



**Online:** See the recording [here](#).

## Objective

This event was co-hosted by the members of the European Parliament, chair of the INTA committee **Bernd Lange** and chair of the IMCO committee **Anna Cavazzini**. The event highlighted the strong connection between bad purchasing practices and human rights violations and environmental impacts. It also explored how the upcoming Sustainable Corporate Governance proposal can potentially address these impacts.

Mr. Lange pointed out that 70% of trade takes place in global supply chains and the Sustainable Corporate governance legislation, which includes an obligation for companies to conduct human rights and environmental due diligence (HRDD) in their supply chain, has a vital role to play in improving labour, human rights, and environmental standards globally. Ms. Cavazzini complemented that this is a timely discussion, and the European Parliament's own legislative initiative report on Corporate Due Diligence and Corporate Accountability already refers to purchasing practices as part of the HRDD process.

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## Link between purchasing practices and human rights

**Luis Pinedo Caro**, research officer at the International Labour Organization Office (ILO) for Turkey presented the results an ILO research [Purchasing practices and working conditions in global supply chains: Global Survey results](#) he co-authored. The ILO resolution on global supply chains (105th ILC) highlights that both the positive impacts of growth in global trade, but also faces decent work deficits such as excessively low wages, long working times, undermined labour rights, freedom of association while increasing informal labour and instances of child labour. **They found that improving purchasing is necessary to improve working conditions.**

The research identified several relevant purchasing practices: flexibility in response to buyer's demand; accuracy of technical specifications in contracts; willingness to cover production costs; sufficiently high prices and lead times. The research also found a **statistically significant relationship between purchasing practices and human rights standards**. For example, if producers receive payment below the costs of production, the wage is 11.3% lower. On the other hand, if buyers agree to pay a price which at least covers the production costs, wages can be 9.7% higher. Business practices by the producers themselves still have the potential to improve or worsen the conditions and wages, but it is clear they can be strongly influenced by bad purchasing practices.

**Do Quynh Chi**, the Co-founder and Director of the Research Center for Employment Relations continued by presenting the findings of her recent research [Responsibility in the Time of Crisis? Brands' practices during the Covid-19 Pandemic and Impacts on Factories and Workers in the Garment, Footwear and Electronics Supply Chains in Vietnam](#). Covering the three main industries in Vietnam since the start of COVID-19 they have reported cancellations of orders in over 35% of supply chains, mostly with no compensation for finished work.

Other detrimental practices which have deteriorated during the pandemic are delay of orders, price reduction and delay of payments (up to 6 months), etc. The suppliers are facing conflicting pressures, where buyers are pushing for a reduction in prices and shorter delivery time.

Simultaneously, **buyers are demanding more investment into compliance with labour and environmental standards, while the exporting companies are mostly left to pay for the social audits and other costs of compliance out of their own pockets**. This passing on of the costs of compliance by big companies to their suppliers with adverse impacts on workers needs to be addressed in the light of the upcoming legislation on mandatory HRDD. Do Quynh Chi **emphasized a need stipulating cost and risk-sharing between business partners. This should be reflected in business contracts, linking purchasing to sustainability performance to encourage continuous improvement, and conducting HRDD throughout the supply chains while engaging with local civil society and workers' representatives at every step.**

### **Producer and supplier testimonies**

**Marike de Pena**, Director and co-founder of Banelino banana cooperative in Dominican Republic and the Chair of the Latin American and Caribbean Banana Network of CLAC spoke about the impacts purchasing practices have on smallholder farmers in the banana sector. She pointed out that farmers in the banana sector have already suffered the negative consequences of downward price pressures for years. However, the prices paid have been at the lowest point ever during the beginning of COVID-19. **Since companies are looking for lower prices, commercial relationships are very short, which leads to human rights and environmental risks such as insufficient income and wages, and a lack of access to decent housing and basic needs** (health care, education, housing, etc.), as well as an



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increased use of pesticides, a decrease of organic agriculture and insufficient investments in climate change. In addition to prices below the costs of sustainable production, banana farmers are facing increased costs due to climate change, diseases, COVID-19 and multiple certifications demands. Nowadays multiple certifications schemes are required by the buyers and only a few of them cover the compliance costs. Do Quynh Chi also reported a similar situation in the garment, footwear, and electronics industries, where larger supplier who can afford to take on additional (compliance) costs are crowding out SMEs. Aside from the foreseen requirements of the

mandatory HRDD legislation, Marike de Pena also indicated that the upcoming changes in EU Organic regulation will exclude many farmers from organic markets.

**Mostafiz Uddin**, managing director, denim expert Ltd. and founder & CEO of Bangladesh Apparel Exchange provided a powerful personal perspective as a supplier in the textile sector. He emphasised that the horrid practices witnessed during the COVID-19 crisis are not new – just more visible and widespread. From the beginning of the pandemic, customers have been unilaterally informing him about cancellations, without taking on any responsibility and liability for the consequences on factories and their workers. Throughout the textiles sector, companies have been cancelling and postponing orders and asking for discounts despite already struggling manufacturers, and postponing payments as far as for 6 months or a year for goods already delivered. Despite active engagement by Mostafiz Uddin in the past years, especially during the pandemic, little has changed, and manufacturers are struggling to continue paying their workers. **He emphasized that this situation needs to be addressed through legislation, as preventing harmful purchasing practices from happening is crucial to effectively protect workers.**

### **The role of the Sustainable Corporate Governance proposal**



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**Lucrezia Busa**, Member of Cabinet of Justice Commissioner Didier Reynders responsible for company law presented the upcoming Sustainable Corporate Governance initiative followed by a Question and Answers session.

Speaking on her own behalf, Ms. Busa indicated that the proposal is still being developed and therefore her substantive remarks are preliminary. The analysis is still ongoing, and the proposal should be adopted by the Commission in the second quarter of 2021 (June). The Commission is looking at key components of the proposal such as enforcement mechanisms and what kind of obligations would be targeted in different companies considering size and risk profile of the different companies.

**The main aim of the upcoming legislation is to make sure that the European society respects international human rights and environmental commitments in and outside the territory of the European Union (EU)** which includes global value chains of EU companies and companies placing products or services on the EU market across all sectors. This includes a holistic approach by the Commission beyond company law, including development aid as well as the trade policy review which highlights stronger enforcement of human rights commitment in trade agreements.



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## Concluding remarks

Looking at the contributions of all the speakers, it is clear **the Sustainable Corporate Governance initiative has a positive impact on everyone in global supply chains, especially farmers and workers. Purchasing practices must be explicitly addressed in the upcoming legislation.** Their impacts should be evaluated during the risk assessment, mitigation and prevention should lead to continuous improvement of purchasing practices and remediation should lead to reimbursement of payments owed. In summary, mandatory HREDD should include:

- all the Tiers of global supply chains
- active engagement of local civil society and workers' and farmers' representatives
- a link between purchasing practices and sustainability performance to encourage continuous improvement
- purchasing practices, including prices as part of every step of the HRDD process
- revision of contracts to include increased brand-supplier cost and risk-sharing
- provisions for responsible disengagement
- incentives for more long-term relationships between producers/suppliers and buyers
- liability provisions in cases of bad purchasing practices leading to human rights violations and environmental abuse

Beyond Sustainable Corporate Governance legislation:

The EU has already legislated on this issue with for example the Unfair Trading Practices Directive banning most harmful trading practices in the agri-food sector. However, unfair trading practices are also endemic in other sectors such as textiles and it is urgent that this gap is addressed in future EU policy. This would mean thinking about further legislative instruments on unfair trading practices. Such an instrument could serve to ban specific worst practices.

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