

# ***EU SUPPLY CHAIN ACT***

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**Prateek Jain**



# Let's Imagine for a Moment...



[Photo Credits: Kevin Frayer/Getty Images]



# Let's Imagine for a Moment...



[Photo Credits: Patrazia.ag]



# What is the EU Supply Chain Act?



[Photo Credits: Bernstein Group]

The draft EU Supply Chain Act requires EU companies to carefully manage **social and environmental impacts** along their **entire value chain**, including *direct and indirect suppliers*, their own operations, products and services

- The draft calls for a risk analysis of *indirect suppliers*
- Ban on imports of products associated with forced labor has been proposed
- Violations and breaches of due diligence obligations are subjected to fines and civil liabilities respectively
- **Assist EU in working towards and achieving Climate Neutrality by 2050**

(European Commission, 2022)

(Rodl & Partner, 2022)

# Due Diligence Acts



## French Duty of Vigilance

Places a **due diligence on large French companies** and requires them to publish an annual **"vigilance plan"**.

(European Coalition for Corporate Justice, 2017)



## EU Taxonomy

Provides a **classification system**, establishing a list of environmentally sustainable economic activities.

(European Commission, 2020)



## EU CSRD

Designed to make corporate sustainability **reporting more common, consistent & standardized.**

(European Commission, 2021)



## German Supply Chain Act (LkSG)

Imposes extensive new obligations and hold companies **accountable for human rights and the environment** throughout their supply chain.

(Federal Ministry of Labour and Social Affairs, 2021)

# Who is Affected?



[Photo Credits: Bernstein Group]

## EU Companies

1.

**>500**  
Employees + **€150 million**  
Net turnover  
generated worldwide

2.

**>250**  
Employees + **€40 million**  
Net turnover  
generated worldwide

After 2 years, if at least 50% of net turnover was generated in ≥1 high impact sector\*

Defined as companies that are not established in the EU but carry out activities of a certain scale in the EU

## Third-country Companies

1.

**€150 million**  
Net turnover  
generated in the EU

2.

**€40 million**  
Net turnover  
generated in the EU

After 2 years, if at least 50% of net turnover was generated in ≥1 high impact sector\*



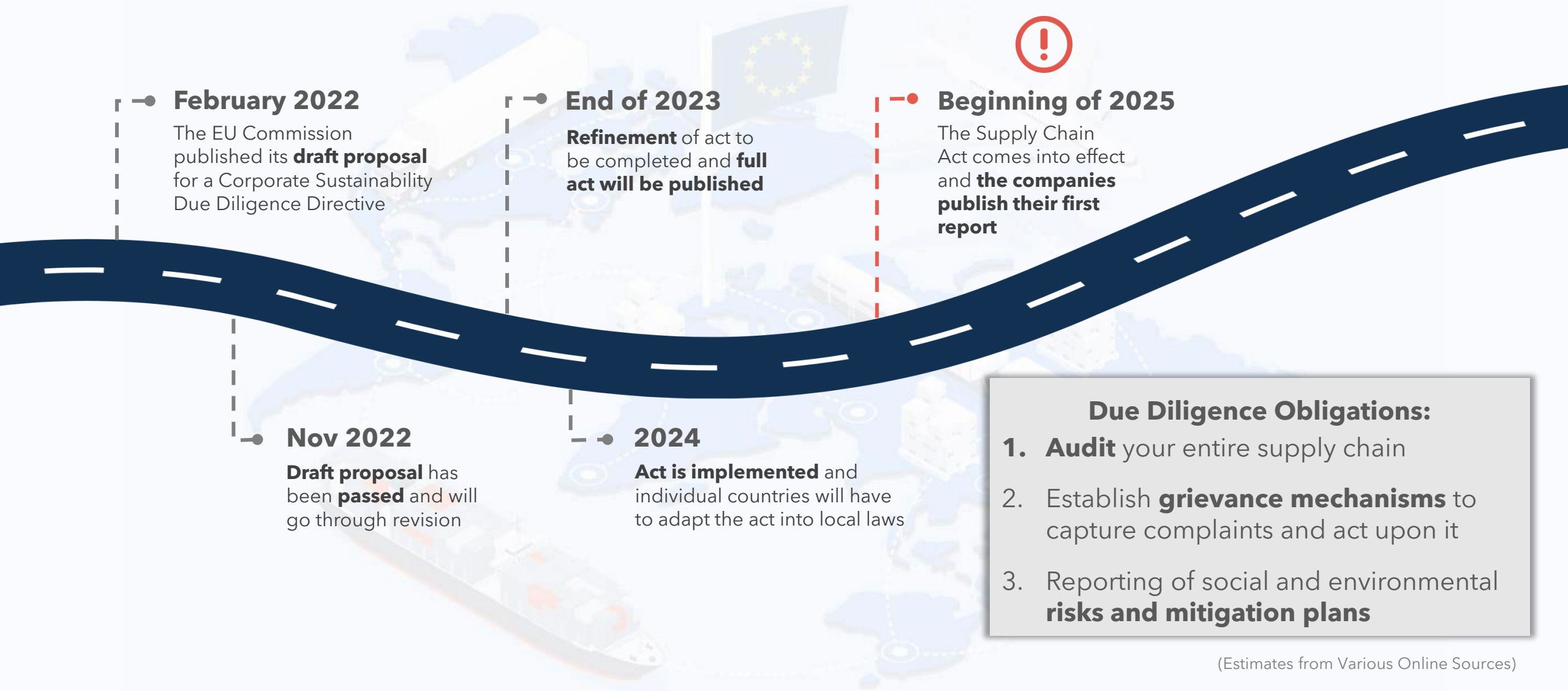
**Direct and indirect suppliers** will  
need to comply as well

\*Defined as textiles, leather, footwear, agriculture, wholesale trade of agricultural raw materials, food products, mineral resources – including metals and metal ores, construction materials, fuels, chemicals

(Reed Smith, 2022)



# Brief Timeline of EU Supply Chain Act



# Why is there a Need?

## The Problem

Voluntary action by companies is still insufficient to address human rights and environmental impact effectively

**01** Millions of people still work under **inhumane conditions** around the world

**25 million**

Victims of forced labour

(Global Estimates of Modern Slavery)

**79 million**

Victims of child labour

(BMZ)

**0.6%**

Wage share of a seamstress

(FairWear)



[Photo Credits: Daniel Berehulak/Getty Images]



# Violation of Human Rights in the Industry

## The Rana Plaza Disaster

**In 2013, Rana Plaza collapsed in less than 90 seconds, killing 1,134 workers and leaving thousands more injured.**

- Employees worked under **dangerous and poor conditions** of Safety
- A day before the disaster, **large structural cracks were discovered**
- **Factory owners ignored warnings** by local authorities to avoid using the building
- Thousands of workers were **forced to go back to work** the next day



Public interest and media attention resulted **in more political pressure than ever before** to implement change and demand for transparency within the fast fashion industry.

*(The Guardian, 2015)*

PRIMARK® UNITED COLORS OF BENETTON. THE CHILDREN'S PLACE  
MANGO Walmart\*



# Violation of Human Rights in the Industry

## Rip Curl's "Slave Labor"

**In 2016, the surf wear giant sold millions worth of clothes made in North Korea, where factory workers endure slave-like conditions.**

- A **supplier diverted their order to an unauthorized subcontractor** at a clothing factory near Pyongyang
- Employees were **forced to work long hours with minimal to no pay**
- Those who disobeyed orders were **imprisoned in work camps and tortured**
- CFO Tony Roberts admitted the **company knew of the issue** after products had been shipped to retail stores



In an apology post on Facebook, Rip Curl **received detrimental backlash** with **consumers demanding for transparency** and expressing that they would **no longer support the brand**.

(Business Human Rights, 2016)



[Photo Credits: The Sydney Morning Herald]



Sabrina Lewis  
RIP Rip Curl. Will never buy your merchandise again.

Like Reply 6 y



Glenn Boyd  
This is appalling. Won't be buying anything from Rip Curl again!

Like Reply 6 y



Kelly Rae  
This is appalling and to be honest, seriously shocking. It is not an excuse "not to know". I won't be purchasing another item until the supply chain is transparent, fully disclosed and sorted out to ensure that this can never happen again. Who wants clothes made with slave labor? I know I certainly don't.

Like Reply 6 y



[Photo Credits: Facebook]



# Human Rights Conventions Covered by the Act

Rights to dispose of a land's **natural resources**



Rights to **life & security**



Prohibition of torture, cruel, inhuman or degrading treatment



Prohibition of **forced labour**



Prohibition of arbitrary or unlawful interference with a person's privacy, family, home or correspondence & attacks on their reputation

Prohibition of interference with the freedom of thought, conscience & religion



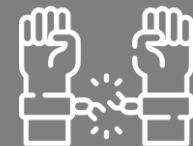
Right to enjoy just & favourable conditions of work including a fair wage, a decent living, **safe & healthy working conditions** & reasonable limitation of working hours

Prohibition to restrict workers' access to adequate housing, food, clothing, water and sanitation in the workplace

Rights of children



Prohibition of all forms of **slavery and human trafficking**



# Why is there a Need?

## The Problem

Voluntary action by companies is still insufficient to address human rights and environmental impact effectively

**02** Continuous exploitation of supply chains causes **environmental degradation**

**>90%**  
**Environmental damage**  
caused by companies come  
from their supply chains

(McKinsey)



[Photo Credits: Carl de Souza/AFP/Getty Images]



# Violation of Environmental Laws in the Automobile Industry

## Volkswagen's "Defeat Device"

**In 2015, Volkswagen admitted to cheating on emissions tests in the US, by installing a device in cars to illegally alter results**

- The US Environmental Protection Agency found a "defeat device" that **allowed VW cars to emit less Nitrogen Oxide during tests**
- **11 million vehicles** worldwide were **fitted with the device** and marketed to be eco-friendly due to "low emissions"
- In reality, the engines emitted Nitrogen Oxide pollutants up to **40 times above what is allowed in the US**



**VW had to pay back \$11 billion** to consumers in the US and faced **a \$4.3 billion fine**, with **share prices plummeting by 19%**.



(BBC, 2015)

# Violation of Environmental Laws in the Palm Oil Industry

## FMCG's Palm Oil Abuse

In 2021, FMCG companies that committed to using 100% responsibly-sourced palm oil, were linked to palm oil abuse in Papua New Guinea.

- Investigations by Global Witness revealed that **thousands of hectares of tropical rainforest were illegally destroyed** by 3 palm oil producers
- Papua New Guinea is a **critical carbon sink** in helping to mitigate our climate crisis
- Dirty palm oil and its byproducts are being sold to household brands



FMCG companies **admitted sourcing from these palm oil producers, suspended purchases** and **conducted investigations on suppliers.**

(Euronews, 2021)





# Environmental Conventions Covered by the Act

Obligation to take the necessary measures related to the use of biological resources in order to avoid or minimize adverse impacts on **biological diversity**

Prohibition to import or export any specimen



Prohibition of the treatment of **mercury waste** contrary to the provisions



Prohibition of the manufacture of mercury-added products



Prohibition of the use of mercury and mercury compounds in manufacturing processes

Prohibition of the production and use of **persistent organic pollutants**



Prohibition of the handling, collection, storage and **disposal of waste** in a manner that is not environmentally sound

Prohibition of importing a **listed chemical**



Prohibition of the production and consumption of specific substances that **deplete the ozone layer**



Prohibition of exports of **hazardous waste**

# Transparency is NOT an option!



- Consumers **demand to know** about the products they purchase
- Due diligence obligations include a **mandatory set up of grievance procedures**
- Showcasing initiatives can have a huge impact in shifting sentiment and generating **consumer goodwill and trust**



**Businesses of all sizes MUST embrace transparency to ensure a sustained competitive advantage.**



# Why is Doing Good More Important Now than Ever?

## Shifting Consumer Behaviors



**9 in 10**

consumers **prioritize buying** from companies with **ethical sourcing** strategies in place

 **83%**

are **willing to spend more**

 **64%**

of Gen Z and Millennials **will not buy from an unethical company again**

(Open Text, 2021)

## Transparency is the New Currency in Business

- Social media is now the main source of news online with more than **4.62 billion internet users**
- People are **more interested in negative news** and it **spreads faster**
- Social media has **increased awareness around human rights and climate change issues by 30%** since the pandemic



**Companies motivated by a greater societal purpose will be stronger, more successful in the long run**

(PNAS, 2019)

# How a Purpose-led Brand Garnered the Support of Consumers

## Patagonia's "Don't buy this Jacket"

In 2011, Patagonia launched a Black Friday campaign to discourage people from engaging in mindless consumerism & fast fashion.

- Encouraged consumers to opt **for durable items that left a lower environmental footprint** (i.e., secondhand clothing)
- **Spread awareness** about rising landfill waste, the extent of greenhouse gasses emitted, and water used during manufacturing processes
- **Built a strong community** who appreciates the brand's values and products which serves as a reminder **doing good is good for business**



**Revenues grew about 30% to \$543 million in 2012**, where a significant amount came from the sale of secondhand clothes.

(Bloomberg, 2013)

**patagonia<sup>®</sup>**

**DON'T BUY  
THIS JACKET**



[Photo Credits: Patagonia]



# How a Purpose-led Brand Garnered the Support of Consumers

## Kiehl's Recycling Program

In 2009, Kiehl's launched the "Recycle and Be Rewarded" program to incentivize customers and transition into a circular economy.

- For each **empty, full-size container** brought into stores, customers will receive a stamp
- These stamps allow them to either **redeem products or receive discounts for future purchases**
- Empties are sent to a recycling partner, processed and **turned into new materials**



To date, Kiehl's has **collected over 13 million empty bottles** and **80% of packaging** contains **post-consumer recycled material**. In 2016, Kiehl's achieved **\$1 billion in sales**.

(Strategist, 2018)

(Kiehls, 2022)



# How a Purpose-led Brand Garnered the Support of Consumers

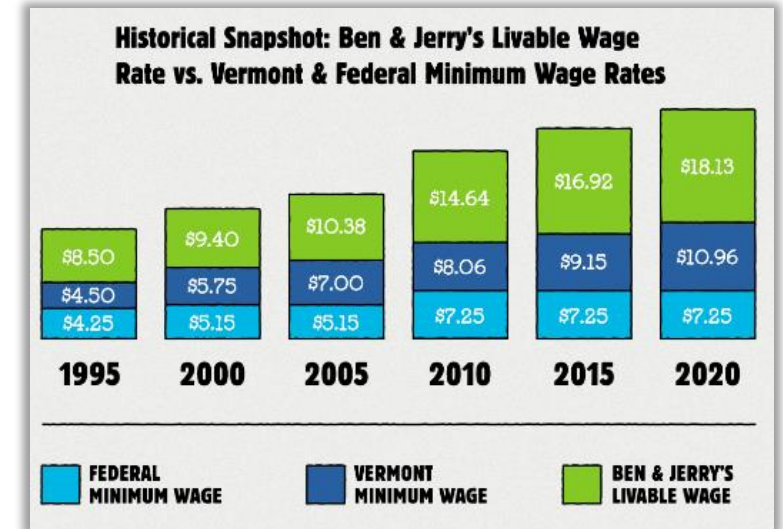
## Ben & Jerry's Sustainable Eco System

Since 2018, Ben & Jerry's partnered with farmers to achieve progressive change within the dairy and agriculture sectors.

- Advance dignified farmworker housing, **fair schedules, and livable wages**
- **Collaborate with and invest in farmers** to adopt new technology aiming to **decrease dairy emissions by 15,000 metric tonnes**
- Help farms **install new renewable energy** and **make changes in their pastures to support biodiversity**
- Create long-term relationships and ensure stakeholders in the eco-system experience greater prosperity

**Brand sales grew by 9%** in 2021 and Ben & Jerry's remains as one of the **top 5 best selling ice cream brands** in the world.

(Ben & Jerry's, 2022)  
(Fast Company, 2022)



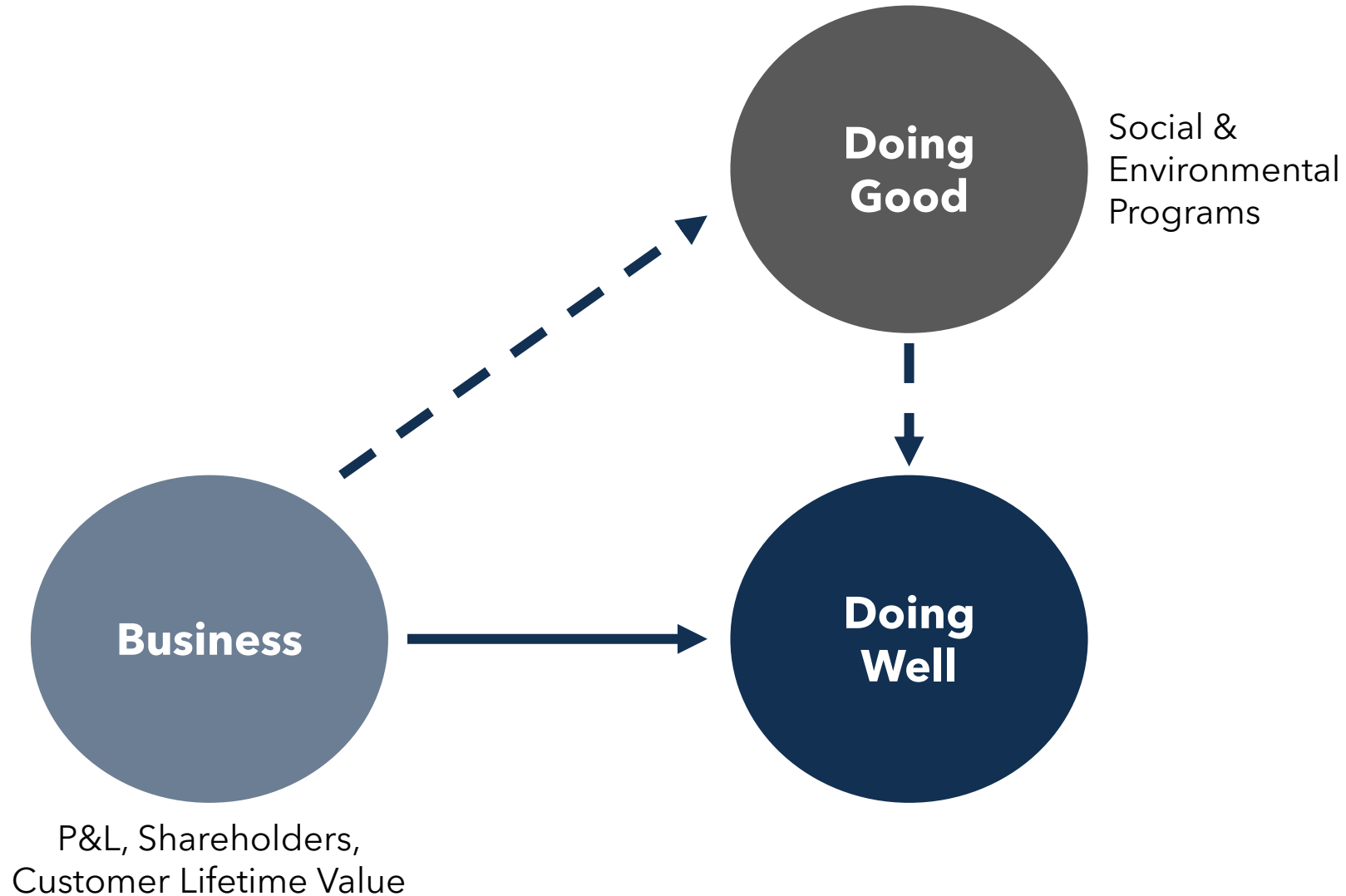
[Photo Credits: Ben & Jerry's]



[Photo Credits: Yaron Bindles/courtesy Ben & Jerry's]



# Doing Well by Doing Good



# Doing Well by Doing Good





# An Organization's Journey

## 5 Stages and Emerging Drivers



A scenic landscape featuring a sunburst effect over a range of mountains. In the foreground, there is a lush green hillside covered in dense trees and vegetation. The sun is positioned behind the mountains, creating a bright, golden glow and long, dramatic rays of light that spread across the sky. The sky is filled with soft, white clouds. The overall atmosphere is serene and hopeful.

**Opportunity**  
or  
**Threat?**





