

SAC'S RESPONSE TO THE OECD ALIGNMENT ASSESSMENT

A Collaboration Between the Sustainable Apparel Coalition and
the Organisation for Economic Cooperation and Development



February 13, 2019

A Global Language to Measure and Improve Sustainability Performance

A primary goal of the Sustainable Apparel Coalition (SAC) is to create a common language to measure and improve social and environmental sustainability performance across the apparel, footwear, and textile industry. Our vision, which aligns with that of the Organisation for Economic Cooperation and Development (OECD), is of an industry that produces no unnecessary environmental harm and has a positive impact on the people and communities associated with its activities. Since the SAC's founding, we have recognized and valued the leading role the OECD plays in defining global policy that drives environmental and social change. Together we sought to collaborate on the development of its due diligence guidance for responsible supply chains in the garment and footwear sector.

Industry collaboration is key to the success of the SAC's mission. We consider multi-stakeholder alignment and convergence foundational to the change our industry needs to support the well-being of the planet and its communities. This is why, through the OECD's advisory council, the SAC gave feedback during the writing the OECD Due Diligence Guidance for Responsible Supply Chains.

The SAC develops the Higg Index, a suite of sustainability tools to assess social and environmental impacts across the value chain. Global brands, retailers, and manufacturers use the tools to benchmark performance and make year-over-year improvements. For several years, the SAC has been committed to integrating the OECD's recommendations into the Higg Index. Thanks to our collaboration with the OECD, we have made the Higg Index most effective for the apparel industry and have also laid the groundwork for alignment with other initiatives, programs, and governmental platforms. Together, we must align on due diligence practices to realize our vision of a sustainable apparel industry, a healthy planet, and thriving global communities.

The Sustainable Apparel Coalition (SAC) is an international multi-stakeholder initiative of brands, retailers, manufacturers, academic institutions, NGOs, governments, and service providers that supports social and environmental sustainability in the apparel, footwear, and textile industry. The Coalition, which grows annually, currently represents global industry stakeholders with combined annual and footwear revenues exceeding €507 billion (\$572 billion USD). SAC members collaborate year-round to develop the Higg Index. The Higg Index is a suite of tools that measure the social and environmental impacts of the global supply chain. The SAC believes the sustainable transformation our industry needs can only take place through a standardized system of measurement that drives social and environmental performance improvement year over year. By using the Higg Index, the apparel, footwear, and textile industry can address inefficiencies, leverage opportunities, resolve damaging practices, and achieve the environmental and social transparency consumers increasingly demand. The Higg Index enables brands, retailers, and manufacturers of all sizes — at every stage in their sustainability journeys — to accurately measure and score a brand, retailer, manufacturer, or product's social and environmental performance, delivering a holistic sustainability overview.

The SAC's Higg Brand & Retail Module (Higg BRM) is a Higg Index tool that supports brands and retailers of all sizes in assessing the environmental and social sustainability performance of their operations. The SAC has developed this tool to align with the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (also known as the "OECD Due Diligence Guidance" or "the Guidance"). In 2017, the SAC set out to update the Higg BRM, deliberately aligning the tool with the recommendations from the OECD Due Diligence Guidance. This alignment was a priority for our organization as we recognize the leadership role the OECD plays in defining the direction of global sustainability performance

improvements and supporting sustainable practices worldwide. Furthermore, the alignment will enable us to foster collaboration with other players of the industry and open new opportunities towards a common due diligence framework.

The OECD's concrete recommendations and feedback have been incorporated into the updated Higg BRM. Pending a member vote, in just a few weeks the SAC will release the most recent version of the tool on the Higg.org online platform, which already hosts the SAC's Higg Facility Tools. The introduction of the Higg BRM on the platform will enable the global apparel, footwear, and textile industry to collaboratively leverage a common sustainability assessment at industry scale.

Part II

Key Areas for Improvement

- Include a stronger evaluation on the quality of a company's actions, including in relation to being risk-based, dynamic, informed by meaningful stakeholder engagement and appropriate to the company's circumstances.

We recognize the need to reflect the dynamics of our industry. We have addressed this recommendation by asking companies to answer questions pertaining to the social and environmental impact risks they have identified. We ask companies how risks are assessed and whether they are addressed. We have enhanced questions that ask companies to describe how they engage with internal and external stakeholders and how the companies have incorporated stakeholder feedback on a programmatic and risk-based level into their operations.

- Strengthen questions to better capture the value of sector-wide collaboration in key geographies and on key issues in the sector.

A key indicator within each section of the tool addresses the importance of the sector-wide collaboration that is needed across the value chain. Based on the OECD's recommendation, we have added questions that focus on asking companies how they support improvement programs (among others, through sector-wide collaboration) and whether they have evaluated how effective these programs are.

- Incorporate a stronger emphasis on how companies are both assessing and addressing risks linked to their upstream production (Tier 4).

We recognize that most companies will find reaching Tier 4 (raw material extraction suppliers) challenging. The Higg Brand & Retail Module (Higg BRM) encourages companies to go as far as possible (upstream) into their supply chain over time to drive meaningful impact for the salient and material risks in every part of the sector.

- Include an evaluation on how companies are engaging in processes to enable remediation in relation to impacts which may have been caused or contributed by them within their supply chain.

SAC manufacturer members have largely expressed that a practice of remediation would need to be implemented by a manufacturer itself in order to hold a supplier accountable. Without compromising on supplier ownership, based on the OECD's feedback, we have included an indicator on the Higg BRM grievance mechanism that is provided to all stakeholders, including supply chain partners, so that material complaints and concerns can be raised to the brand or retailer directly.

- State clearly if aspects of a company's responsibility in relation to labour, human rights and environmental due diligence are not covered under the Higg BRM but are nonetheless the responsibility of a company.

The Higg BRM guidance clearly states how the Higg BRM captures or does not capture the six steps outlined by the OECD, so that the scope of environmental and social and labor due diligence is clear to all companies and customers completing the Higg BRM.

Part III

Sustainable Apparel Coalition Response

Recommendations related to the 6 steps of the due diligence process

1. It is recommended that the Higg BRM state clearly if aspects of a company's responsibility in relation to labour, human rights and environmental due diligence are not within the scope of the Higg BRM.

The Higg BRM guidance will clearly state in the guidance which of the six steps in the due diligence are out of scope.

2. It is recommended that the Higg BRM define the term 'social' to include labour and human rights as defined in international instruments.

The Higg BRM guidance will define the term 'social' to include labour and human rights as defined in international instruments.

3. It is recommended that the SAC consider restructuring the Higg BRM to facilitate and encourage a risk-based approach whereby companies focus on their most significant risks. As a result, companies may not be required to answer all questions across all sections, but rather would be directed to follow-up questions based on their key risks.

In the Higg BRM social risks section, companies will focus on answering questions pertaining to the salient social risks they have identified.

In the Higg BRM environmental impacts section, companies will be scored according to their responses (or lack of responses) to questions related to environmental risks the SAC has defined as hotspots in the industry and, therefore, relevant to all companies. Companies may also gain points for addressing additional risks beyond those determined as relevant to the entire industry.

4. With regards to company policies, it is recommended that the Higg BRM strengthen its evaluation of whether member companies have policy commitments on human rights, labour and the environment (Para. 19) and whether these policies include recommendations under the OECD Due Diligence Guidance.

The updated Higg BRM explicitly asks brands and retailers about policy commitments on human rights, labour, and the environment. The OECD Due Diligence Guidance policy recommendations will be referenced in the Higg BRM guidance for these updated indicators.

5. It is recommended that the Higg BRM align its use of the term 'risk' with the definition included in the OECD Due Diligence Guidance to include risks of harm to people and the environment but not to the business itself.

The updated Higg BRM uses the OECD Due Diligence Guidance definition of the term 'risk.'

6. It is recommended that the SAC strengthen the Higg BRM's risk-based approach to be based on the severity and likelihood of impacts; incorporate the use of assessment methodologies that are appropriate to the nature of the risk, the stage of the supply chain and reflect the nature of the company's business and sourcing models; and incorporate mechanisms to update the company's understanding of risk.

The updated Higg BRM references 'salient risks' related to social impacts and provides detailed guidance on how saliency (i.e. severity and likelihood, as defined by the OECD) is determined, which aligns with the OECD recommendation above. The brand or retailer can also select assessment methodologies it uses to identify and gauge risk.

The Higg BRM will use the term 'material risks' in reference to severity and likelihood of environmental impacts. The Higg BRM will include detailed guidance that explains how 'material risks' have been defined.

7. It is recommended that the Higg BRM include an evaluation of how companies are assessing their suppliers associated with more severe risks linked to their raw material production as well as mid-stream suppliers, including those with whom the company does not have a contractual relationship.

The Higg BRM evaluates supplier engagement by risk level and facility tier, delving into who is engaged, how they are engaged, and to what end. Raw material and mid-stream suppliers are evaluated in the 'Product' section as well as in the 'Value Chain' section of the module. Chemical suppliers are also included in the module's 'Value Chain' section.

8. It is recommended that the Higg BRM strengthen its evaluation of the quality of a company's formal approach or strategy to prevent or mitigate social and environmental impacts. Quality measures include whether the response is proportionate to the severity of the impact and appropriate to the nature of the risk and developed with meaningful engagement with stakeholders.

The Higg BRM tool asks brands and retailers to provide qualitative information and documentation for relevant stakeholders, including Higg BRM third-party verifiers, to make this determination. This particular recommendation can be implemented as part of a verification program for the Higg BRM, given the dialogue and type of evidence required to properly evaluate it on a programmatic as well as risk-based approach. Guidance to assess the appropriateness of the response is included in the Higg BRM and can be implemented as part of a verification program for Higg BRM.

9. It is recommended that the Higg BRM strengthen questions related to purchasing practices in order to reduce the risk of subjective responses and align with existing benchmarks and tested approaches.

The Sustainable Apparel Coalition received significant feedback from multiple stakeholders about how to improve Higg BRM questions related to purchasing practices. All questions have been updated based on this feedback to reduce subjectivity in the responses of SAC member brands and retailers.

10. It is recommended that the Higg BRM evaluate the actions that the company is taking itself internally to gain control over its supply chain. This may include prequalification, moving towards direct sourcing, prequalifying buying agents, consolidating the number of suppliers, amongst others.

The Sustainable Apparel Coalition has integrated this recommendation in nearly twenty questions of the Higg BRM assessment dedicated to purchasing practices. They are included in the Value Chain section of the Higg BRM.

11. It is recommended to streamline all questions related to the actions that a company takes to address risks in its supply chain in order to reinforce the interrelationship between a company's broader strategy and any specific actions taken with suppliers.

The Higg BRM has been updated with the OECD's direct input to reflect these recommendations.

12. It is recommended that questions related to verifying, escalating and if necessary, ending business relationships with supply chain partners be strengthened to include a measure of quality.

The Higg BRM has updated content to reflect the following in response to this recommendation:

1) Separate verification and escalation questions and 2) inclusion of specific measures for verification and escalation to help evaluate the quality of a brand or retailer's initiatives for verification and escalation.

13. It is recommended that the Higg BRM strengthen its evaluation on how companies are collaborating by driving towards the frequency and scale of such collaborations and including collaboration with trade unions as an option. The Higg BRM may also evaluate how companies themselves are evaluating the initiatives that they are relying on for aspects of their due diligence process (e.g. certifications, initiatives providing supplier training and capacity building) (Para. 89, 134-141).

The Higg BRM asks how a brand or retailer's stakeholders are engaged on sustainability improvement measures and how this stakeholder input is applied to identify risks and improve programs. In several questions of the Higg BRM, brands and retailers can indicate they work with trade unions to address stakeholder concerns and improve collaborative initiatives. The tool also asks brands and retailers about the frequency of updates of their risk and impact assessment and whether updates are made based on new information for the identified risks. This is an indirect requirement that will be reflected in the Higg BRM guidance.

14. It is recommended that the Higg BRM incorporate an evaluation on the quality of the indicators and targets selected. For example, whether they are appropriate to the risk.

Based on feedback from the OECD, only environmental questions in the updated Higg BRM require responses based on quantitative targets. Brands and retailers that set quantitative targets related to additional environmental impacts beyond the scope of the Higg BRM assessment may gain additional points.

Higg BRM questions about social risk do not ask for quantitative responses. Quantitative targets have been removed from the social section in recognition that more emphasis must be made on the quality of the risk assessment and improvement programs than quantitative measures, which are often incomparable and less illustrative of success.

15. It is recommended that the Higg BRM better enable qualitative and flexible reporting on indicators and targets.

Based on feedback from the OECD, the updated Higg BRM enables qualitative and flexible reporting on performance indicators and targets.

16. It is recommended that the Higg BRM evaluate how companies revise their strategy when they determine that their efforts to address risks are not effective.

The tool does ask about stakeholder engagement and how new information about risks affects the development of improvement programs. The Higg BRM also allows for comments and document attachments so brands and retailers can provide this information in a narrative format.

This particular recommendation from the OECD can be implemented as part of a verification program for the Higg BRM, given the dialogue and type of evidence required to properly evaluate it.

17. It is recommended that questions related to public communication under the Higg BRM be adapted to focus on a company's most significant risks and impacts.

The updated Higg BRM specifies that public communication pertain to the company's 'salient risks.'

18. It is recommended that the Higg BRM align expectations on public communications across all Sections.

As part of the guidance for Higg BRM verification, the Sustainable Apparel Coalition asks brands and retailers whether their communications are accurate and understandable and whether public audiences have access to this information.

19. It is recommended that the Higg BRM evaluate whether the content of public communications include all elements recommended in Step 5 of the OECD Due Diligence Guidance and the quality of those communications.

The Higg BRM guidance will include a recommendation to follow the Step 5 elements stipulated in the OECD guidance.

20. It is recommended that the Higg BRM evaluate the availability and accessibility of public communications. For example, are communications accurate, current, clear and user-friendly and, importantly, do they enable intended users to access information.

The Higg BRM guidance will specify that public communications should be accurate and understandable and should enable intended users to access information.

21. The Higg BRM could seek to evaluate how companies are communicating with impacted workers and other impacted stakeholders. This could be an opportunity to build learnings amongst the SAC membership.

Here are two examples of how the Higg BRM currently broaches this topic:

"How does your company enable effective remedy if people are harmed by its actions or decisions in relation to (salient) human rights issues?"

"Does your company ensure its policy commitments on social/human rights are communicated in a way that is accessible and understandable to workers?"

22. It is recommended that the Higg BRM evaluate how companies are engaging in processes to enable remediation in relation to impacts which they may have caused or contributed to within their supply chain. (Para. 132-133)

The Higg BRM evaluates how companies engage in remediation processes through several updated indicators that include the following:

- Stakeholder engagement: type, frequency, and meaningfulness

- Establishing supporting programs to manage the salient social and human rights risks identified by the company
- Grievance mechanisms: type, robustness, and remedies
- Purchasing practices: awareness of how brand or retailer business practices create negative impacts in the value chain

To read *THE ALIGNMENT OF INDUSTRY AND MULTI-STAKEHOLDER PROGRAMMES WITH THE OECD GARMENT AND FOOTWEAR GUIDANCE: Assessment of the Sustainable Apparel Coalition report*, visit <http://mneguidelines.oecd.org/alignment-assessment-garment-footwear-sac.htm>