Making due diligence work

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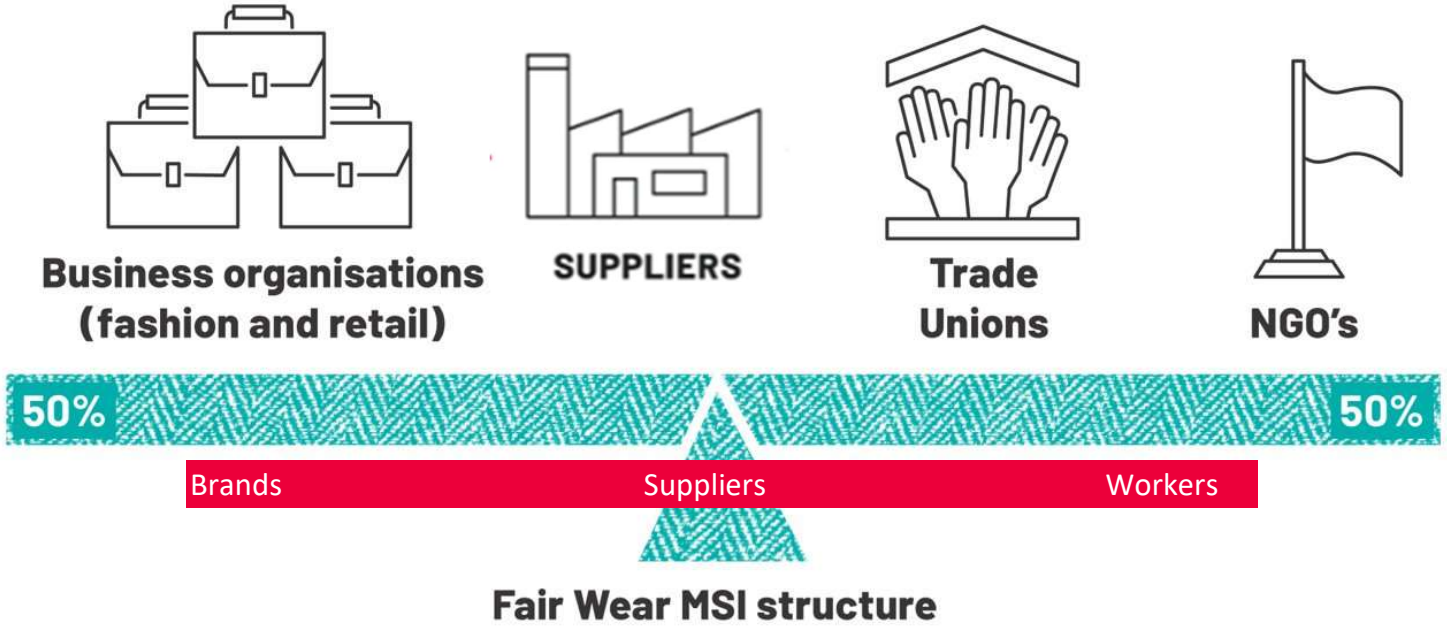
Bengaluru, 24 June 2025

Agenda

1. Introducing Fair Wear
2. Unpacking HRDD
3. Update on European HREDD legislation
4. Opportunities for Indian suppliers

Introducing Fair Wear

Multi Stakeholder Initiative

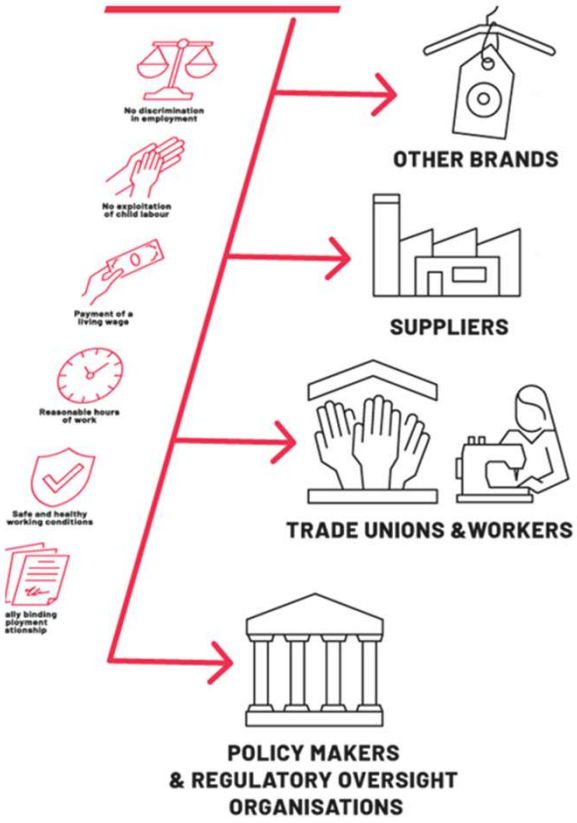


Fair Wear MSI structure

Fair Wear member brands



Collaboration and inclusion are key to progress



- Improve power imbalances
- Supplier and worker voice to drive brand action
- Convene industry for impact in practice, with common language and practical tools
- Connect companies to create impactful change together

Collaborative Partnerships for Industry-Wide Impact

STITCH
SUSTAINABLE TEXTILE INITIATIVE: TOGETHER FOR CHANGE

the industry we want

Working Group for Responsible Purchasing Practices

Ethical Trading Initiative

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Cascale

ETHICAL TRADE DENMARK

ethical trade norway

Fair Labor

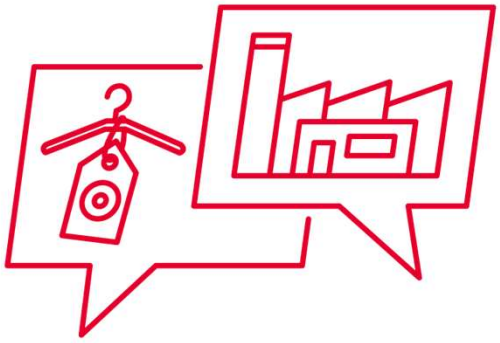
FAIR WEAR

ETI Sweden

Solidaridad

stti Sustainable Terms of Trade Initiative

Social & Labor Convergence Program



Access to Remedy

amfori
Trade with purpose

FAIR WEAR

Partnership for Sustainable Textiles



Core interventions

- Guiding brands on responsible business conduct
- Annual Brand Performance Check
- Supplier engagement
- Factory assessments and training
- Grievance Mechanisms



Production country-driven HRDD

- Risk identification and assessments as well as validation of remedy must involve all stakeholder groups in HRDD
- Ensure a collective voice from suppliers and workers is driving brand action

Rebalancing power



Responsible sourcing dialogue

Worker-centred

Purchasing Practices

Fact-based costing methodology

Responsible contracting

Workers can exercise their rights
Brands and suppliers share responsibility and risks

From compliance to impactful human rights due diligence

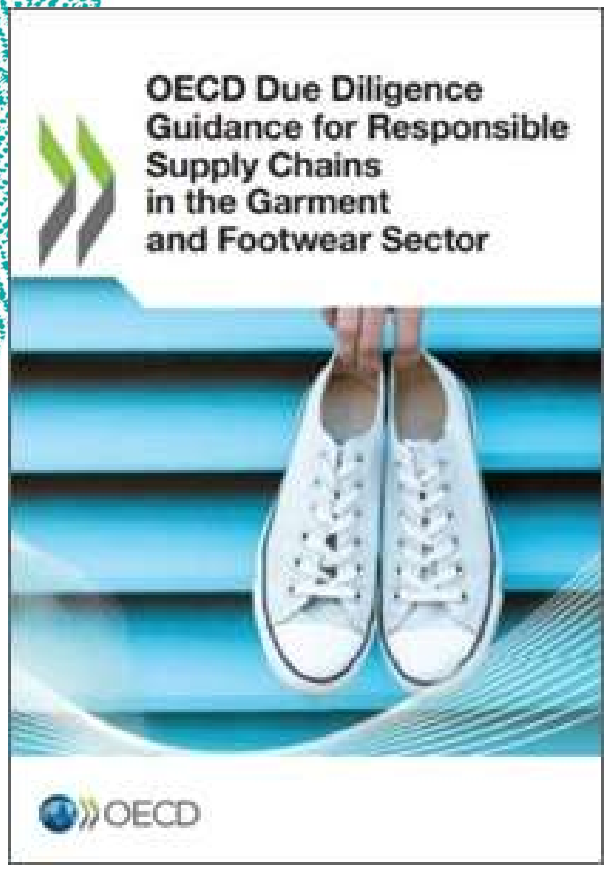
The difference for suppliers



United Nations Guiding Principles Business & Human Rights (UNGP)

- The state duty to **protect** human rights
- The corporate responsibility to **respect** human rights
- Access to **remedy** must be provided

OECD Due Diligence guidance



- Implementation of UNGP and ILO by companies
- Sector specific guidance

The 6 HRDD steps



"Due diligence is a process that a brand needs to implement for **identifying, preventing, mitigating and account for potential and/or actual human rights impacts** in its own operations and its supply chain"

What due diligence is (not)

Due diligence is **not….**

- The same as CSR
- The same as reporting (ESG)
- About the supplier
- About financial or materiality risks
- Compliance based or top-down
- Static



Due diligence is…

- Risk-based
- For the whole value chain
- About continuous improvement
- In engagement with (affected) stakeholders
- Dynamic and ongoing
- Including a focus on purchasing practices

Shifting power balances

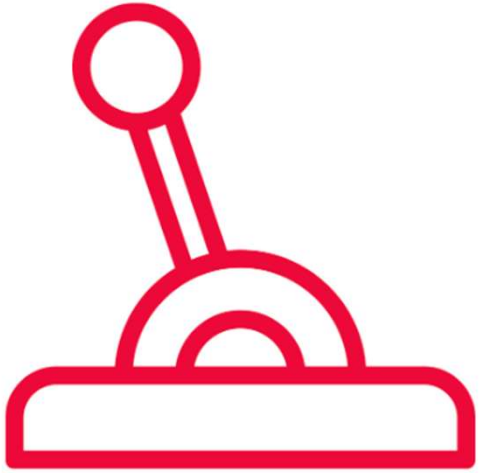
HRDD means buyers should **enable/work with** suppliers to make improvements and address and remediate impacts; through their purchasing practices, sourcing strategies, policies, contracts, etc.

This is an opportunity for suppliers to achieve a shift in the power imbalance

Responsible Purchasing Practices



Purchasing practices are root cause of many human rights issues



Powerful lever that brands can pull in their HRDD

Common Framework for RPPs

Principle 1: Integration and Reporting

In order to implement changes to purchasing practices, the company has top leadership buy-in and commitment; has a thorough understanding of existing suppliers and purchasing systems and (possible) negative impact on human rights; and uses this to decide on priorities that feed into an agreed improvement plan. Responsible purchasing practices are integrated into the commercial and other relevant departments of a business.

Principle 2: Equal Partnership

The purchasing company and their suppliers respect each other as equal business partners; engage in respectful sourcing dialogue; and pursue win-win situations, with a shared responsibility to improve working conditions.

Principle 3: Collaborative Production Planning

Critical path and production planning is done collaboratively between the purchasing company and suppliers. Any changes are mutually agreed and cannot be detrimental to the supplier.

Principle 4: Fair Payment Terms

The purchasing company and suppliers agree on fair and transparent payment terms that include all relevant information regarding the payment procedure and do not place a disproportionate burden on one party. Contractual obligations are honoured at all times. Payments are made in full & on time.

Principle 5: Sustainable Costing

The costing procedures and levels of the purchasing company reflect and support wage increases and sustainable production. Prices cover all costs of production in line with responsible business conduct and allow for a reasonable and maintained supplier profit margin.

Participant Prompt

Which purchasing practices have the highest priority for you to ensure fair working conditions?

Meaningful Stakeholder Engagement

- **Engage (meaningfully)** with affected stakeholders in the **determination of remedy** and in **developing grievance mechanisms** (e.g. through meetings, hearings, consultations)
  - **Two-way communication process**
  - **In good faith**
  - **Responsive**

- Stakeholders include **workers** and their representatives, trade unions, other civil society organisations, **suppliers** and their representatives

HREDD legislation

25 years of industry standards development



National laws

Laws **mandating** disclosures of human rights processes that extend through a company's operations and supply chain

1. California Transparency in Supply Chains Act (2010)
2. UK – Modern Slavery Act (2015)
3. Australia – Modern Slavery Act (2018)
4. Switzerland: Code of Obligations (CO), 1, Jan 2022
5. Norway: The Norwegian Transparency Act, 1 July 2022
6. France – Duty of Vigilance Law (2017)
7. Germany – (Supply Chain Due Diligence Act) (2021)
8. The Netherlands – initiatiefwet VDIO (….)

The EU textile policy landscape



International EU commitments

- UN 2030 Agenda
- SDGs
- Paris Agreement

EU targeted commitments

- EU Green Deal
- EU Circular Economy Plan
- EU Industrial strategy

EU textile policy

- EU Strategy for sustainable textiles

- Sustainable Product Regulation
- Green Transition Directive
- Green Claims Directive
- Corporate Sustainability Due Diligence Directive
- Corporate Sustainability Reporting Directive
- Textile Labelling Regulation
- Waste Shipment Regulation
- REACH
- Industrial Emission Directive
- Forced labour Regulation



Corporate Sustainability Due Diligence Directive (CSDDD) 2024

- Mandatory human rights and environmental **due diligence obligations** for EU companies and non-EU companies directly selling to the EU

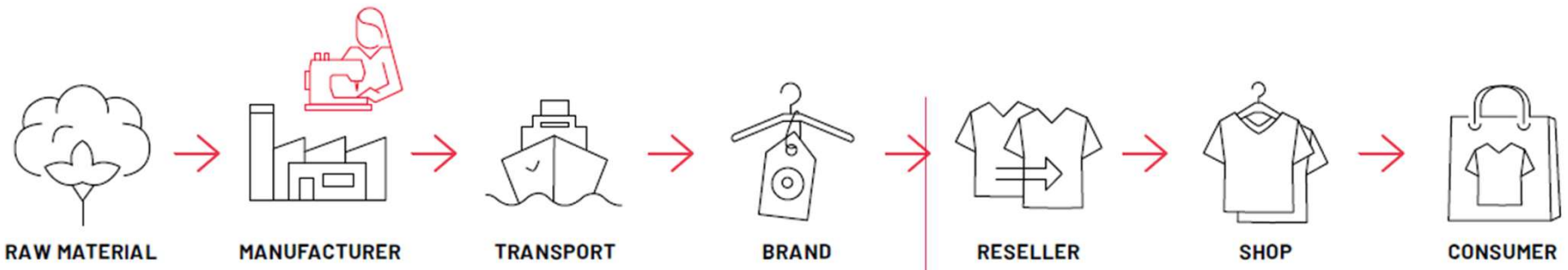
- To improve responsible business practices, reduce environmental harm, and improve human rights conditions globally.



Where are companies obliged to carry out due diligence?

- in their **chain of activities**: upstream value chain including raw materials, downstream only distribution, transport, storage
- for their **own operations, subsidiaries and business partners**

CSDDD: what is the ‘chain of activities’?



Upstream

Includes design, extraction, sourcing, manufacture, transport, storage and supply of raw materials

Downstream

only distribution, transport, storage when *directly* for the company

CSDDD: what is considered a ‘business partner’?

Direct business partner:

- the company **has a commercial agreement** related to the operations, products or services of the company

Indirect business partner:

- not a direct business partner but **performs business operations related** to the operations, products or services of the company

CSDDD: mandates collaboration

Brands must **collaborate** with their business partners

- no risk shifting/transfer of obligations: **shared responsibilities**
- Prioritising of risks allowed, but **all (potential) adverse impacts must be addressed timely**
- Prioritise **information** requests to business partners **where negative impacts** are estimated to be **most likely**
- Exchange information, trade secrets are protected

Participant Prompt

What do you think shared responsibility looks like?

Can you give some examples?

CSDDD: engagement before disengagement

In case of (potential) adverse impact:

- **Preventive/Corrective Action Plans**
- **Take measures to support compliance** with Action Plans
  - If the measures do not work: **Enhanced Preventive/Corrective Action Plans**
- No new business or extension of business
- No expectation of success + severe impacts: **responsible disengagement**

CSDDD: remediation

- When **caused or caused jointly by a brand and its business partner**, brand MUST remediate, including where the company substantially facilitates or incentivises a business partner to cause an adverse impact
  - When **caused by a business partner**, the company may provide remediation voluntarily and is expected to use its influence to get the business partner to remediate

CSDDD: purchasing practices

Brands' design, purchasing and distributing practices are not to contribute to negative impacts on human rights and environment

- brands within scope cannot **cause a business partner to violate** human rights or the environment
- Brands must **use their influence to move towards a living wage/income**
- Pricing should allow for all labour cost
- Lead times to consider negative impacts (e.g. capacity of suppliers)
- Long-term relationships
- Provide incentives for improving sustainability

CSDDD: duties for EU brands in scope

Articles 6 -16

(a) **integrating** due diligence into their **policies** and risk management systems;

(b) **identifying** and **assessing** actual or potential adverse impacts *and,*

where necessary, **prioritising** potential and actual adverse impacts;

(c) **preventing and mitigating** potential adverse impacts, and **bringing** actual adverse impacts **to an end** and **minimising** their extent

(cb) providing **remediation** to actual adverse impacts;

(cc) carrying out **meaningful engagement with stakeholders**;

(d) establishing and maintaining a **notification mechanism** and **complaints procedure**;

(e) **monitoring** the effectiveness of their due diligence policy and measures

(f) publicly **communicating** on due diligence.

CSDDD: enforcement

Supervisory authorities in each Member States to:

- Independent, transparent impartial
- Monitor brand compliance
- Investigate in case of substantiated concern, execute brand inspections
- Provide/order remedial action, order cessation of infringments, or non-repetition, adopt interim measures
- Impose penalties (financial up to 5% global turnover) in case of non-compliance
- Receive and act on notifications & substantiated concerns submitted by natural or legal persons



Omnibus

February 2025 Omnibus Simplification Package:
under discussion to “simplify” company requirements, affects: CSDDD, CSRD and others that are part of European Green Deal

Current status

Start of CSDDD postponed to earliest July 2028 with on-going discussions in Brussels on potential changes

Provisions related to purchasing practices, contracting and shared responsibility are not impacted.

Many companies continue to implement HRDD to meet international standards, investor requirements, national laws and to manage strategic risks in their supply chain.

Opportunities for Indian business associations & exporting companies

Impact on Indian exporters

What is it expected from Indian suppliers?

Transparency

Critical need for transparency of risks in the supply chain



Accountability

Accountability for those who cause or contribute to adverse human rights impacts (e.g. on workers)



Credible and actionable data

Greater demand for credible and harmonized verified social and labor data to identify, track & monitor human rights' risks



Due Diligence knowledge

Greater demand for suppliers who understand regulations and implement Due Diligence



Investments

Greater investments to improve working conditions and robust methods to identify and monitor issues





Recalibrate business relationship

- Supplying/exporting companies have **NO** duties under HREDD legislation but can support their buyers in preventing and remediating adverse impacts, **positioning themselves as a strategic, reliable partner**

- Supplying companies can leverage the HREDD duties of their European buyers to negotiate (long term) contracts, fair contractual clauses, fair prices that allow for higher wages, deadlines that do not cause overtime



Opportunities for Indian exporters

- Leverage the due diligence approach to address the power imbalance
- Your preparedness can be a market advantage
- Join forces – business associations, STTI
- Use the support and access to information
  - Stay informed
  - Used recognised principles and language

Fair Wear's value add

- Risk scoping, assessing and prioritising
- Meaningful Stakeholder engagement
- Strenghtening supplier voice
  - Capacity building, trainings, online Academy
  - Support tools for suppliers
- Validation of brands efforts and means
- Purchasing practices, contractual clauses, negotiation training

Rebalancing power



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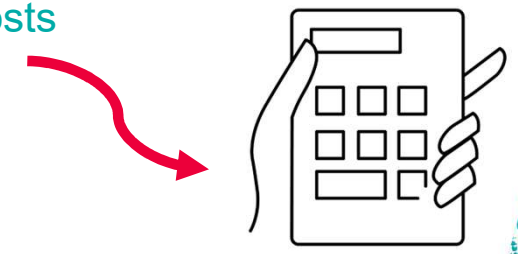
prices cover all production costs necessary for decent working conditions, including living wages, while enabling reasonable supplier profit margins and investment in sustainable operations

Fact-based costing

using payroll data to calculate the total **cost of increasing wages to a living wage level**

|

measured against data about the time (in minutes) required to make each garment to **calculate a brand's share** of higher labour costs



Ringfencing labour costs, preventing them from being squeezed



Buyer-supplier contracts

What

Terms and conditions of doing business

Why

- Tools for **managing risks and implementing HREDD** across supply chains
- **Legal links** of the supply chain
- Make human rights and environmental policies **binding** across supply chain

Participant Prompt

Do you have contracts with your clients?

Reality vs expectations

What we see

- One sided written agreements (or lack of)
- One sided supplier promises of compliance + irresponsible PPs > “gold standards and bronze prices”
- Risk shifting (from buyer to supplier)

E.g. in case of damages supplier needs to pay without proof of fault.

What we want to see

- Contracts as a must have
- Shared responsibility approach in line with UNGPs and OECD (& Common Framework RPPs)
- Responsible allocation of risks

E.g. brand gives advance payments to cover for materials costs.

Fair Wear approach to contracting

Two-way information-sharing & shared HRDD committments...

...to be stipulated into written agreements...

...and implemented in the day-to-day.

Sourcing dialogue

Responsible contracting

Responsible purchasing practices

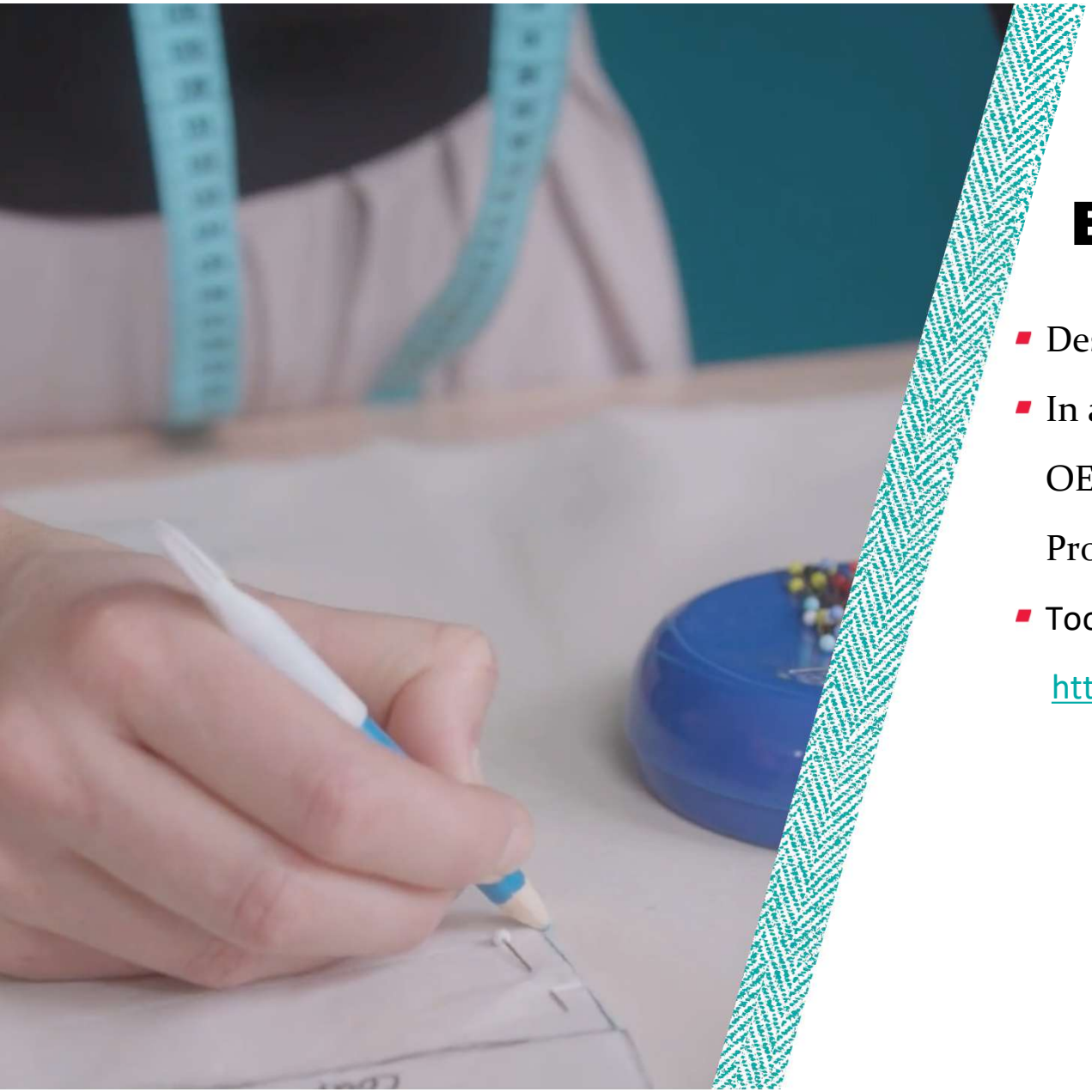
Criteria we use:

Terms impacting suppliers unequally

- ❑ in case of delay airfreight needs to be paid by supplier not matter who contributed to delay,
- ❑ in case of damages supplier needs to pay without proof of fault,
- ❑ unfair or unclear penalties,
- ❑ misuse of force majeure,
- ❑ payment terms longer then 60 days

Terms that are equal or favourable to suppliers

- ❑ payment for audits,
- ❑ pricing that covers target wage,
- ❑ flexibility when production is delayed,
- ❑ commitment to long term business,
- ❑ incentives in case of positive evaluation,
- ❑ advance payments to cover materials,
- ❑ payment for unused capacity of expedited shipping if member misses deadlines,
- ❑ payment if suppliers are required to keep stock



European Model Clauses

- Designed for the European Commission
- In alignment with the CSDDD – based on UNGPs, OECD guidelines and the Responsible Contracting Project
- Toolkit and a draft zero of the text available on: https://www.responsiblecontracting.org/toolkit

The Do's and Don'ts of Responsible Contracts

Do's	Don'ts
✓ **Do:** Share responsibility for HREDD in the contracts	**Don't:** Shift HREDD responsibilities onto supplier
✓ **Do**: Commit parties to cooperate to address impacts in ongoing, risk-based, dynamic fashion	**Don't:** Establish one-sided obligations on strict liability basis where any imperfection equals a breach
✓ **Do:** Commit buyers to responsible purchasing practices and fair commercial terms	**Don't:** Ignore buyers' purchasing practices, which can aggravate risks

The Do's and Don'ts of Responsible Contracts

Do's	Don'ts
✓ **Do:** Ensure that HREDD-related costs are fairly distributed, especially for SMEs	**Don't:** Overwhelm suppliers with unreasonable HREDD requirements
✓ **Do**: Put remediation ahead of suspension and termination and clarify that termination = last resort	**Don't:** Aggravate impacts via "zero tolerance" termination rights
✓ **Do:** commit to exit responsibly by giving notice and taking measures to mitigate impacts of termination	**Don't:** "Cut and run" at first sign of trouble

Prepare

What you can do to be ready

- **Stay updated** on EU legislation and HREDD: go to webinars, visit events
- **Join forces:** have a common position, engage and amplify
- **Give input at EU level for the CSDDD guidelines** through Fair Wear or business association
- **Talk to (your) buyers:** are they affected directly or indirectly, what are their expectations, what are their plans, are they a member of Fair Wear, ETI, amfori, Partnership for Sustainable Textiles, Cascale etc.

What you can do to be ready

- **Perform HREDD:** aligning internal systems and procedures with UNGP/OECD guidelines and standards
- **Use recognised concepts** such as the Common Framework for Responsible Frameworks and the Model Contract clauses
- **Engage in projects** by STITCH, Fair Wear and IAF
- **Use existing tools** such as the Fair Price App

Way forward

- What would you need to realise the opportunities?
- What can we do together to ensure the opportunities become a reality?

Thank you

More information?

www.fairwear.org

Reach out to us:

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