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ILO Symposium for Employers on Global Supply Chain

Bangkok, 8-9 December 2015

BACKGROUND AND CONCEPT NOTE

Global Supply Chains: Contributing to Development and Improved Working Conditions

Executive Summary

For the first time, the issue of supply chains will be on the agenda of the International Labour Conference in June 2016. Under the heading of “Decent Work in Global Supply Chains,” governments, trade unions and employers will engage in a far-reaching debate on trends and developments in trade, investment, production and employment; how supply chains contribute to economic and social development; and efforts by both States and the private sector to improve compliance and working conditions in supply chains according to their respective responsibilities.

As a general discussion item, the Conference will not develop any new ILO standards on global supply chains, but it will develop joint conclusions that will shape the ILO’s vision, strategy and action plan on global supply chains for the next 3-5 years. Given the importance of this discussion, the IOE and the ILO Bureau for Employers’ Activities is organizing a symposium for employers on **8-9 December 2015 in Bangkok** to bring business actors in the supply chain – suppliers, buyers, sector associations and employer organizations – together to review current practices, assess lessons learned and develop recommended actions for the ILO in the coming years.

Global Supply Chains

The importance of global supply chains in the world economy cannot be over-stated. The UNCTAD World Investment Report (2013) found that 60 per cent of global trade, valued at over \$20 trillion dollars, consisted of trade in intermediate goods and services as part of global supply chains¹. Practically all countries, commodities and products or services are involved in global supply chains to one degree or another, with advances in transportation and communication technologies opening opportunities for production to spread across numerous countries and enterprises.

Global supply chains also play an increasingly important role in development, through direct contributions to economic growth and employment, the transfer and diffusion of knowledge and

¹ UNCTAD, 2013 : *World Investment Report 2013 : Global Value Chains : Investment and Trade for Development*



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technologies, and by providing opportunities for enterprises to move up the value chain, producing higher value-added – and higher margin – products and services.²

However, assessing the impacts of global supply chains is complicated by the fact that they are increasingly complex and constantly evolving, with historic patterns of supply chains replaced by self-organizing global production and supply networks.

Terms and Definitions

One challenge of discussing the issue of global supply chains is the sheer breadth of the topic, which is, in many ways, becoming synonymous with the global economy. Global supply chains refer to a wide range of interrelated production activities in two or more countries, coordinated through a variety of commercial transactions, contractual relationships, trade and investment.

Not surprisingly, this variety of activities and commercial arrangements has led to the use of a broad range of different terms to describe it, including global supply chains, global value chains, trade in value-added, subcontracting, production sharing, out- and in-sourcing, offshoring, vertical integration, and fragmented production.³ Given the broad range of activities, their constant evolution and increasing complexity, and the multiple terms used, simply defining the scope of the issue can be difficult.

Global Supply Chains and Working Conditions

Amid the rapidly changing and evolving nature of global production systems, the issue of labour compliance and working conditions in global supply chains has received extensive attention over the past two decades. As countries with very different levels of development were linked together through supply chains and production networks, the differences in national institutions, compliance levels, working conditions and wages became a central element of the debate around – and criticism of – global supply chains.

Global supply chains have helped to create tens of millions of new jobs in developing and emerging economies that resulted in new opportunities, particularly for women, higher incomes and improved standards of living relative to what was available before. However, many critics of supply chains measure working conditions not against local alternatives, but rather against the standards of the advanced economies with which they are linked. Thus, the same subsistence farmer who takes a factory job in a city is an example of economic and social progress by one measure and the victim of a “sweatshop” by the other.

Indeed, the 1998 ILO Declaration on Fundamental Principles and Rights at Work addressed this point when it stated that “*labour standards should not be used for protectionist trade purposes*” and that

² Ibid.

³ Fung Global Institute, Nanyang Technological University, and World Trade Organization (WTO), 2013: *Global value chains in a changing world*



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*“the comparative advantage of any country should in no way be called into question by this Declaration.”*⁴ The challenge, therefore, is for all countries to respect fundamental principles and rights at work while simultaneously using access to and participation in global supply chains as a means for economic growth, social development and improved working conditions within their own countries.

Defining the Challenge

Most analysis and research on working conditions in global supply chains define the central challenge as a gap between legal standards and actual practice. Simply put, most countries have adequate national laws and regulations in place, including laws based on ratified international labour standards, but those laws are not consistently implemented or effectively enforced.⁵

The reasons for the gap between law and practice is as varied as the countries involved. In many countries, it stems primarily from the level of development and the associated maturity of national institutions and labour inspection systems, as well as broader issues such as the size of the informal economy. In others, it can stem from rapid growth that outpaces the ability of the national government to provide adequate oversight. But there are a growing number of countries that are using economic growth and development to finance improved labour inspection systems and increase compliance with labour laws.

Private sector initiatives

In order to fill this implementation gap, many companies, sector associations and multi-stakeholder initiatives have developed private sector programs to assess and improve their business partners' compliance with labour laws. Starting with the first supplier codes of conduct in the apparel sector in the 1980's, the field has expanded to include a broad range of sectors including footwear, toys, electronics, consumer products, paper and packaging, automobiles, jewellery, and food and beverages, as well as certain commodities like cocoa, sugar, cotton, coal and aluminium.

These private sector initiatives have evolved significantly over the past two decades and can be categorized into four major phases: The first phase was based primarily on a policing approach, where suppliers were required to adhere to a code of conduct or risk losing a contract. This early phase also included the development and ever-expanding use of social audits to measure adherence to the codes.

But many audits kept finding the same problems over and over again, so the second phase brought a greater focus on corrective action plans to fix the underlying problems and avoid them from being repeated. Yet, in many cases, attempts to fix such problems usually exposed a lack of capacity by

⁴ International Labour Organization, 1998: Declaration on Fundamental Principles and Rights at Work

⁵ See for example Richard M. Locke, *The Promise and Limits of Private Power: Promoting Labour Standards in a Global Economy*, Cambridge University Press, 2013



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the supplier, so the third phase of supply chain management programs included more focus on training and capacity building on labour rights and working conditions.

And, by some estimates, we are entering a fourth phase of private sector initiatives that recognizes the need for more general management training and productivity improvements. There is also a heightened awareness of the limits of these private sector programs and the need to support the capacity of national governments to establish a conducive operating environment.

Scope of Responsibility

Given the evolving nature of supply chain management programs, there has been considerable debate about the scope of responsibility for supply chains among the various actors: national governments, suppliers and their customers (buyers). In this respect, the unanimous adoption of the **UN Guiding Principles on Business and Human Rights** in 2011 played a critical role in defining the scope of responsibility in a globally-agreed framework, namely that all governments are required to establish and enforce adequate national laws, that all enterprises – including suppliers – are required to comply with applicable national laws and have a responsibility to respect human rights.

The role of the ILO

In this context, the International Labour Conference will take up the issue of “Decent Work in Global Supply Chains” for the first time at its next session in June 2016. Governments, trade unions and employers will engage in a far-reaching debate on trends and developments in trade, investment, production and employment; how supply chains contribute to economic and social development; and efforts by both States and the private sector to improve compliance and working conditions in supply chains according to their respective responsibilities.

As a general discussion item, the Conference will not develop any new ILO standards on global supply chains, but it will develop joint conclusions that will play an important role in shaping the ILO’s vision, strategy and action plan on global supply chains for the next 3-5 years.

The symposium

Given the importance of this discussion, the IOE and the ILO Bureau for Employers’ Activities is organizing a symposium for employers on **8-9 December 2015 in Bangkok** to bring the full range of business actors in the supply chain – suppliers, buyers, sector associations and employer organizations – together to review current practices, assess lessons learned and develop recommended actions for the ILO in the coming years

Dates: 8-9 December 2015

Venue: DoubleTree by Hilton Sukhumvit, Bangkok, Thailand

Participants: Employers, representatives of suppliers, buyers and sector associations



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- Main themes:
1. What are the key trends in global supply chains?
 2. What is the current state of play on supply chain management programs?
 4. What are the practical challenges for buyers and suppliers when dealing with working conditions in the supply chain?
 4. What are the main lessons learned from the past two decades?
 5. How can the ILO best help Member States and the private sector to improve compliance and working conditions in supply chains?

Outcomes:

- Shared views on the current state of play.
- Identification of key trends.
- Data gaps and research proposals.
- Key employers messages for the ILC discussion in June 2016.
- Proposals for an ILO action plan to promote development and improve working conditions in supply chains.

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