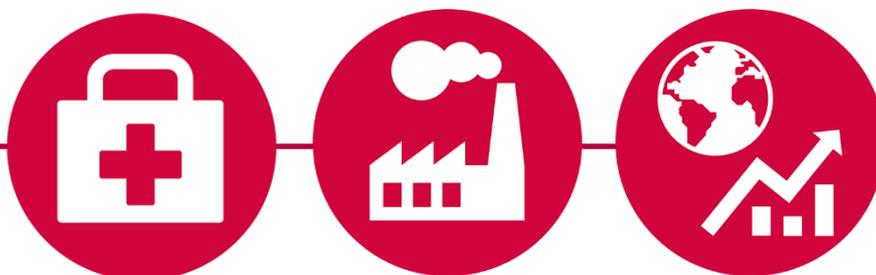


Strengthening fair trade

# Incentives and rules for fair supply chains

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The World Fair Trade Day, which took place on 9 May, showcased the progress made by member organisations of the World Fair Trade Organization (WFTO). At the same time, it highlighted the social ills that persist in numerous global supply chains, that is, among players involved in manufacturing a product, from the extraction of raw materials to production itself and sales. Labour and social standards are being violated in many supply chains, for instance, in the form of child labour, inadequate occupational health and safety provisions, or the lack of freedom of association. The Covid-19 pandemic is bringing these abuses increasingly to our attention and exacerbating their effects. The negative consequences of declining demand and closures of decommissioned factories are hitting workers in the producer countries of the global South particularly hard. Labour rights organisations and trade unions from the garment sector in Bangladesh report collective redundancies and factory closures. The Clothing Manufacturers Association of India estimates that 2.5 million people will lose their jobs during the lockdown and the Asian Floor Wage Alliance reports that workers are being deprived of their wages. These circumstances are threatening the livelihoods of those people who often have little or no savings.

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The corona crisis is currently intensifying social ills in many global supply chains. In the short term, the priority should be to facilitate access to loans for severely affected nations and ensure that disadvantaged population groups receive cash transfers. But what might medium- and long-term policy measures look like that not only alleviate the symptoms but also tackle the causes and thus make supply chains fairer and more resilient, not least with a view to future crises?

All companies along global supply chains must assume responsibility for the social situation of workers, and this responsibility cannot end at national borders. This is by no means a foregone conclusion, as evidenced by the attempts of many clothing brands, reportedly including Burton Menswear in Europe or Mosaic Brands in Australia, to stop buying goods already produced, delay payments and negotiate discounts for orders already in progress. Governments of the Global North have a responsibility to ensure corporate responsibility, both through incentives, such as sustainable

public procurement, and through obligations, such as the legal anchoring of corporate due diligence.

Adjusting public procurement, which generates some 14 per cent of GDP in Europe, could create crucial incentives for the sustainable and socially responsible reconstruction of global supply chains. *Strategic* public procurement is the prerequisite for a deeper understanding of supply chains and flows of goods on the part of public procurement offices and thus for a secure and responsible public procurement. The European Commission and the OECD have long been calling for the establishment of strategic public procurement management practices. First, this involves organisational aspects, such as establishing strategic procurement officers within the central awarding office. Second, there is a need to set strategic procurement goals, such as the promotion of innovative or sustainable products. The current debate provides public institutions in Germany and Europe with an opportunity to make procurement systems more crisis-proof, both in terms of a secure supply and to improving working conditions in the production countries.

A further possible instrument that the German government can use to strengthen fair supply chains is the legal anchoring of corporate due diligence obligations. Similar laws already exist in various forms in France, the UK and the Netherlands. In Germany, a legal regulation was made dependent on the voluntary commitment to entrepreneurial diligence. So far, there are no indications that broad implementation has taken place. A legal regulation could help to guarantee minimum social and environmental standards at all stages of the supply chain, especially for suppliers in developing and emerging countries. The positions of many companies that have been demonstrating responsibility for years would be strengthened by creating a level playing field for all market participants. A legal commitment would have to find a balance between responsibility and feasibility. Companies should not be held accountable for every labour law violation, but should in principle identify and assess social risks in their supply chains in order to bring about improvements where necessary. Such a reform for a strengthened supply chain management would contribute to greater accountability and crisis resilience in supply chains.

Governments are currently attempting to secure supplies of the vital resources and equipment their nations need for fighting the COVID-19 pandemic. As the health crisis eases, the focus must be adjusted: The revival of the global economy should go hand in hand with more responsibility for fair conditions along global supply chains.