

Sustainable Global Supply Chains: G7 Leadership on UNGP Implementation

Executive Summary

Report by the Office of the UN High Commissioner for
Human Rights for the 2022 German Presidency of the G7

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In preparation for the 2022 German Presidency of the Group of Seven (G7), the German Federal Ministry for Economic Cooperation and Development (BMZ) requested that the Office of the United Nations High Commissioner for Human Rights (OHCHR) prepare a report focusing on the efforts of the G7 to promote sustainability, human rights and environmental protection in global supply chains. The *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ) commissioned this Report on behalf of the BMZ.

There could not be a more important moment for the G7 and other key international actors to show leadership and accelerate efforts to advance implementation of the UN Guiding Principles on Business and Human Rights (UNGPs) in global supply chains. Achieving the interlinked global goals related to the climate emergency, sustainable development and recovery from the COVID-19 pandemic depends in large part on ensuring human rights are respected throughout global supply chains - and the UNGPs is a foundational tool for that undertaking.

The G7 member States have a unique opening to push for ambitious, comprehensive UNGP implementation to achieve that goal and create meaningful change for people across the globe.

There is unprecedented momentum behind reform efforts that will significantly shift how legal, regulatory and financial markets shape business practices in the future. This presents a critical opportunity for G7 leadership to push for a step change increase in policy coherence and to insist on alignment with international standards of responsible business conduct, including in regulatory reform aimed at ensuring responsible business conduct; in supporting measures to complement regulatory approaches; in development cooperation, assistance and finance; in private sector sustainable finance initiatives; and in investment and trade policy.

The G7 member States have already played an important leadership role by articulating the central goal of achieving genuinely sustainable supply chains. In the present confluence of global circumstances, they have a unique opening to push for ambitious, comprehensive UNGP implementation to achieve that goal and create meaningful change for people across the globe.

Global supply chains have brought important gains including steep declines in poverty where countries are integral to global supply chains. **However, there are growing concerns about adverse human rights impacts of global supply chains, international trade and globalization more generally.** This includes concerns about rising inequality within borders, the expansion of precarious and informal forms of work and the increasing vulnerabilities of workers, especially migrant workers. The energy transition, the COVID-19 pandemic and shrinking civic space pose particular risks for human rights in the context of supply chains. To successfully achieve sustainable supply chains, the broad scope of human rights at risk must be addressed.

The UNGPs' delineate differentiated roles and responsibilities of States and companies for human rights impacts - including those occurring in global supply chains. This normative clarity has created a common platform for action supported by all key stakeholders. Furthermore, it has resulted in unprecedented cooperation among institutions and other actors to work collectively to tackle even the toughest of human rights challenges. The UNGPs' third pillar on access to remedy is an important reminder that achieving sustainable and rights respecting global supply chains is ultimately about avoiding and addressing harm to people, and that any preventive efforts made by States and companies need to be underpinned by access to effective remedy when such efforts fail.

The increasingly rapid development of business and human rights legislation in many G7 countries and the EU is due to both:

- (i) the wide recognition of the authority of international standards on responsible business conduct, including the UNGPs and the OECD Guidelines on Multinational Enterprises (OECD GL); and
- (ii) a growing number of business voices, investors and other stakeholders seeking greater legal certainty, more level playing fields, increased leverage within value chains, and a chance to build better-integrated risk management.

But these hoped-for outcomes are dependent on legislative and regulatory alignment with international standards on responsible business conduct elaborated in the UNGPs and the OECD GL. The G7 can play an important role in welcoming and supporting further legislative developments on business and human rights as well as ensuring collectively that misalignment risks are addressed domestically, regionally and globally.

In addition to bespoke business and human rights legislation, the UNGPs expect States to implement rules and policies to create a conducive environment for human rights respect. This includes legislative and regulatory action across a number of areas domestically. So far, limited progress can be noted addressing human rights risks in global supply chains originating in the domestic context of G7 member States. The G7 member States can demonstrate leadership both by actively identifying the human rights challenges relating to global supply chains domestically and taking regulatory and legislative steps address those.

The continued lack of widespread, concrete progress on remedy - particularly in the context of mitigating and addressing human rights risks in global supply chains - calls into question the extent to which the UNGPs make a positive difference to the lives of people adversely affected by business practices and operations. **Accelerated action on remedy is needed now, and opportunities to do so abound.** The OHCHR's Accountability and Remedy Project reports contain recommendations for addressing specific obstacles and burdens that can fall unfairly on people affected by business-related human rights harms.

Even the most robust legal and regulatory provisions cannot create all necessary shifts in business practices globally to ensure sustainable supply chains. **Key components of the “smart mix of measures” are those supporting measures to help facilitate the changes envisioned by the UNGPs.** For example, diplomatic missions and representation abroad of G7 member States have the potential to play an important role in promoting and advancing implementation in global supply chains across the world. A well-trained diplomatic corps in business and human rights would also help build credibility at home and abroad regarding the G7 commitment to human rights.

G7 member States can also work collectively and individually to develop channels for small and medium sized enterprises (SMEs) to obtain guidance and support on any number of challenges they face in pursuing their responsibility to respect human rights. G7 member States can coordinate with other States and the EU to create a capacity-building facility for all stakeholders,

as proposed in the UN Working Group on Business and Human Rights' "Roadmap for the Next Decade on Business and Human Rights", including companies on human rights due diligence. This could be a useful avenue for assisting SMEs.

The G7 can collectively and individually support the development of curricula and training for professionals on international responsible business standards and the practical implementation of those both at home and abroad.

G7 member States can also work with partner countries, for example through development assistance or other avenues, to encourage, support and facilitate the development of National Action Plans on Business and Human Rights (NAPs) that drive better human rights respect where G7 companies have important business relationships.

Government activities in development cooperation and assistance offers a wide range of opportunities to assist developing countries in their efforts to be part of sustainable global supply chains by supporting effective implementation of policies reflecting international responsible business standards. More individual and collective efforts in this direction would be a powerful lever for fostering sustainable supply chains.

Development finance institutions also present an opportunity to drive UNGPs implementation through their lending and other activities, through their design and operation of grievance mechanisms and through their engagement with other development agencies that may put in place supporting measures tailored to the needs of producing countries to help create more conducive conditions for UNGP implementation.

Overall integration of the UNGPs into development finance and international financial institutions remains low, including as a tool for managing risks to people in supply chains. G7 member States can support and catalyze better UNGP integration and harmonization of approaches across development finance institutions.

There are key opportunities for G7 member States to support alignment of sustainable finance initiatives for the private sector with the international standards on responsible business conduct. Reinforcing the important role to be played by the OECD regarding alignment of Environmental, Social and Governance (ESG) standards with responsible business conduct is an important place to start.

Additionally, in 2022 the Green Climate Fund will institute its own social and environmental criteria, and G7 member States as Board members of the Fund, can steer the development of that criteria to align to international standards on responsible business conduct. Additionally, the newly founded International Sustainability Standards Board presents an opportunity to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities aligned with international standards on responsible business conduct. But such alignment is not guaranteed. G7 member States can support policy work in this direction to help ensure such alignment.

Achieving sustainable supply chains will also require integration of international standards on responsible business conduct across investment and trade policy. In the context of ongoing investment policy reform efforts across global institutions, G7 member States can work individually and collectively to ensure that (1) States maintain adequate policy space for pursuing human rights obligations, while providing the necessary investor protection; that (2) reform efforts reflect international standards on responsible business conduct, to better protect investment value and to incentivize better investor behavior abroad; and that (3) reform efforts improve access to remedy for those harmed by foreign investors.

G7 member States also have an opportunity to foster responsible business conduct and a conducive environment for business respect for human rights by including advisory support on human rights risk management and responsible business conduct standards in the context of their negotiation advisory support to developing country partners through the Connex Support Unit and other initiatives. The UN Principles for Responsible Contracts offers a ready-made resource for this activity.

State efforts to harness trade policy to protect human rights have generally focused on labor issues. The G7 has also acknowledged the wider impact of trade policy on sustainable supply chains, in particular related to deforestation, environmental sustainability and gender. Yet, the G7 member States should more explicitly recognize the links between trade policy and protecting all human rights in global supply chains. As the G7 member States continue to prepare for WTO reform, explore collective approaches to trade policy and address issues such as forced labor, they should focus attention on integrating international standards for responsible business throughout trade policy.

For example, export credit agencies (ECAs), and export-import banks are key players involved in supporting parts of global supply chain operations. Yet, ECAs have not worked multilaterally, for example in the OECD Working Party on Export Credit (Export Credit Group), in recent years to update and align their standards either to the UNGPs or to high-level commitments made by their own governments. Improving human rights performance of ECAs is an important lever for fostering sustainable supply chains. As an obvious first step, governments should heighten the obligations of the Export Credit Group's Recommendation on Common Approaches regarding human rights and international standards on responsible business conduct.

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There is unprecedented momentum across the G7 and beyond to develop legal and regulatory frameworks on business and human rights; there are efforts worldwide to build common reporting standards for sustainable finance; and there are a number of ripe opportunities for meaningful investment and trade policy reform. At the same time, there are many untapped opportunities or areas where policy incoherence must be addressed to eliminate blockages to achieving progress towards more sustainable supply chains.

The G7 member States' leadership is needed now to foster better UNGP alignment and implementation in ways that will create meaningful change for people. The OHCHR stands ready to assist the G7 member States and other actors to collectively achieve the vision of the UNGPs.

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The views and opinions expressed in this report are OHCHR's and do not necessarily reflect the official policy or position of the GIZ or the BMZ.

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