

STATE OF ETHICAL TRADING 2015



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Dansk Forum for Mikrofinans
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PREFACE

For whom the bell tolls

By Esben Rahbek Gjerdrum Pedersen, Professor, PhD, Copenhagen Business School

NO COMPANY IS AN ISLAND

As long ago as 1623, John Donne wrote the world-famous line “no man is an island” in his poem “Devotions upon Emergent Occasions.” In a similar vein, we can say that no company is an island, because businesses are tied together in interconnected, global supplier networks. Economic connectedness, however, does not always lead to ethical connectedness. We continue to see stories in the media about factory fires, child labour, and inhumane working conditions, demonstrating that we are far from a sustainable global economy.

STANDARDISATION AND BEYOND

Many initiatives have been launched to tackle the almost insurmountable ethical challenges posed by global trade. For instance, labels, guidelines, standards, scorecards, online tools, and training and education have contributed to the professionalisation of the field and made it easier for newcomers to work with the issues. Moreover, innovative partnerships are emerging between business partners and other stakeholders to develop new, better, and more ethical solutions.

FUNDAMENTAL QUESTIONS

Despite progress, companies are still faced with the fundamental challenges of ethical trade. For example, can a discussion of ethical trade be separated from the issue of taxation? Do the current approaches adequately challenge the underlying linear logic, which is increasingly under fire from circular-economy advocates? And so on. In future, concerted action by members of all sectors (state, market, and civil society) is needed to address the systemic roadblocks to ethical trade.

ONWARD!

In today’s world, companies can no longer ignore their social and environmental responsibilities in global supply chains. One is reminded of television host John Oliver’s remark on “Last Week Tonight,” that companies have lost their right to act surprised when labour violations are detected again and again in the supply chain. Instead, companies should exercise their right to act ethically for a better and more sustainable tomorrow.



Esben Rahbek Gjerdrum Pedersen, Professor, PhD,
Copenhagen Business School



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The findings in this report are based on DIEH members' mandatory annual reporting to DIEH undertaken in the period February–March 2016, for the year 2015. DIEH is not responsible for, and cannot be held liable for, any misleading or incorrect reporting on behalf of its members.

A REPORT BY THE DANISH ETHICAL TRADING INITIATIVE, BASED ON DIEH MEMBERS' ANNUAL REPORTING 2015

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Welcome to State of Ethical Trading

We are proud to present the very first *State of Ethical Trading*. It contains the knowledge and experience of Danish companies, NGOs, trade unions, business associations, and public institutions that are part of the DIEH member base. In this publication, you will gain insight into their current challenges and progress that has been achieved in the field of ethical trade.

Global trade has exposed the poor and unacceptable working conditions, environmental degradation, and human rights violations that exist around the world. As consumers, we are linked to these problems through the clothes we wear and the food we eat. Although both companies and consumers are becoming more aware of the issues to which they are connected, there is still a long way to go. Ethical trade plays a fundamental role in ensuring sustainable growth and development.

This publication is based on our members' annual reporting for the year 2015 and other sources in the field of ethical trade. The result is an overview of DIEH members' current efforts as ambassadors of ethical trade, efforts that are quite substantial considering that:

- Our company members reach more than 100,000 direct employees in Denmark and many more on a global scale through business ventures that exceed DKK 100 billion in annual turnover.

- Our trade union members represent close to 1 million workers around the world.
- Our NGO members operate in more than 150 countries and, through their activities, reach millions of the world's most vulnerable people.

Considering our members' global outreach, we can contribute to more sustainable development if we are willing to collaborate to solve ethical challenges, establish transparency to achieve greater accountability, and insist on conducting sustainable business operations to ensure long-term benefits for people, planet, and profit. No one can drive this change alone.

It requires cross-sector collaboration and greater commitment by many more companies.

We extend our thanks to all DIEH members for their loyal contributions to our work. We acknowledge their continuous efforts at combating violations of human and workers' rights, improving working conditions, and minimising environmental footprints across global supply chains.

We look forward to further collaboration with our members to advance ethical trade and create tangible social, economic, and environmental improvements through mutual dialogue and stronger global alliances.



Mette Boye

Mette Boye, Director

"International trade with respect to core ethical principles can be a strong driver of sustainable development, and will help us implement the new Sustainable Development Goals.

State of Ethical Trading presents a unique opportunity for Danish companies and organisations to come together, cooperate on strengthening ethical trade, and thereby contribute to sustainable development across their global supply chains.

I welcome this new publication and congratulate DIEH with the good work."



Christian Friis Bach,
Executive Secretary and
Under-Secretary-General
United Nations Economic
Commission for Europe

WHAT'S DRIVING ETHICAL TRADE IN DENMARK?

Ethical trade is becoming an integral part of doing business. Serious effort and investment in this area require a long-term approach and a true commitment from top management.

What drives ethical trade?

Reports by DIEH members reveal that Danish companies and organisations¹ are beginning to incorporate ethical trade steadily and systematically. But what is driving them to do so?

1. RISK MANAGEMENT

Clearly, managing risk and ensuring a company's good reputation remain major incentives for companies to invest in ethical trade. For some sectors, such as food and beverage or textile, there is a high risk that violations in the supply chain will be exposed by the media or NGOs. Other sectors provoke less scrutiny, but they may worry about a secure supply of their products and raw materials in future.

2. LOOKING FOR INCREASED QUALITY AND CONTROL

More and more, DIEH members report that a key driver of ethical trade is the search for enhanced quality and control. By knowing and investing in the supplier base, companies expect to establish better relationships and better conditions, which in turn will lead to more efficiency and control of supply.

3. STAFF MOTIVATION WITHIN THE COMPANY

Organisations and companies that make ethical trade a priority are considered more attractive to (potential) employees. A number of DIEH members report on the benefits of embracing corporate social responsibility (CSR) and ethical trade policies throughout the organisation, from top management to the operational level.

4. EXTERNAL PRESSURE AND ENCOURAGEMENT

Both consumers and civil society are increasingly concerned about the conditions under which products are made – from farm to fork. This is reflected in international requirements for supply-chain transparency. The Modern Slavery Act in the UK and the Californian Transparency in Supply Chains Act are recent manifestations of this. EU directives are pending on non-financial reporting, as are related changes in Danish regulation. Larger DIEH member companies are especially aware of this and try to anticipate the new requirements.

DIEH member organisations differ in their engagement with ethical trade depending on their type and size. In general, Danish unions, civil society, and business organisations concentrate on lobbying activities and emphasise the urgency of ethical trade in the public debate. At the same time, companies focus on training their employees, communicating their efforts, and entering into partnerships on ethical trade.

NEUTRAL.COM - ON THE PRIORITY OF ETHICAL TRADING

"Overall, we find that the focus on ethical trade and sustainability is going the right way. Specifically, we experience a greater understanding of the work we do and why it is necessary. However, we also feel that some players are not necessarily consistent in word and deed."

Christina Larsen, Managing Director, Neutral.com

¹Organisations include trade unions, public institutions, business associations, and NGOs

FIGURE 1:
How have you contributed to enhancing the general understanding of ethical trade and DIEH?

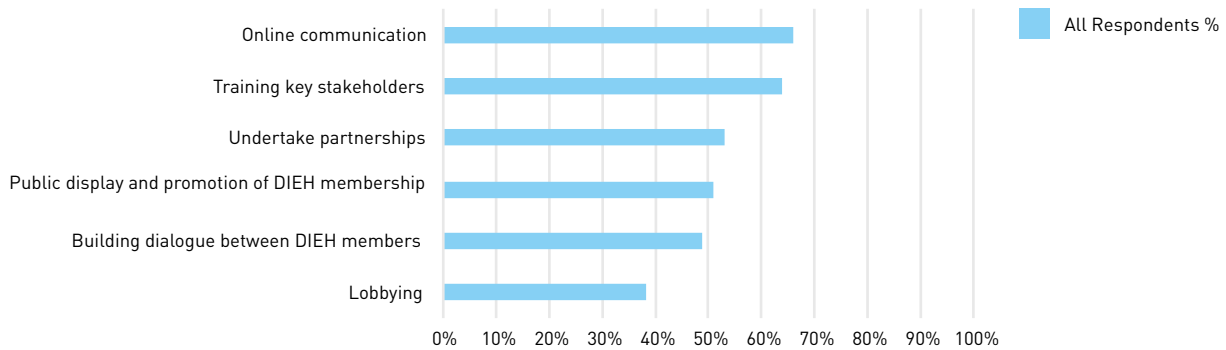
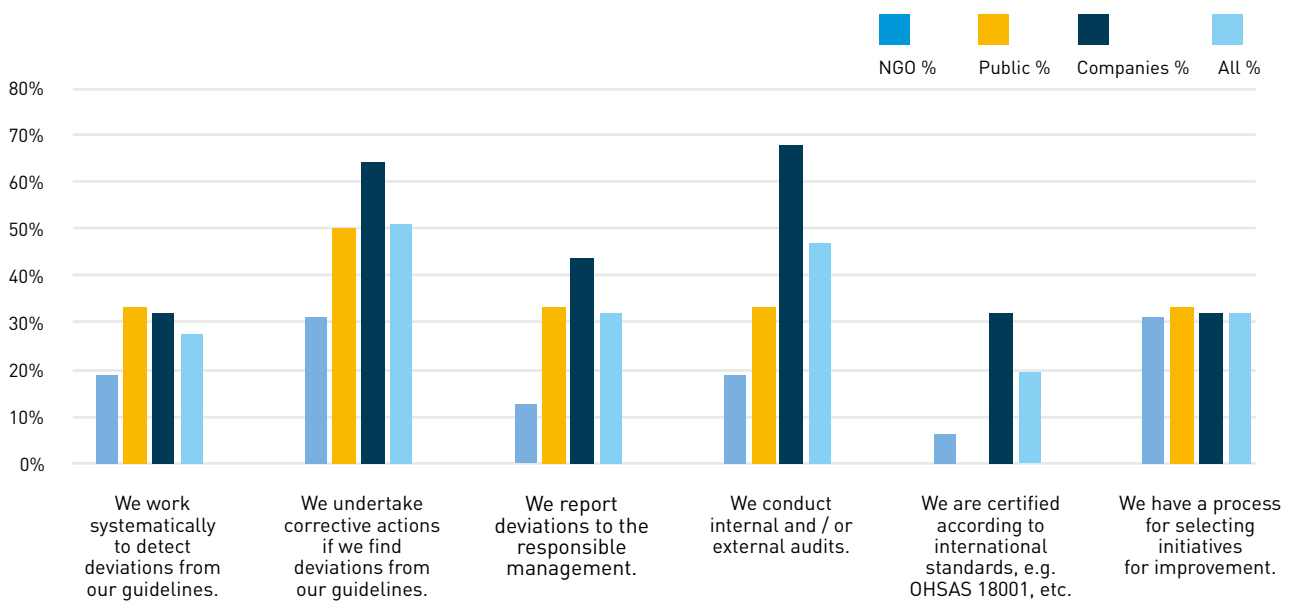


FIGURE 2:
Describe how you secure continuous improvement of your ethical trading efforts?



TRADE ASSOCIATION FOR DANISH GROCERS

“As a trade association, our primary work within ethical trade has consisted of providing information and support to our members – both for specific categories and on a general level.”

Jytte Tandrup, Deputy Director, Trade Association for Danish Grocers (De Samvirkende Købmænd)

Is ethical trade a priority?

Ethical trade is gradually becoming a priority for DIEH members, Danish society, and the public debate in general. Most DIEH members perceive that the pressure to prioritise ethical trade comes from customers, primary stakeholders, and suppliers. Additionally, producing and sourcing responsibly is becoming a priority in the organisation itself. At least 80% of DIEH company members recognise that ethical trade is gaining importance within the business.

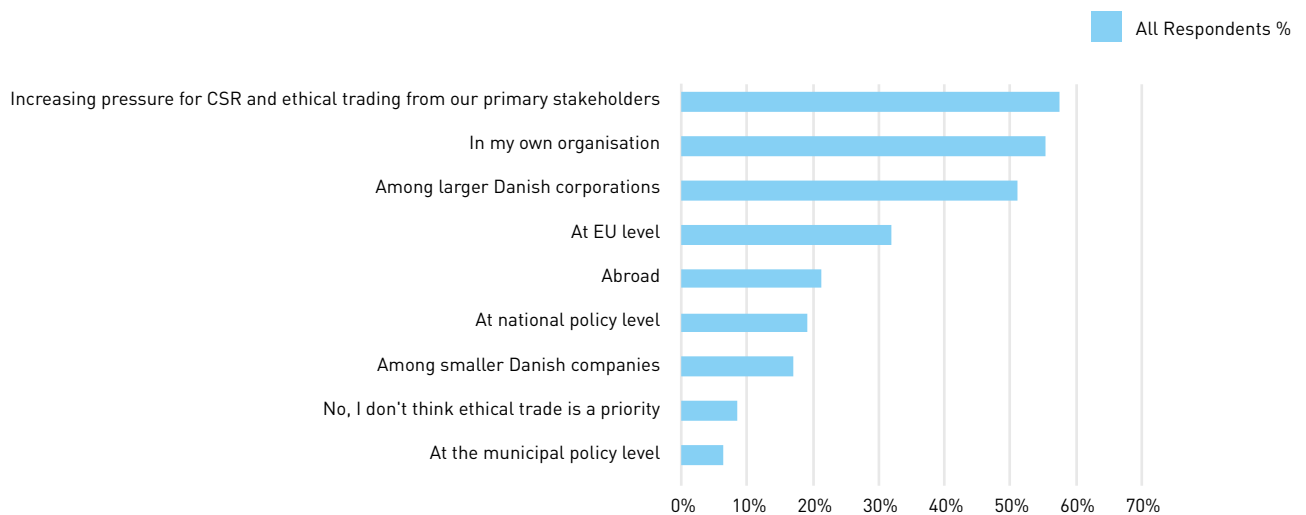
There is a perception across all member groups that ethical trade is a priority with larger companies, but it may be less of a priority with small and medium-sized companies. Furthermore, there is a common view that ethical trade is being promoted more strongly at EU and international levels than at the national policy level and even less at the municipal policy level.

REITAN - ON THE PRIORITY OF ETHICAL TRADING

“A surprising amount of small and medium-sized enterprises in Denmark are still not up-to-date on the topic.”

Christian Rask-Jepsen, Category Manager, Reitan Distribution

FIGURE 3:
To what extent do you perceive ethical trade to be a priority?



LEGO GROUP - ON THE PRIORITY OF ETHICAL TRADING

“There seems to be a higher focus on ethical trade since the UN Guiding Principles and the OECD Guidelines for multinational enterprises have been developed. This has raised general awareness and interest from NGOs, governments, trade organisations, labour unions, ethical trading initiatives, and companies to ensure that this is high on the agenda.”

Lene Wildfang Larsen, Senior Manager, Supplier Code Of Conduct, LEGO Group

97 %*

97% of consumers state that it is important or very important that products are responsibly produced.

Do consumers care? *

The Danish Consumer Council (*Forbrugerrådet Tænk*) surveyed a representative sample of Danes about ethical products and their perception of them.

Almost all respondents (97%) stated that it is important or very important that products are produced responsibly. However, most respondents found it difficult to assess if the products are produced responsibly.

According to the survey, 35% of consumers indicated that politicians have a responsibility to ensure that a greater number of responsibly produced products are stocked on store shelves, 28% indicated that producers are responsible, and 25% indicated that consumers are responsible.

In this case, responsible production means that companies have a policy on, for example, climate/energy, environment, social conditions, animal welfare, and health.

Source: Danish Consumer Council's consumer web-panel, March 2016, 1226 respondents (representative selection)

From “ticking boxes” to systematic supplier engagement

Auditing the most important suppliers against a code of conduct has always been an essential element of ethical trade. This is confirmed by DIEH company members, 88% of whom use a code of conduct with their suppliers. At the same time, companies steadily acknowledge that a “ticking boxes” approach is not sufficient to address certain problems. This applies especially to the less visible, more complex issues such as discrimination, freedom of association, and forced labour and trafficking.

Consequently, a number of member companies are recognising systematic engagement and dialogue with their key suppliers as important ways to strengthen ethical trade. Capacity building

aimed directly at suppliers highlights the need to involve workers. Some companies are informing workers of their rights, while others are developing projects aimed at empowering workers or farmers to improve their working conditions and productivity. Many approaches are being developed in this area, such as those highlighted in the cases presented in this report.

Increased communication with suppliers has an important effect: supply chains become more consolidated, and companies start to work with fewer suppliers whenever possible. Maintaining a constant dialogue is time-consuming, but many companies report that systematic engagement and support is paying off commercially – through increased compliance, product quality, supply efficiency, and control.

DANISH SUPERMARKET GROUP

“We establish strategic partnerships with our suppliers. Between 2013 and 2015, we reduced the number of suppliers within textiles and clothing by 9% – and more reductions will come. The advantage is obvious – we simply get better control both in terms of quality and responsibility. By achieving greater volumes from fewer suppliers, we increase our impact on the quality and the conditions under which the products are made.”

Hanne Stendys, CSR Specialist, Danish Supermarket Group (Dansk Supermarked)

Setting goals and KPI's for ethical trade

How deeply is ethical trade embedded with DIEH members? One way to answer that question is to assess the extent to which top management are involved. Although 6% of DIEH members report no commitment from top management at all, most DIEH company members indicate that top management are involved. For example, more than 80% responded that top management are involved in the approval process of CSR policy/guidelines on ethical trade.

THE USE OF KEY PERFORMANCE INDICATORS (KPI's)

Companies are increasingly expected and encouraged to set goals for their CSR and ethical trading efforts. This is partly a result of more clarity and guidance from the OECD Guidelines

for Multinationals, the UN Global Compact, and criteria suggested by the Global Reporting Initiative (GRI), among others. At the same time, milestones such as the Paris Agreement, reached at the 2015 Paris climate conference, and adoption of the 17 United Nations Sustainable Development Goals also play an important role. Companies are now expected to contribute to global agreements on sustainability and to measure and document their contribution. Furthermore, national and international requirements on CSR reporting are intensifying. The soon- to-be-implemented revised Danish law on CSR reporting (*Årsregnskabslovens §99a*) also requires systematic reporting on KPIs for those who report on their CSR efforts.

Despite rising expectations, few Danish companies have set KPIs in the field of ethical trade. Those who have (30–40%) are

FIGURE 4:
All respondents on how top management are involved in work on ethical trade.

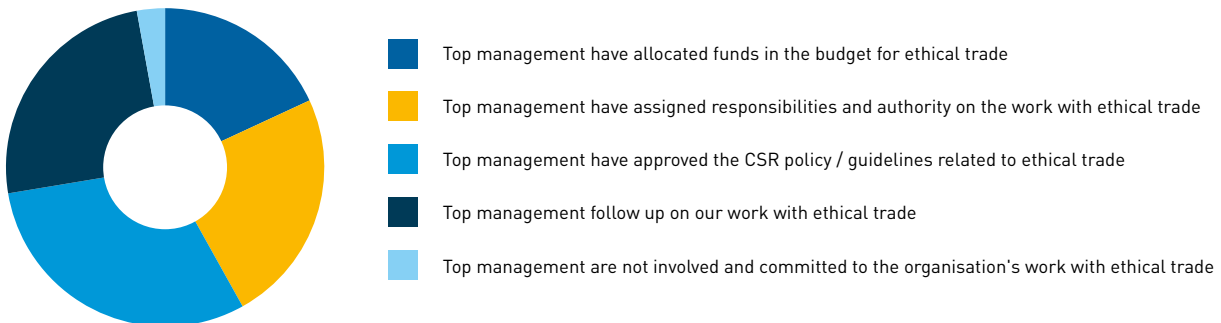
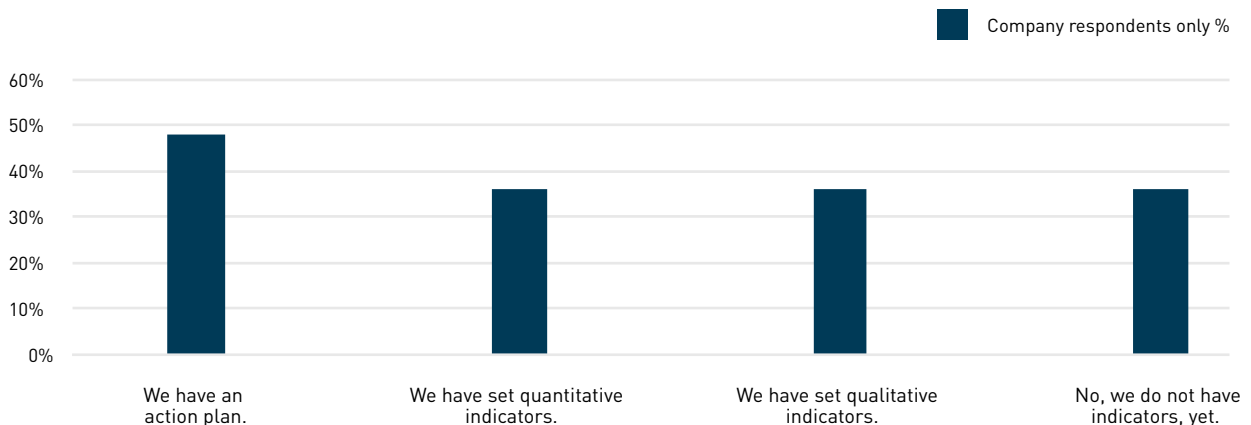


FIGURE 5:
Do you have an action plan and KPIs in place to measure your ethical trading efforts?



mostly larger companies and organisations. This is confirmed by a study of the level of preparedness of 279 Danish companies for the soon-to-be-implemented Danish law on CSR reporting². The study revealed that, for the 32 large companies who need to comply as of 2016, 88% already work with KPIs. Among smaller companies to whom this law does not apply, only a quarter work with KPIs to measure their performance on social responsibility.

Companies and organisations who have a clear involvement from top management, who have set clear goals and KPIs to measure progress, and who have implemented a policy commitment in all business operations are usually ahead of others in the area of ethical trade.

JYSK

“Since we have been able to measure the systematic work with our suppliers, we have seen a general improvement in the conditions at our suppliers.”

Rune Jungberg Pedersen, Communications and CSR Director, Jysk

What about the budget?

Activities related to ethical trading must be proportional to the size of the business, the type of products and services, the countries where production takes place, and the complexity of the supply chain.

Assuring that all employees and (key) suppliers are assigned responsibility and receive training in issues related to ethical trade is a key factor in successful implementation. At the end of the

day, however, a budget should be allocated to all of these efforts. Just over half (56%) of DIEH company members' top management currently allocates funds to ethical trading efforts.

Organisations allocate 25% whereas only 17% of public institutions reported having allocated funds to ethical trading activities. This indicates that there is a long way to go before the commitment is truly embedded and prioritised.

Source: DIEH Member Reports 2015

Growing expectations of due diligence

Businesses face growing scrutiny of their violations of workers' and human rights and their negative environmental practices. Since the endorsement of the UN Guiding Principles for Business and Human Rights (UNGPs) in 2011, non-financial due diligence has gained global acceptance, in Denmark as well³. Large and international companies in particular are taking care to establish sound due diligence processes. According to the OECD, due diligence refers to “the process through which enterprises identify, prevent, and mitigate actual and potential adverse impacts and account for how these impacts are addressed.”

Most Danish companies have certain elements of due diligence in place. Almost 90% of DIEH members have identified their primary stakeholders for ethical trade. Almost all companies have a code of conduct for their suppliers and a CSR policy, and many have policies on human rights and/or CSR.

GAPS IN DUE DILIGENCE IMPLEMENTATION

Despite the attention given to due diligence, many Danish companies still have a long way to go. Implementing due diligence processes requires a long-term effort and collaboration with others in the sector and the supply chain. This is particularly complex in long or numerous supply chains. A company needs

² Carve Consulting, 2016. Er vi parate til de nye lovkrav? Danske virksomheders CSR-rapportering. ³ United Nations Guiding Principles for Business and Human Rights, 2011. Implementing the United Nations “Protect, Respect, and Remedy” Framework

to concentrate on the scale of the abuse and its relationship with it, and this sometimes means attempting to manage issues that are 12 tiers down the supply chain.

One area of improvement in ethical trade and due diligence is the remediation of adverse impacts. Effective grievance mechanisms are important in bringing environmental or work-related concerns, complaints, and grievances to the management's attention. Grievances against a company can be seen as a valuable source of due diligence, because they provide input for continuous improvement. Among DIEH members, more than a third indicated that they have implemented procedures to deal with complaints and grievances in the supply chain.

RISK MAPPING – YOU CAN'T AFFORD NOT TO KNOW

Most DIEH member companies (almost 90%) have started to identify the greatest risks to human rights, workers' rights, and the environment. However, the extent of systematic risk mapping varies. Identifying, assessing, and prioritising risks in the

entire supply chain take a lot of effort, but there is no one-size-fits-all or blueprint of how to accomplish it. Approaches vary from case to case and from sector to sector.

A 2015 study of 189 Danish companies revealed that, especially in the area of risk mapping, there is much room for improvement.⁴ In 2012, the Danish Parliament established the Mediation and Complaints-Handling Institution for Responsible Business Conduct as the OECD National Contact Point. During their 2015 conference on non-financial due diligence, it was emphasised that businesses need to use common sense and avoid any tick-box approach: "Due diligence is not a checklist, but more of a guideline to make sure that the company is moving in the right direction and with sufficient knowledge of potential adverse impacts and risks." A major conclusion was that, when human rights or other violations occur, companies can no longer justify themselves by stating, "we didn't know."⁵ This is the core challenge of ethical trade: knowing your risks and acting accordingly.

GREEN NETWORK

"If Danish companies cannot document to their English clients that they have implemented human rights due diligence in their supply chain, they will miss out on business in the UK market. Seen in an international perspective, Danish firms haven't gotten very far in this area."

Kenneth Hald Jensen, Director, Green Network⁶

Due Diligence?

In order to meet their responsibility to respect human rights, business enterprises should have in place policies and processes appropriate to their size and circumstances, including:

- a. A policy commitment to meet their responsibility to respect human rights;
- b. A human rights due diligence process to identify, prevent, mitigate, and account for how they address their impacts on human rights;
- c. Processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute.

Source: United Nations Guiding Principles for Business and Human Rights, 2011. Implementing the United Nations "Protect, Respect, and Remedy" Framework.

⁴ Carve Consulting, 2016. Er vi parate til de nye lovkrav? Danske virksomheders CSR-rapportering. ⁵ Conference Report 2015, Mediation and Complaints-Handling Institution for Responsible Business Conduct. Conference on non-financial due diligence and responsible business conduct. International obligations, expectations and best practice. Copenhagen, 25 November 2015. ⁶ Green Network 2016. Tre bolde det nye Dialogforum skal gribe. CSR.dk, February 2016.

FIGURE 6:
Which documents has your company prepared in relation to your work on ethical trade?

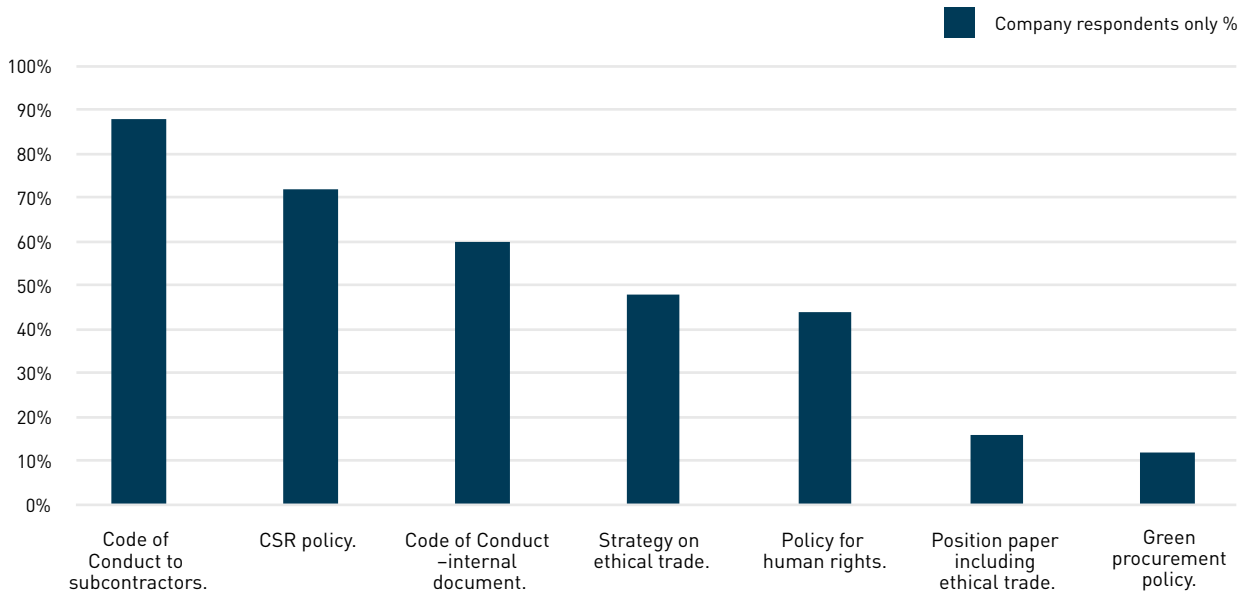
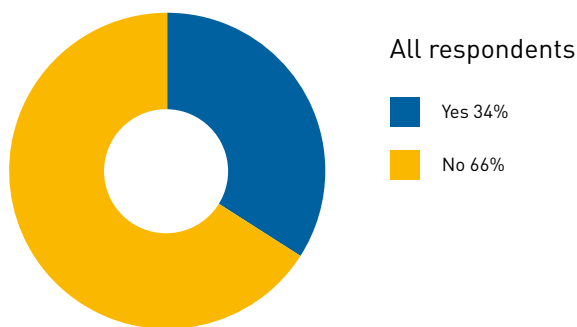


FIGURE 7:
Have you established procedures or mechanisms to address grievances and complaints?



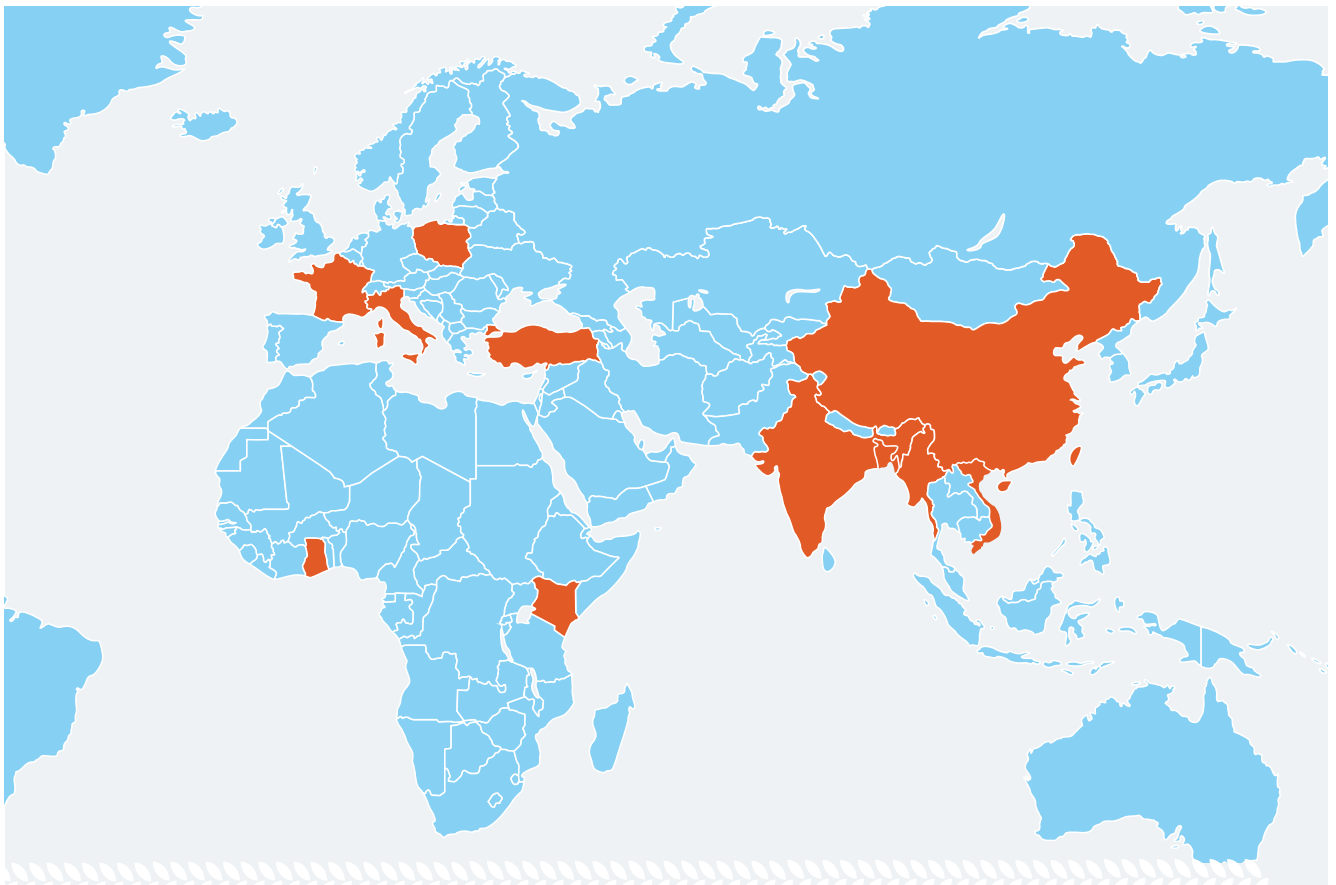
ZURFACE.

“We work with producers in China, India, and Vietnam. We partly do independent inspections and conduct our own inspections. The greatest risk lies within the selection of suppliers. Over time, some producers which we have appraised to understand the importance of environmental issues, workers’ and human rights, later proved scarce in their understanding and behaviour, and so corrective actions had to be taken.”

Ole Sørensen, ZURFACE.

KEY CHALLENGES IN ETHICAL TRADE

DIEH company members have suppliers and producers around the world, which raises a wide range of ethical challenges.



Geographical hotspots

When addressing challenges within ethical trade, Asia remains the number one priority: China, Bangladesh, and Vietnam are important sourcing countries for Danish companies. Other Asian countries, such as India, Thailand, and Myanmar, are also on the radar – not only because of their (potential) importance for production and trading, but because violations of workers' rights and environmental damage in these countries are common and well documented.

DIEH members mention almost all continents in pinpointing high-risk areas. Africa, Latin America, and the Middle East are

all on the agenda. In addition to the hotspot countries highlighted on the world map above, DIEH members also reported Russia, Brazil, Colombia, Honduras, the USA and Indonesia.

In 2015, it became clear again that ethical trading efforts should not be limited to high-risk areas outside Europe. In fact, a number of Danish companies have been confronted with risks in their European supply chains. One such case involves workers' rights violations among migrant workers in the Italian tomato sector. Another issue exposed in 2015 involves Syrian refugees, including children, who experienced poor conditions in Turkish factories. These and many other examples demonstrate that companies cannot assume that supply chains closer to home are "safe."



Asia remains the number one priority: China, Bangladesh, and Vietnam are important sourcing countries for Danish companies. Other Asian countries, such as India, Thailand, and Myanmar are also on the radar.

Migrant workers in the production of canned tomatoes

Italy is currently the third largest producer of processed tomato products in the world, accounting for 50% of the European Union's overall production. The tomato sector received media attention in Denmark and beyond when it was revealed – by Danwatch and others – that the sector employs many migrant workers who work and live under extremely poor conditions.

In 2014–2015, the Norwegian and other Ethical Trading Initiatives initiated a project to address these issues. DIEH member Coop took an active part in this sector initiative by collaborating with Italian organisations and pressuring Italian authorities to address the issues. Coop also fully

implemented the focus on working conditions to its buying practices.

“Buyers understand the importance of integrating social concerns when collaborating with the suppliers of our canned tomatoes. At Coop, we follow the tomato industry very closely because of the risks related to unacceptable working conditions for migrant workers. By far the largest part of the canned tomatoes that we sell is being harvested mechanically. This reduces the risk of bad working conditions significantly, as most issues are related to manual harvesting. Nevertheless, we have a close collaboration with our suppliers, regardless of harvesting method.”

Kathrine Lykke Kirk, CSR Consultant, Coop

Source: Ethical Trading Initiative Norway (IEH), Ethical Trading Initiative (ETI), and Danish Ethical Trading Initiative (DIEH), 2015. Due diligence in agricultural supply chains: Counteracting exploitation of migrant workers in Italian tomato production.

A snapshot of supply-chain challenges

What are the key challenges to ensuring responsible business practice in Denmark? The answer depends on whom you ask. Companies or business associations may prioritise challenges different from those emphasised by NGOs and trade unions. This only confirms the need for more discussion and collaboration between stakeholder groups.

Coverage of the whole supply chain related to ethical trade also varies greatly with Danish stakeholders. Many Danish companies prioritise their efforts to the first tier, in other words, to their direct suppliers. But because companies are part of a process of continuous improvement and development, some have started to move deeper down the supply chain. This is a welcomed trend because major challenges are often encountered further down the chain.

Many DIEH company members report their concern about the work environment and health and safety issues at the supplier level, an understandable priority considering the documented

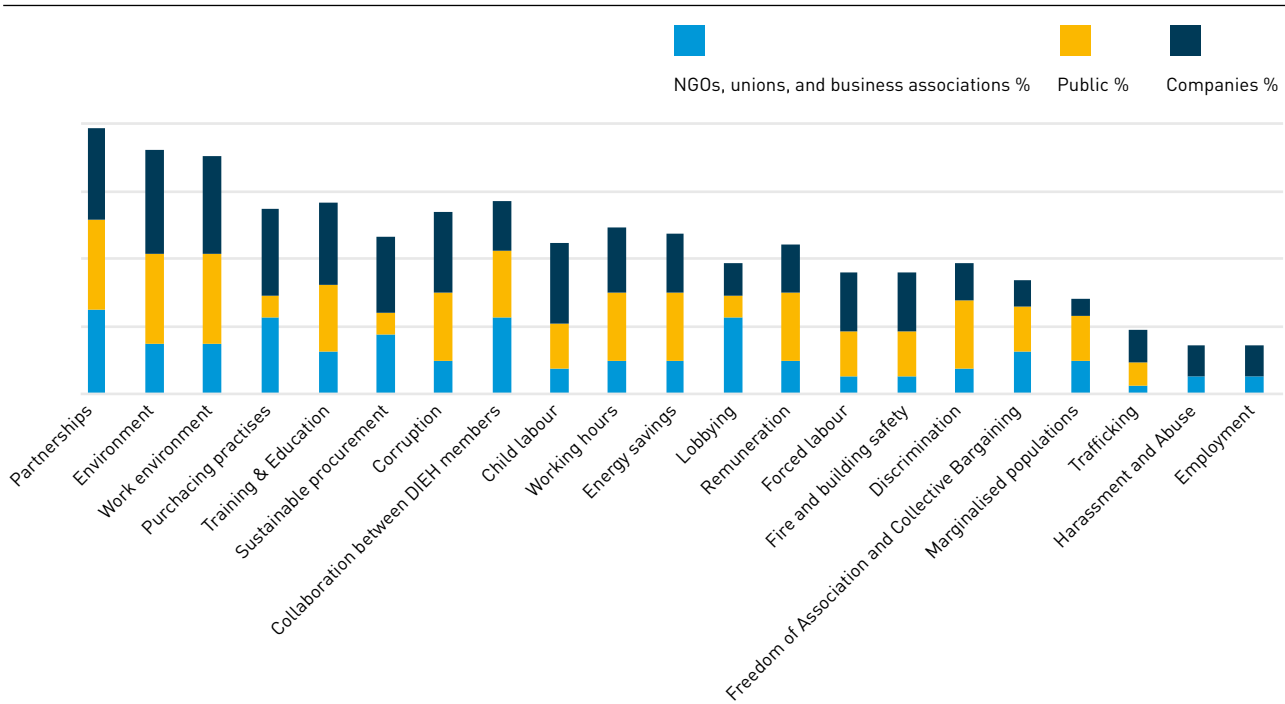
violations in this area. Working hours and overtime are also priorities. Particularly in China, overtime is often considered a difficult issue, because migrant factory workers may express the “wish” to work overtime to increase their earnings. The issue of a living wage emerges here as an important, but often hidden, factor: Would workers still want to work overtime if they could earn a living wage in a normal workweek?

Another theme frequently mentioned by DIEH members is the environment. Obviously, this covers a broad variety of challenges, ranging from efforts on (renewable) energy and waste management to the use of chemicals. Environmental activities are often easier to measure and document than certain issues related to social responsibility and human rights.

And finally, corruption has been identified as a priority. It is the subject of the new anti-corruption portal, a tool developed especially for Danish companies by Transparency International (also a DIEH member). The site's emergence highlights the importance of the subject.⁷

⁷ <http://transparency.dk/anti-korrupsionsportal/>

FIGURE 8:
Which topics and areas related to ethical trade have you focused on in 2015?



DONG

“One of our current priorities is to continue to build on successful engagements we have had beyond Tier 1 suppliers, to carry on working towards continuous improvement of sustainability performance deeper in our supply chains.”

France Bourgoïn, Head of Responsible Sourcing, DONG



SECTOR-SPECIFIC RISKS

Rather than focusing on high-risk countries or individual topics, more DIEH members have started looking more deeply into specific sectors in order to define the potential risks.

A 2015 publication by OECD Watch, based on input from a large number of Danish stakeholders, identified the following sectors as the most important for Denmark⁸:

- Energy and extractives (including mining, oil and gas, and timber)
- Renewable energy
- Finance and banking
- Shipping and logistics
- Pharmaceuticals
- Food and drink
- Textiles
- Electronics

Each of these sectors has its characteristic challenges, ranging from forced labour to water pollution and from corruption to land-rights issues. DIEH members are well aware that sector-wide approaches are needed to address the challenges. However, successful industry-wide collaboration is not easy to establish; it takes time to build trust and requires substantial resources. This is especially true if the initiative aims to involve

a legitimate group of stakeholders that represents all stages and actors in the supply chain. Despite the challenges, the number of multi-stakeholder initiatives is increasing, on national and international levels.

MULTI-STAKEHOLDER COLLABORATION

Companies are increasingly expected to document their due-diligence processes in terms of all potential risks to which their business operations may contribute. For that reason, companies that wish to take ethical trading seriously will have to collaborate wherever possible in order to share costs and effort and to increase validity when it comes to identifying, mapping, and prioritising key issues.

DIEH members have expressed a growing interest in sector-wide collaboration. The potential for additional multi-stakeholder initiatives and partnerships is great for one important reason: On their own, companies and organisations have limited resources, either because they have thousands of suppliers and/or products, or because they are small or medium-sized enterprises and lack the know-how or support.

TABLE 1:

Examples of Danish and international multi-stakeholder initiatives and partnerships.

Initiative	Sector(s)
Business Social Compliance Initiative (BSCI)	Retail
Supplier Ethical Data Exchange (SEDEX)	Retail
Migrant workers in Italian tomato production	Canned tomato / retail
Bangladesh Social Dialogue	Textile
Step Up Project	Textile
Aquaculture Stewardship Council (ASC) and Marine Stewardship Council (MSC)	Fish
TFT Responsible Stone Program	Natural stone
Roundtable for Responsible Palm Oil	Palm oil
Bonsucro	Sugarcane
Fruit Juice CSR Platform	Fruit juice
Local Resources Network	All sectors

⁸ OECD Watch 2015, Proposal for strategic focus areas for the Danish Mediation and Complaints-Handling Institution for Responsible Business Conduct.

CONFEDERATION OF DANISH ENTERPRISE

“As a business association, we can have a major influence through our external engagement; both politically and through partnerships with other organisations, by focusing on CSR and ethical trade and by contributing to strengthen the competencies of our member companies. This is where we have the biggest impact and our primary focus.”

Louise Koch, Head of CSR, Confederation of Danish Enterprise (Dansk Erhverv)

So, most Danish companies and organisations understand that a collaborative approach is necessary. Many companies also know that drawing upon the knowledge and insights of civil-society organisations, labour unions, and business associations can be beneficial.

In addition, pressure from NGOs and governmental institutions to institute wider collaboration has also intensified the interest in establishing constructive cross-sector partnerships. Most DIEH member NGOs have recently established clear guidelines, strategies, or policies on engaging with the private sector. Since the establishment in 2013 of The Accord on Fire and Building Safety

in Bangladesh (a legally binding agreement between brands and trade unions), more knowledge-sharing has taken place between companies, trade unions, and other partners about the types of effort needed to prevent danger and harm to workers. Efforts to mitigate health risks can be dealt with at the factory level, but some risks are industry-wide and require additional leverage through international multi-stakeholder initiatives to foster change.

Thus, it is clear that DIEH members prioritise partnerships, but collaborative efforts are still in their infancy, with the potential to develop more and better ways to collaborate.

DANISH FAMILY PLANNING ASSOCIATION

“One of our efforts related to ethical trading in 2015 was to establish dialogue with the relevant business associations, with IFU and with individual companies, to motivate them to integrate women’s right to health in their CSR work.”

Jacqueline Bryld, CSR and Policy Advisor, Danish family Planning Association (Sex & Samfund)

Opening up? Communicating current challenges

Companies are increasingly expected to communicate about the existing risks and challenges in production and supplier countries, partly because of the UNGP requirements. The organisation OECD Watch identified supply chain transparency as a key challenge for Danish companies. In practice, many companies focus on communicating improvements and achievements, whereas “pending issues” and risks are obscured for fear of negative attention by the media and other organisations.

A number of DIEH member organisations are working to influence requirements and expectations on supply chain transparency, for example by lobbying for extensive coverage of ethical trade by the new EU directive and Danish law on CSR reporting.

Financial institutions, credit funds, and investors also play an essential role by requiring information regarding social and environmental considerations.

CASE:

SPOTLIGHT ON RESPONSIBLE COCOA PRODUCTION IN GHANA



PARTNERS



Partnership for change: Toms, Coop, and Ibis have joined forces through a business-driven CSR partnership to create sustainable development in the cocoa industry.

Purpose: The project has two goals: (1) help Ghanaian cocoa farmers harvest more cocoa and increase their income, (2) ensure greater educational opportunities and avoid child labour.

Method: Training farmers, educating teachers, and tackling the entrenched issue of child labour in cocoa production.

Target group: 4,800 cocoa farmers and their families in 96 villages.

Location: The project is based in the districts of Sefwi-Wiawso and Bibiani in West Ghana.

Time frame: The project will last four years, 2012 - 2016.

Importance: It is estimated that 41,1% of the 2.7 million child workers in Ghana live in cocoa-growing areas.

Why this case: This partnership project demonstrates how stakeholders across the value chain can come together to address deep-seated ethical problems and achieve socially, economically, and environmentally sustainable development in the Ghanaian cocoa industry.

Background: Nearly 70% of the world's cocoa is grown in West Africa. A significant amount of it originates in Ghana, a country that accounts for 15% of the world's total cocoa-bean production and a leader on the world market.

In Ghana, cocoa beans are grown and harvested by smallholders on farms that cover between 3 and 9 hectares. The average cocoa farmer is responsible for an extended family, which explains why it is common to see up to nine members of one family working, half of which are children.

Throughout Ghana, the family functions as the backbone of every community. Families live and work together and provide social support to each other. Many Ghanaian cocoa farmers struggle with exhausted soil and plant disease, and they lack the knowledge to develop their cocoa farms. Often, conditions in schools and educational institutions are far from perfect, owing to a lack of educated teachers, as well as one of the central issues in Ghana: the estimated 2.7 million child workers of which 41.1% live in cocoa-growing areas.

Experience shows that as soon as the farmers make a profit, they send their children to school. Clearly, increased crop yields and profits are fundamental to tackling child-labour issues. Toms has set out to overcome this challenge through a Danida Business Partnership in collaboration with Coop Denmark and Ibis.

Experience shows that as soon as the farmers make a profit, they send their children to school.



TOMS GROUP A/S

“Toms got involved in activities in Ghana because we believed we could make a difference by taking on more responsibility for those who provide our raw materials. We continuously work on improving the living conditions for farmers and their families. Being so close to the production of cocoa beans is an advantage, because the quality of the cocoa beans depends on how the farmers handle their beans, especially after harvesting the pods.”

Lene Hjort Lorenzen, CSR Manager, Toms Group A/S



As a direct result of the project, child labour fell to 1.53% of 14,801 children in 2015. This corresponds to an 80% reduction in child labour and reveals that the partnership's model to tackle child labour has been successful.



COOP DENMARK

"In Coop, we believe in development through trade and that we can use our core business to solve a number of issues that exist within our supply chains. For many years, the Ghanaian cocoa industry has been plagued by child labour. These issues will not be solved through human rights policies and by posing greater demands on suppliers, alone, but rather through joint initiatives that aim to develop long-term solutions that grapple with the root causes of child labour. This is why we have entered into a business-driven initiative, which addresses both commercial and social issues."

Brian Sundstrup, Senior CSR Consultant, Coop Denmark

INITIATIVE: RESPONSIBLE COCOA PRODUCTION

The strategic partnership was initiated in 2012 and aims to improve the living conditions of 4,800 farmers and their families across 96 farmer societies in the districts of Sefwi-Wiawso and Bibiani in West Ghana. Significantly, Toms buys all of its cocoa from these two districts, where Toms has achieved traceability of its cocoa.

IMPROVING FARMER PRODUCTIVITY

The partnership endeavoured to sustainably increase the productivity of small farmers. To this end, farmers were trained in soil management, tree pruning, fertilisation, and shade management, which allows them to farm their land more effectively. At the same time, they have gained access to fresh, new cocoa trees, which produce more and higher quality cocoa pods. The better the cocoa harvest, the more each farmer profits.

ENSURING QUALITY EDUCATION

The Ghanaian government pays the tuition of all schoolchildren. However, not all children receive a proper education. This problem has two roots: a lack of well-educated teachers and a deepseated tradition that includes children in cocoa production. For many cocoa farmers, an education in cocoa farming is a far better alternative for their children than a poor academic education that leads to an uncertain future.

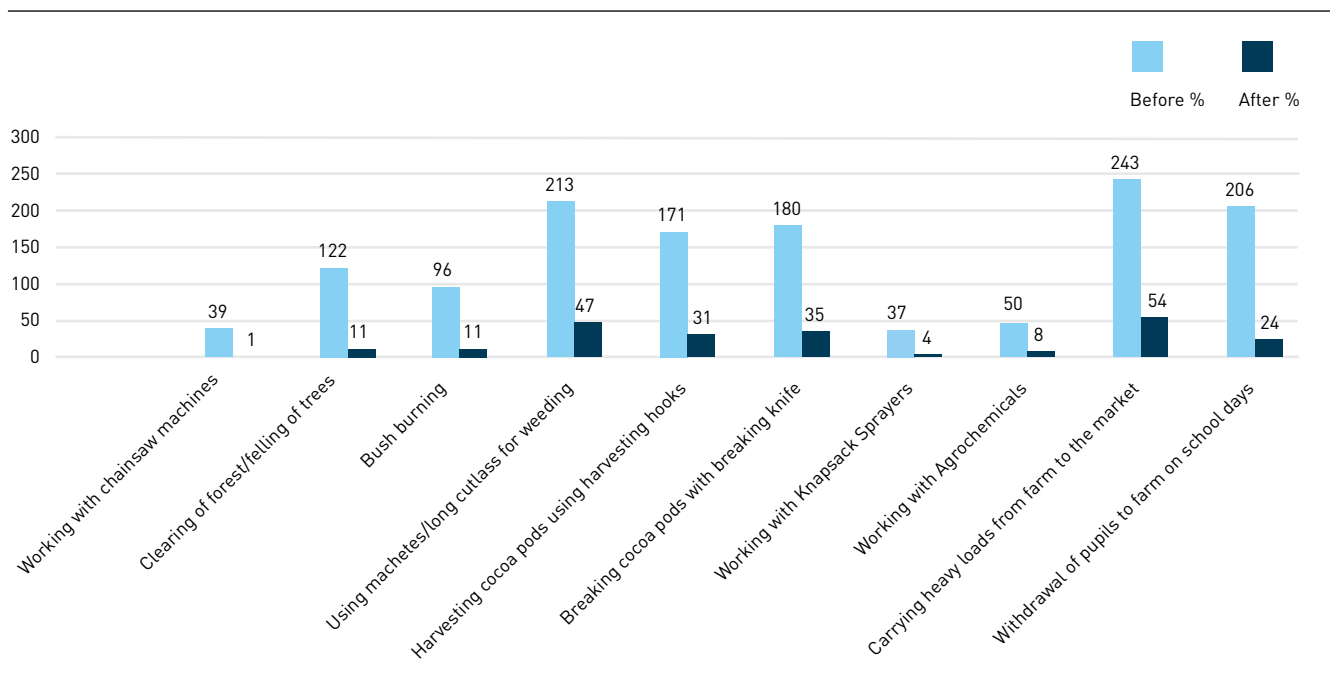
To tackle child labour issues in cocoa production, Toms looked more closely at the root causes of child labour: low crop yields, the cocoa farmers' perspective on children's rights, and the lack of qualified teachers.

In collaboration with Ibis and Coop, Toms involved farmers, parents, and the local community to send as many children as possible to school instead of into the fields. Therefore, part of the solution also includes educating and training 180 local schoolteachers to ensure better, inspiring, and more up-to-date teaching methods.

RESULTS AND LESSONS

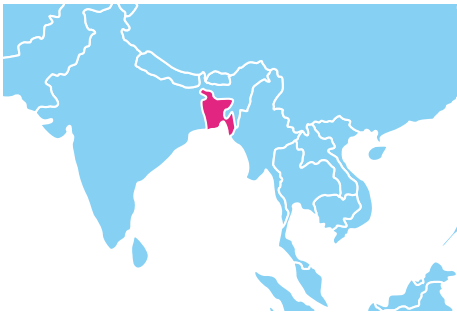
The partnership project began in 2012, with 13,859 children between the ages of 7 and 17 across 30 communities. Of these, 9.79% were engaged in various forms of child labour. As a direct result of the project, child labour fell to 1.53% of 14,801 children in 2015. This corresponds to an 80% reduction in child labour and reveals that the partnership's model to tackle child labour has been successful. The results will be assessed when the partnership project ends in 2016.

FIGURE 9: Prevalence of Child Labour by Activity. Number of children before and after.



CASE:

SPOTLIGHT ON RESPONSIBLE GARMENT AND TEXTILE PRODUCTION IN BANGLADESH



PARTNERS



Partnership for change: The joint Ethical Trading Initiatives (the UK, Norway, and Denmark), 3F, and the Confederation of Danish Enterprise (Dansk Erhverv). The partnership is supported by Danida.

Purpose: The goal of the project is to strengthen workers' rights and improve industrial relations between factory workers and factory management in the ready-made garment (RMG) industry in Bangladesh.

Method: Develop a scalable model for workplace social dialogue, which includes capacity building and rights-based training of factory workers and factory management across ten pilot factories.

Target group: 15,500 textile workers will benefit from the social dialogue programme.

Location: Garment and textile factories in and around Dhaka in Bangladesh.

Time frame: The project will last four years, 2013–2017.

Importance: The textile industry accounts for 80% of Bangladesh's total export value.

Why this case? This multi-stakeholder partnership highlights the complexities of ethical issues in the textile and garment industry and how these can be addressed through social dialogue. The initiative demonstrates how scalable, sustainable solutions created through a multi-stakeholder collaboration effort can be developed for the benefit of thousands of textile workers in the RMG industry.

Background: The RMG industry is the backbone of Bangladesh's economy. It employs approximately 4 million people, of which the majority are women, and accounts for close to 80% of the country's total exports. However, behind the financial statistics lies a darker reality, which involves poor working conditions and rights violations for the thousands of men and women employed in the industry.

In 2013, the garment and textile industry in Bangladesh caught the world's attention following the tragic collapse of Rana Plaza factory and the Tazreen factory fire, which killed 1,150 factory workers. These tragedies provided a catalyst for change on an unprecedented scale in critical fire and safety issues as well as in critical labour rights issues. In general, workers in the Bangladeshi RMG industry are unaware of their rights and are not organised in any way that would allow them to speak collectively to alert supervisors or managers to their problems and concerns.

In general, workers in the Bangladeshi RMG industry are unaware of their rights and are not organised in any way that would allow them to speak collectively to alert supervisors or managers to their problems and concerns.



JOINT ETI'S

"The RMG sector is the lifeline of the Bangladesh economy. Chronic health and safety issues, rights violations, excessive working hours, and an absence of worker voice and representation within the industry are unsustainable. This social dialogue programme presents a meaningful opportunity for workers and managers to develop mutual understanding and trust, two essential components in developing a greater respect for workplace rights and responsibilities among managers, and a free and fair expression of workers' voices in the workplace."

Jamil Ansar, Joint ETIs Programme Coordinator, Bangladesh

The issues are compounded because the women that work in the sector often have limited formal education and come from rural environments, which makes them particularly vulnerable. Consequently, these problems are reinforced by poor industrial-relations practice and a lack of confident workers who are able to identify and solve problems with management in a constructive way. The Ethical Trading Initiatives of Denmark, Norway, and the UK (joint ETIs) are currently addressing the absence of social dialogue.

INITIATIVE: RESPONSIBLE TEXTILE PRODUCTION

Since 2013, the Joint ETIs have worked together in Bangladesh to develop a scalable and replicable model of social dialogue that will establish structures and processes for workers and employers to negotiate their rights collectively and resolve conflicts peacefully. The need for workers to be heard is of increasing importance for brand members of the Joint ETIs, because they recognise that giving workers the opportunity to be heard is key to achieving fair working conditions, as well as creating stable sourcing markets and sustainable economic growth.

The social dialogue project is supported by Danida and is currently being implemented by the joint Ethical Trading Initiatives, 3F, and the Confederation of Danish Enterprise (*Dansk Erhverv*). The project partners are purposefully concentrating their efforts

on improving the rights and safety of textile workers, developing environmentally sustainable production, and increasing transparency across the supply chains within the RMG industry.

The initiative includes training in industrial relations between managers and workers. The training covers a broad agenda that seeks to establish a basic understanding of human-resource management, human and workers' rights, labour law, as well as an understanding of ILO conventions.

RESULTS AND LESSONS

The aim is that, by the end of the project, ten textile factories employing 15,500 textile workers will have established a common understanding of social-dialogue processes, accumulated experience in collective bargaining, and contributed to a greater respect for gender equality within the industry. The project will also have supported the implementation of structures that facilitate greater worker voice and representation, as well as a better handling of grievance mechanisms for the benefit of the textile workers involved in the project.

Last but not least, the project will result in the development of a scalable and replicable social-dialogue toolkit, which includes significant lessons and best practice that can contribute to better conditions for thousands of textile workers across the RMG industry, beyond the scope of this project.

3F

"Inhumane working conditions and frequent violations of workers' rights in Bangladesh's garment industry will not disappear soon, but the situation will improve in coming years. How do we know? Because signs of emerging change are now being reported by factory-worker representatives. Their own capacity to organise and build constructive relations with employers is crucial to developing the necessary internal push. An external pull from buyers, markets, and governments maintains its importance to keep the change on track. If our inclusive approach can influence the many other efforts, we will have contributed substantially to making the change sustainable."

Jesper Nielsen, International Advisor, 3F

What is social dialogue?

As defined by the ILO, social dialogue includes all types of negotiation, consultation, or information sharing between or among representatives of government, employers and workers, or between those employers and workers on issues of common interest relating to economic and social development.

ETHICAL TRADE IS GAINING GROUND

In State of Ethical Trading, our very first report on trends in ethical trade, we have pointed out the trends and issues that companies, business associations, NGOs, trade unions, and public institutions are confronted with on a day-to-day basis and the ways in which they attempt to solve these issues through practical and sustainable solutions.

State of Ethical Trading highlights:

- Ethical trade plays a crucial part in solving the extensive and complex issues that companies often face in their global supply chains. Pressure from international institutions such as the EU, UN, OECD, NGOs, trade unions, and the public do influence companies to engage in more ethical trade and develop more responsible business practices.
- Many larger companies have begun to implement a more systematic approach to ethical trade, whereas small and medium-sized companies do so to lesser degree. Among the companies in the DIEH member base, slightly more than 50% of top management have allocated budgets for their activities in ethical trade.
- We are experiencing a shift away from black and white auditing tools, towards more systematic and long-term engagement with suppliers. Most DIEH members have begun implementing the UN Guiding Principles for Business and Human Rights and due diligence in their business activities. However, there is ample scope for continuous learning about and improvement of due diligence.

NEXT STEP

Looking ahead, the adoption of the 17 UN Sustainable Development Goals (SDGs) are steering the global community in the right direction, towards decent working conditions, increased economic growth, and greater awareness of responsible consumption and production patterns on a global scale. Already, several DIEH members have begun implementing the SDGs across their core business to achieve significantly more sustainable social, economic, and environmental development. Increasingly, DIEH will collaborate with the ethical trading initiatives in Norway and the UK to support our members, as they gradually commit and deliver on the SDGs through innovative projects and strategic multi-stakeholder collaborations.

We need to pull together through local and global collaboration with companies, civil-society organisations, and authorities to address ethical challenges and dilemmas, and develop long-term improvements that benefit people and planet. Because, as Professor Esben Rahbek Gjerdtum Pedersen remarked in the foreword, “No business is an island.”

Thank you for reading.





The Danish Ethical Trading Initiative is a multi-stakeholder alliance that strives to develop tangible improvements in global value chains.

We gather companies, NGOs, trade unions, business associations and public institutions; and support our members through a unique network, tools and concrete solutions. At the same time, we work to reinforce support for ethical trade across the public domain.

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