



World Fair Trade Organization Europe (WFTO-Europe)
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WFTO-Europe Position on Human Rights and Environmental Due Diligence (HREDD)

Explaining the WFTO Guarantee System in light of the EU Legislative Initiative on Sustainable Corporate Governance and the UN Guiding Principles for Business and Human Rights

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1. Introduction

Human Rights and Environmental Due Diligence (HREDD) has long been an important topic concerning businesses. Especially concerning what the European Commission (EC) terms Sustainable Corporate Governance in their recent focus on the matter and as part of their legislative proposal expected in December. That is, the concern with the governance mechanisms of businesses determining the means they employ – and, importantly, the means they do not employ – in conducting their core business. Profits all too often seem to take precedence over the well-being of workers and producers and over the protection of the Earth's environment and climate. The recognition and increasing awareness of this is part of the drive behind recent HREDD-related legislation like the *Loi sur le devoir de vigilance* in France and the most recent *Lieferkettengesetz* (or Supply Chain Law) in Germany. The World Fair Trade Organization Europe (WFTO-Europe) believes that HREDD is an absolutely necessary part of any business. Thus HREDD is at the core of the WFTO Guarantee System (GS) and is practiced by Fair Trade Enterprises within WFTO's membership, who pioneer business models and value chains where people and planet come before profits. This paper explains what that means in practice and how the WFTO GS fits with existing and potential forthcoming frameworks for – hopefully mandatory – HREDD. These principles for business



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ought to become the norm if we wish to ensure a sustainable future for people, planet and business.

2. Outline of the EC's proposal on Sustainable Corporate Governance, including HRDD

The Sustainable Corporate Governance initiative aims at improving the EU regulatory framework on company law and corporate governance. A legislative proposal for a directive is expected from the Commission on 8 December this year. It would enable companies to focus on long-term sustainable value creation rather than short-term profits. It aims to better align the interests of companies, their shareholders, managers, stakeholders and society. It would help companies to better manage sustainability-related matters in their own operations and value chains as regards social and human rights, climate change, environment, etc. Human Rights Due Diligence is the process by which enterprises should “*seek ways to prevent or mitigate adverse human rights impacts that are directly linked to their business operations, products or services by a business relationship, even if they do not contribute to those impacts*” (the definition given by the OECD). This initiative is being made within an already existing HREDD framework, as it follows the United Nations' Guiding Principles on Business and Human Rights, other voluntary international frameworks and similar national initiatives.

3. What does HREDD mean to WFTO, and what is the point with HREDD legislation?

WFTO's mission is to enable producers to improve their livelihoods and communities through Fair Trade. Working according to Fair Trade practices, as WFTO members do, goes beyond HREDD as it builds a value chain not only focusing on profits, but putting people and planet first.

Currently, the European Commission is planning to put forth a proposal for a directive in December, after which it will be negotiated with the European Parliament and the European Council before reaching its final form to be implemented by EU Member States. WFTO-Europe supports HREDD legislation in line with the report voted for by a majority in the European Parliament in March (2021). However, the directive should not be seen as an end in itself: companies do not become sustainable nor responsible solely by following only the standards of mandatory HREDD (mHREDD). Indeed, it is important to emphasize the value of mission-led business models and stress that **they are the ideal solution** to making Human Rights and environmental sustainability integral parts of business conduct. This is the best means to ensure businesses proactively strive to ensure good working conditions and mutual benefit for their workers as well as for that of their suppliers, and to constantly



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improve the sustainability of the production, distribution and even disposal of their products. Thus, this type of business model should be seen as the goal, or rather the long-term aim of the mHREDD legislation. By extension, mission-led businesses are best placed to practice HREDD and to ensure responsible and sustainable supply chains within companies, thanks to their specific governance model that ensures these points are included not just as natural, but as vital parts of the aims and goals that steer management decision-making. In this sense, mainstream companies could learn from WFTO members, which are already practicing HREDD and possess a thorough know-how of its processes and tools that guarantee their effectiveness. As Social and Fair Trade Enterprises adhering to the WFTO GS, WFTO members immediately qualify for compliance with the requirements outlined by the legislative initiative. HREDD should not just be a secondary part of business separate from the core business. Instead, mainstream companies could go a long way by beginning a process of integrating these standards into their primary business conduct and governance model, and to improve on their implementation as they go along.

4. How does the WFTO GS fit with HREDD as proposed by the Legislative Own-Initiative Report by the EP on Corporate Due Diligence and Corporate Accountability?

The Legislative Initiative proposed by the European Parliament aims at developing a due diligence strategy. The entire WFTO Standard is designed with profound respect for human rights. Each of the 10 Principles of Fair Trade covers some part of the proposed legislation. On many points, the Self Assessment Report and the Improvement Plan as part of WFTO GS equate the details of the legislation.

The WFTO Guarantee System has as its core aspects credibility, sustainability and robustness of the system. These aspects are achieved by five components.

The first component of the Guarantee System is the **membership applications**. Organisations wishing to join the WFTO community need to apply for membership and need to demonstrate compliance with the WFTO Standard before being accepted as members.

The second component is the **Self Assessment Report (SAR)**. Each member of WFTO has to complete a SAR every 2 or 3 years. The SAR is a form that members have to complete by themselves and that comprises an Internal Monitoring System (IMS), which permits the members to monitor their suppliers closely. In the self assessment report, Improvement Plans are designed collaboratively by WFTO and the individual member to identify and undertake specific measures to address existing and potential risks and become a better business. For example, members are required to have an effective process of internal communication with their workers, producers and/or members as well as with their trading partners. They are



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expected to (re-)make improvement plans every 2 or 3 years and for this purpose to collect and consider feedback from such key stakeholders.

The third component is the **Monitoring Audit**, that is scheduled at agreed intervals, to assess the member's operation against the WFTO Standard. The audit follows a protocol that includes meetings, interviews, visits, and a follow up report and enables the participation of stakeholders in the HRDD process.

The fourth component of the GS is the **Peer Visit**. The members propose the names of persons from other members – often, but not necessarily, in the same country or region – that has to be approved by the GS Manager. The peers have to observe the WFTO Monitoring code of conduct during the visit, and do a follow up report afterwards. However, the main purpose is a mutual learning experience, where peers assist each other in upholding high standards and exchange know-how and best practices in the process.

Finally, the fifth component is the **Fair Trade Accountability Watch**, an online watch system, allowing members, stakeholders, or the public to raise issues or concerns about a WFTO member's compliance with the Standard. In addition, issues may be raised during Peer Visits, where peers then submit these to the WFTO. Complaints can relate to either the Fair Trade compliance of a WFTO member or about the operation of the WFTO GS. In particular, improvement plans play a key role in the GS meaning that the WFTO requires clear and realistic plans for mitigation in the short term and for full remediation in the medium to long term to address issues of non-compliance.

These components of the GS cover the due diligence process that is made to identify, assess, prevent, cease, mitigate, monitor, communicate, account for, address and remediate actual or potential adverse impacts. Indeed, the GS Monitoring Audits and the Peer Visits realized in the verification process cover the part of HREDD that consists of measuring the effectiveness of processes and measures through adequate audits and of communicating the results.

HREDD is reflected in the 10 Principles of Fair Trade, especially in principles 1, 4, 5, 6 and 7. At their core:

Principle 1 is about **creating opportunities for disadvantaged producers**.

Principle 4 is the principle that **fair payment** is one that has been mutually negotiated and agreed by all, through ongoing dialogue and participation. Fair payment includes fair prices negotiated between the buyer and the seller, and fair wages.



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Principle 5 is against:

- **child labour** : WFTO adheres to the United Nations Convention on the Rights of the Child and on national laws on the employment of children. WFTO Members, whether marketing or producer organisations, comply with the UN Convention and are monitored closely on this within the GS.
- **forced labour** : WFTO ensures that there is no forced labour nor human trafficking within the supply chain of its members.

Principle 6 concerns

- **Non-discrimination and equal pay**, that aims at ensuring that the organisation does not discriminate in hiring, remuneration, access to training, promotion etc, based on any criteria such as race, national origin, religion, gender, sexual orientation, etc. WFTO recognises women's full employment rights and is committed to ensure that women receive their full statutory employment benefits.
- **Gender equity** : WFTO has a clear policy and plan to promote gender equality that ensures that women as well as men have the ability to gain access to the resources that they need to be productive, the ability to influence policy, and their environment.
- **Freedom of association**: WFTO respects the right of all Workers to form and join trade unions of their choice and to bargain collectively. If the right to join trade unions and bargain is restricted by law and/or political environment in some places, WFTO will enable means of independent and free association and bargaining for Workers.

Principle 7 concerns good working conditions:

- **Health and safety at work**: the organisation has to provide a safe and healthy working environment for Workers and Producers. It has to comply with national and local laws, and ILO conventions on health and safety.
- **Working hours and conditions** : they have to comply with the conditions established by national and local laws and ILO conventions.

The Self Assessment Report, completed every 2 or 3 years by WFTO members, outlines the compliance assessment of all 10 principles. Every detail of the compliance is questioned and has to be completed in the SAR to know exactly how the organization is functioning and complying with the standards. Members complete the Self Assessment Report and it is independently verified by external auditors.

Overall, we can say that by implementing the WFTO Standard effectively through the Guarantee System, WFTO members offer transparent and readily available information on their supply chains. WFTO members and their supply chain partners are consistently



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following the requirements of the Standard, and the reporting of breaches to these requirements can be done by several processes.

5. What is missing from the EP's mHRDD initiative?

From the WFTO's perspective, there are some points in the upcoming legislation that could be re-thought and amended. First, the legislation needs to mandate every business to conduct HREDD, regardless of their type or size. SMEs have to be engaged in this legislation as much as big multinationals. Within this context, the Commission should explicitly mention social enterprises, and at best, fair trade enterprises, to designate the model that the mandatory HREDD legislation should follow. However, the requirement for annual audits for small businesses and micro enterprises should be more accommodative of the situation of these types of business, for example for audits to be biennial, rather than annual. Additionally, it is sensible to relax the frequency of audits for those businesses that show a consistent history of strong and exemplary compliance, also as an incentive for businesses to treat HREDD requirements pro-actively and entice them to do their best on these parameters, rather than aim for the minimum bar. In this context it is also important to introduce some requirements for businesses to practice 'continuous improvement', just as the Fair Trade Enterprises within the WFTO membership do. Finally, both WFTO-Europe, and the Fair Trade Advocacy Office, advocate for the legislation to be applicable to all companies, whether they are publicly listed or not.

6. Conclusion

The members of WFTO are set up and operate in a way that incorporates HREDD principles and mechanisms into their inherent business model. The WFTO Guarantee System is one model for HREDD, which can inspire other models. Especially since the WFTO GS goes beyond the aim of identifying, avoiding or addressing and remedying Human Rights abuse. The principles of Fair Trade by which our members operate define a way of doing business and working with producers, suppliers and workers by which abuse is well-nigh impossible. The EC's initiative to propose a legislation on HREDD is a welcome one and such legislation must be mandatory. But it must only be viewed as the first step to achieve what we could call Sustainable Corporate Governance. HREDD – and social sustainability – is vitally important to achieve a sustainable future for businesses, for workers, producers, and for citizens of every nation. Nevertheless, to fully achieve this, the mainstream approach of business to 'risk-avoidance' must change into a mind-set of collaborative business conduct that always seeks to be mutually beneficial for people involved while safe-guarding our



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planet's environment and climate. Therefore, the WFTO strongly encourages all companies and businesses to implement and adhere to HREDD with similar dedication.

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World Fair Trade Organisation Europe is the European branch of WFTO (global), the worldwide network of social enterprises that fully practice Fair Trade. Present in more than 80 countries and gathering both the pioneers and the innovators in Fair Trade, we set high standards of fair business practice for all. We work to ensure that socially and environmentally sustainable business practice becomes the norm. The more than 85 Fair Trade Enterprises in our European network demonstrate how businesses can put people and planet first and effect lasting, positive impact through their business model and practices.