



Federation of the European
Sporting Goods Industry

FESI statement on Trade and sustainable development in global value chains

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SPORTING GOODS INDUSTRY
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Key messages:

- Global supply chains are an economic driver of growth & job creation
- FESI brands operate in a complex & ever changing environment
- New initiatives should include harmonisation and rely on already existing international standards and incentives brought forward by the sports industry
- FESI members play a leading role in the implementation of best practices
- Due to the importance of capacity building, new approaches require an improved implementation and enforcement at a national level in sourcing countries.

1. Proactive & sensible leadership practices in the sporting goods industry

Sporting Goods companies are frontrunners when it comes to responsible management of their Supply Chains. Our members have a long standing experience of being involved with and in global multi-stakeholder platforms such as ILO and OECD¹. Many of our members have been operating supply chain compliance management systems for many years that contributed to significant improvements in their respective supply chains. The complexity of our members' supply chains requires a large amount of time and effort in order to establish a consensus with numerous actors. Therefore our members are proactively engaged in a large number of public, private and national initiatives such as the Sustainable Apparel Coalition (SAC), Ethical Trading Association, BSCI, the Fair Labour Association (FLA), The Fair Wear Foundation , the Better Cotton Initiative (BCI) and ZDHC -

¹ See annex 1, page 6

just to name a few. One can also add national initiatives such as the German sustainable textile alliance and the Netherlands textile Covenant.

Moreover, our companies are involved in private compliance initiatives to audit the social performance of their suppliers and to foresee and mitigate labour rights violations in their supply chains. Despite all efforts it is shown that social auditing has its limitations; academic research has shown that social audits can be a helpful complement to national labour inspections, but never a complete replacement for them. The latter underscores the importance of capacity-building for national labour inspection systems as a top priority. Especially as this enables to address deficits in all production sites within an entire economy and not just those, connected to global supply chains and the textile industry.

2. Our Member's expectations for an EU Garment Flagship Initiative are:

- *Harmonisation of measures at EU level*

A growing number of national, regional and international initiatives are developed without having a tangible connection to each other in some cases. This situation creates an unpredictable and complex environment for companies operating in a global and already, complicated supply chain. In this respect, our members see the added value of the European Union's efforts to harmonise and converge existing national initiatives in order to create an 'even level playing field' in the EU for companies.

- *The development of voluntary and scalable measures*

FESI members endorse the conclusion of the European Economic and Social Committee's Opinion, in which it states the willingness of the European Commission "to use the range of EU external policies in order to encourage sustainable development in third countries through various instruments" to put in place gradual, consistent and sustainable policy in the responsible management of global value chains. We echo the Commissions' DG Trade endorsement of self-regulation. Indeed they have established tools to guarantee that international trade supports sustainable development, such as the GSP+ programme – providing tariff preferences to developing countries which ratify and implement 27 core ILO and environmental conventions. In addition every FTA signed by the EU aims at including a chapter on trade and sustainable development.

- *Emphasis on the development of a common terminology to measure impacts (e.g. the SAC Higg Index).*

FESI members also encourage the Commission to work on the adoption of a common language, including standard definitions and to assess the statistical data between the various stakeholders: OECD, ILO, WTO, European Commission, World Bank and IFM. We advocate this in order to avoid confusion as result of misinterpretation and to elaborate coherent initiatives between the public bodies involved in this field, which have various competences. A joint understanding between the European Commission and interested Member States on sustainable value chains and standardised systems, would allow a consistent European approach to the sustainable management of garment value chains, notably by facilitating due diligent plans. This alignment would foster consensus between the European Commission and interested Member States, on what to expect from

companies – with a special focus on SMEs and on how to promote collaboration on sustainable value chain management. It would build on existing frameworks like the “UN Guiding Principles on Business and Human Rights” and the “UN Global Compact”.

3. Global supply chains: multiplex & continuously changing

It is also very important to underline that our members operate in **very complex supply chains**, with larger companies often having several thousands of suppliers in many tiers, which are also continuously changing. Concrete opportunities for companies to influence the supply chain are varied and depend especially on the **number of suppliers** involved, as well as the **structure and complexity** of the supply chain and the **market position** of the company relative to the supplier.

There is a common belief that leading companies control their supply chains as buyers and use their market power to dictate the prices and details of the production in the supply chain. In reality, this situation is very different and a buyer’s ability to influence the business conduct of the supplied actually depends on the market position. Not only, do small and medium sized-companies (75% of FESI membership) often have little leverage over their suppliers, but large multinationals may also find themselves similarly constrained when they source only a marginal quantity of the supplier’s production or when the supplier has a monopoly. As is the case with some intermediaries, the supplier may just be a much bigger company with customers in other parts of the world outside the EU. Furthermore, it is often either economically or logistically impossible or impractical to control all suppliers and subcontractors. The “UN Guiding Principles’ fully recognise this challenge in UN Guiding Principle 17, which states that *“where business enterprises have large numbers of entities in their value chains it may be unreasonably difficult to conduct due diligence for adverse human rights impacts across them all. If so, business enterprises should identify general areas where the risk of adverse human rights impacts is most significant, whether due to certain suppliers’ or clients’ operating context, the particular operations, products or services involved, or other relevant considerations, and prioritize these for human rights due diligence.”*

In exercising due diligence, **companies rely heavily on social audits**. Moreover, multinational companies themselves are being audited in their emerging markets' operations by their own clients. Audits provide the buying company with an overview of the situation in a supplier company at a **given point in time**. The situation might already be different the following day. Fraud and corruption are further challenges when it comes to audits. Moreover, many tragic accidents in supplier companies have resulted from local fatal decisions in specific situations that are not necessarily linked, to issues that could have been identified in an audit. In short, even **rigorous auditing cannot guarantee full control over a supplier’s behaviour**.

4. The need for a universal approach

The global challenges facing the textile industry require **equally global solutions**. Any approach, concept, framework or action plan considered by the EU must make strong reference to global conventions and international initiatives. It is therefore strongly recommended to focus on the implementation of global standards. Reference points are the ILO norms and OECD guidelines for Multinational Enterprises². There are initiatives like the **Sustainable Apparel Coalition**, **Ethical**

² <http://www.oecd.org/corporate/mne/>

Trading Association, the Business Social Compliance Initiative, the Fair Labour Association, the Fair Wear Foundation, the Better Cotton Initiative, that can provide in-depth knowledge and experience about what has been done so far and what is in the pipeline. It is paramount, that policy makers take into consideration the input from experts and recognise the significant efforts taken by the industry already, as well as the resources invested in responsible management of their supply chain.

“The UN Guiding Principles on Business and Human Rights” for example provide a clear approach as to the different responsibilities of governments and companies with regard to human rights. States have the obligations to protect and fulfil human rights and fundamental freedoms. The role of business enterprises as an integral part of society and performing specialised functions requires compliance with all applicable laws and obliges to respect human rights as underlined in the UN Guiding principles. Herein companies *“seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.”*

Our members work hard to meet this responsibility and to identify adverse human rights impacts in their supply chain, by mitigating these risks before they occur or correcting them when they are found. However, the term “seek to” also indicates that a company has only limited means to influence the business conduct of supply chain companies. Moreover, the UN Guiding Principles make a clear and important distinction between cause, contribute and direct linkage, by clarifying that *“where adverse impacts have occurred that the business enterprise has not caused or contributed to, but which are directly linked to its operations, products or services by a business relationship, the responsibility to respect human rights does not require that the enterprise itself provide for remediation, though it may take a role in doing so.”* Similarly, the “OECD Guidelines on Multinational Enterprises” state that the Corporate Responsibility to Respect *“is not intended to shift responsibility from the entity causing an adverse human rights impact to the enterprise with which it has a business relationship.”*

5. Industry solutions for sustainable supply chains strategies

Owing to several leadership programs, which have been developed and organised by our members with the objective of encouraging sustainable strategies in global supply chains – our industry has acquired several key learnings that can be summarised as follows:

- a. Improvement of labour, environment, health – and safety conditions are dynamic processes that cannot be verified by one-off spot check audits and auditing measures. Also certificates do not provide sufficient evidence for compliance.
- b. Local ownership and capacity is to be built and strengthened, in order to drive sustainable progress.
- c. Basics for effective industrial relationship and social dialogues are to be promoted at country level.

These fundamental conclusions must be considered by the Commission in any concept for further driving sustainable and economically-prudent solutions.

Under the UN Guiding Principles local governments indeed have the duty to protect human and labour rights in their respective countries. Accordingly, they are required to build and maintain the

necessary regulatory framework and establish effective labour inspectorates that monitor workplace conditions in supplier factories. Hereby European governments and Member States are requested to continue and even strengthen their engagement with less developed countries, for the purpose of building the required infrastructure.

6. An alternative solution to mandatory approaches

Global Supply Chains are extremely complex and dynamic business networks that are constantly changing and shifting in response to economic factors and market conditions. These changes **evolve much faster than any legislation** and industry driven initiatives, are constantly working hard to adapt. Therefore a mandatory approach could bring up a mentality of “box ticking” and stifle a flexible and innovative voluntary process that has proven its benefit.

Furthermore, any requirements or obligations with regard to social and environmental aspects imposed on brands and retailers that are valid in the European Union, **can create conflicts if implemented in other countries**. These conditions might also be counterproductive for the economic developments and welfare of the sourcing countries, as they may be perceived as foreign intervention or as additional market barriers. Therefore, we recommend an **open consultation process** with representatives from production countries as this is key in elaborating how the EU can positively influence positive changes on field level.

7. Raising public awareness

In conclusion it can be stated that major brands being important players within the sporting goods industry have been applying true leadership practices in public disclosure and reporting for many years. In their regular reports these brands accurately describe their progress in driving significant social and environmental improvements in their respective supply chains in open and transparent manner.

Already today, many of these brands are committed to external review and verification exercises that add credibility to their efforts and programs.

Jerome Pero
FESI Public Policy Director

Founded in 1960 FESI – the Federation of the European Sporting Goods Industry represents the interests of approximately 1,800 sporting goods manufacturers through its 12 National Sporting Goods Industry Federations and its directly affiliated member companies. Moreover, 70 – 75 % of FESI’s membership is made up of SMEs. In total, the European Sporting Goods Industry employs directly and indirectly over 650,000 EU citizens and has an annual turnover of some 66 billion euro. Herein, FESI plays as the founder of the House of Sport alliance – together with its nineteen partners, a crucial role in raising awareness on the benefits of sports and physical activity through cross-sectoral cooperation. Note that FESI is also an official partner of the European Week of Sport. More information at: www.fesi-sport.org

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ANNEX 1

Non exhaustive list of meaningful initiatives assimilating the industry

Overarching Initiatives

- *National initiatives such as the German sustainable textile alliance and the Netherlands textile Covenant.*
- *Sustainable Apparel Coalition (SAC) The Sustainable Apparel Coalition's vision is of an apparel, footwear, and home textiles industry that produces no unnecessary environmental harm and has a positive impact on the people and communities associated with its activities.*

The SAC is also responsible for developing industry driven tools covering the following areas:

- Higg Index Facility Environment and Social & Labor Module
 - Higg Index Brand Environment and Social & Labor Module
 - Materials Sustainability index (LCA data for materials)
 - Design and Development Module (Early development cycle)
 - In progress: Footprint tool (PEF based, footprint of a product)
- The Business Social Compliance Initiative (BSCI) is a supply chain management system that supports companies to drive social compliance and improvements within the factories and farms in their global supply chains. BSCI implements the principle international labour standards protecting workers' rights such as International Labor Organization (ILO) conventions and declarations, the United Nations (UN) Guiding Principles on Business and Human Rights and guidelines for multinational enterprises of the Organization for Economic Co-operation and Development (OECD).

Working Conditions and Social Welfare

- the Fair Labour Association (FLA),
Since 1999, FLA has helped to improve the lives of millions of workers around the world. As a collaborative effort of socially responsible companies, colleges and universities, and civil society organizations, FLA creates lasting solutions to abusive labour practices by offering tools and resources to companies, delivering training to factory workers and management. By conducting due diligence through independent assessments, and by advocating for greater accountability and transparency from companies, manufacturers, factories and others involved in global supply chains. The FLA is realizing long-standing organizational and affiliate commitments to ensure that workers in global supply chains earn fair compensation for their labor, as required by the FLA Workplace Code of Conduct. Impact: <http://www.fairlabor.org/report/2015-annual-public-report>
- SA8000:

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This is one of the world's first auditable social certification standards for decent workplaces, across all industrial sectors. It is based on the UN Declaration of Human Rights, conventions of the ILO, UN and national law, and spans industry and corporate codes to create a common language to measure social performance.

It takes a management systems approach by setting out the structures and procedures that organisations must adopt, in order to ensure that compliance with the standard is continuously reviewed. Those seeking to comply with SA8000 have adopted policies and procedures that protect the basic human rights of workers.

- The Fair Wear Foundation

Poor labour conditions can only be solved through multi-faceted solutions. The FWF approach brings together the key components needed for sustainable change. It encourages companies to work step-by-step to improve conditions in their supply chains. It also means cooperation among a slew of stakeholders, and accountability among all of us.

- Ethical Trading Association

The Ethical Trading Initiative (ETI) is a leading alliance of companies, trade unions and NGOs that promotes respect for workers' rights around the globe. Our vision is a world where all workers are free from exploitation and discrimination, and enjoy conditions of freedom, security and equity.

Environmental:

- the Better Cotton Initiative (BCI)

Cotton is one of the world's most important natural fibres. It's used by nearly everyone on Earth every day, and supports 250 million people's livelihoods. It's a renewable natural resource, but only if we manage it responsibly. In 2005, a group of visionary organisations came together to figure out what could be done to safeguard the future of cotton. "There has to be a better way", they said. It turns out there is. It's called Better Cotton.

- ZDHC

The Zero Discharge of Hazardous (ZDHC) Programme takes a holistic approach to tackling the issue of hazardous chemicals in the global textile and footwear value chain. Learn more about our roadmap here. Our goal is to eliminate the use of priority chemicals by focussing on the following areas: Manufacturing Restricted Substances List (MRSL) & Conformity Guidance, Wastewater Quality, Audit Protocol, Research, Data and Disclosure, and Training.