportion of supply chain at risk of severe human rights violations, or training. Should companies opt to report on such aspects, they should ensure the disclosure of further qualitative and contextual information, which standards are however not well positioned to define.



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