



*cutting through complexity*

SUSTAINABILITY

# CSR Sector Risk Assessment

Considerations  
for dialogue

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Commissioned by the Minister for  
Foreign Trade and Development Cooperation  
and the Minister of Economic Affairs



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This report is based on research by KPMG Advisory N.V. commissioned by the Minister for Foreign Trade and Development Cooperation, and the Minister of Economic Affairs.

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01

**EXECUTIVE  
SUMMARY**

### The 'Ruggie Framework'

On 16 June 2011 the United Nations Human Rights Council (UNHRC) approved the United Nations Guiding Principles on Business and Human Rights, also known as the 'Ruggie Framework'. One of the basic pillars of this framework is corporate responsibility to respect human rights (hereinafter referred to as 'responsibility to respect'), based on which companies need to exercise due diligence to investigate risks and take action to prevent or reduce these risks. The Corporate Social Responsibility (CSR) guidelines of the Organisation for Economic Cooperation and Development (OECD) state that, when mapping risks, companies should delve into their entire production process, down to the raw materials used.

### Letter to the Cabinet: 'CSR pays off'

In June 2013 the Minister for Foreign Trade and Development Cooperation, and the Minister of Economic Affairs sent the Dutch House of Representatives a letter titled 'CSR pays off', which included a policy to further boost CSR. This letter announced that a Sector Risk Assessment (SRA) would be carried out.

### CSR Sector Risk Assessment (SRA)

The SRA is a first step in the due diligence process of Dutch business, and is facilitated by the Dutch government in close collaboration with business and civil society.

This is the first large-scale research into CSR risks in sectors related to the Environment, Labour, Human Rights, Corruption and Taxation. Moreover, in this case, the risks linked to companies' (lack of) interventions take centre stage rather than the impact of global trends on the sector, the sector's positive

contribution to economic growth and employment in various countries, contributions to sustainable technologies or commercial opportunities that CSR creates for leading companies. Consequently, the SRA could result in a somewhat different selection of topics and risks than those included in the CSR policies of many sectors and companies. The SRA aims to analyse which sectors have a higher risk profile, to identify the main risks and to illustrate how the sectors in question are assuming their 'responsibility to respect'.

### Starting point for dialogue

The findings of the SRA can be used as a starting point for dialogue, both within and with the sectors, which, in turn, can result in the conclusion of covenants. Moreover, the SRA is a practical tool Dutch sectors use to start or further shape their due diligence processes.

### Sector selection

The SRA consists of a number of steps in which the focus is mainly on sectors that face major CSR risks. The study becomes more and more detailed at every step and comprises:

1. A quick scan of 86 sectors;
2. An analysis of the economic importance and risks in the value chains of 51 sectors through the study of raw materials use, as well as trade with and investments in high-risk countries with regard to Labour, Human Rights and Corruption;
3. A closer look at 20 sectors based on literature review, including stakeholder verification, and data and text mining;

4. A thorough literature review for 13 priority sectors based on sector-specific CSR risks, complemented with self-assessments by sectoral organisations and stakeholder questionnaires;
5. A first dialogue with representatives of the 13 priority sectors about the (initial) findings.

### Collaboration

The SRA is an extensive and complex collaboration process that includes several groups, such as sectoral organisations, NGOs, trade unions, scientists and ministries. A few key parts of the SRA:

- An analysis of the risks in the value chains of over 50 sectors;
- More than 50 dialogues between sectoral organisations and KPMG Advisory N.V. (hereinafter referred to as KPMG);
- Over 25 sectoral organisations, which completed (parts of) self-assessments or delivered another form of input;
- Participation of over 30 civil society organisations (NGOs, trade unions and scientists) in the analysis of risks for the priority sectors;
- 12 workshops with participation of sectoral and civil society organisations, and ministries;
- 148 sources for the selection of the priority sectors, as well as 2,000 references for 13 priority sectors (partly provided by the sectors themselves and by civil society organisations).

### Results

We outlined the main ('material') CSR risks per sector. 'Material' refers to risks that result in companies having a major negative impact and influence on humans, animals and the environment. These risks were identified through an analysis of sustainability reports drawn up by sectoral organisations and leading businesses, GRI sectoral documents, additional literature reviews and consultation with stakeholders (sectoral organisations, NGOs, trade unions and scientists). For every risk, we analysed the sectors' approach to the principle of 'responsibility to respect'. This resulted in a list with concrete considerations for dialogue for every sector and the following findings:

- There are material risks in every sector;
- There are considerations for dialogue in every sector;
- There are major differences between and within sectors;
- There is a lack of information for a number of specific risks;
- Cross-sectoral risks play a crucial role in social appreciation.

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### Risks and considerations for dialogue in all sectors

For every sector we selected 13 to 24 material risks related to the categories Environment, Labour, Human Rights, Corruption and Taxation. The following risks are relevant to the majority of the 13 sectors we analysed thoroughly, although their form may vary slightly for each sector:



#### ENVIRONMENT

- Greenhouse gas emissions
- Water and soil pollution
- Water scarcity
- Land use in vulnerable areas
- Animal welfare



#### LABOUR

- Unhealthy and unsafe working conditions
- Child labour
- Breach of trade union rights
- Breach of women's rights
- Underpayment



#### HUMAN RIGHTS

- Land grabbing
- Deprivation of (the right to) a clean, safe and healthy living environment
- Depletion of natural resources

Many risks occur in countries the Netherlands imports large amounts of raw materials and goods from, namely Argentina, Bangladesh, Brazil, China, Colombia, India, Indonesia, Malaysia, Turkey and Côte d'Ivoire. Moreover, most of the 51 sectors that were studied use high-risk raw materials

and import from, trade with and invest in high-risk countries with regard to Labour, Human Rights and Corruption. The SRA illustrates the risks and lists the considerations for dialogue for the sectors which are considered to have a relatively high-risk profile: agriculture and horticulture, chemicals industry, construction, energy, finance, food and beverage industry, metal and electronics, oil and gas, retail, textiles and clothing, wholesale, and wood and paper.

### Major differences in and between sectors

The priority sectors under analysis are not homogenous. The companies assessed are not only different in terms of the products and services they offer, but also in the way they organise their due diligence. Therefore, the considerations for dialogue are not applicable to all individual companies in the respective sector. Moreover, each sector has its own risk management initiatives. The aim of these initiatives and the degree of stakeholder involvement differ for each sector. What is more, each sector has different sectoral organisations with specific points for attention. Consequently, the SRA aims to provide broad recommendations for the entire sector.

### A lack of information about a number of risks

Whilst carrying out the SRA, we were faced with a lack of information about the origin and use of a number of raw materials by the Dutch sectors, particularly metals. Moreover, it was not possible to formulate sectoral findings for Corruption and Taxation, as the available sources mainly focus on country-specific risks and incidents. What is more, with regard to taxation, the OECD taxation standards framework is still under development.

### Cross-sectoral risks play a central role in social appreciation

Many civil society organisations focus on cross-sectoral risks. Those are:

- Interlinked risks with regard to land rights, biodiversity, local food provision and women's rights;
- The negative effects of mining (for the environment, labour and human rights);
- Violation of labour and human rights in countries such as China, Bangladesh and India;
- Violation of women's rights.

All sectors are committed to reducing these cross-sectoral risks, but civil society organisations tend to look at these efforts with a critical eye. At the same time, however, many civil society organisations recognise that individual companies or sectors cannot tackle these risks on their own. As for corruption and taxation risks, these are primarily linked to countries rather than to sectors. However, both topics – like the Environment, Labour and Human Rights – are included in the OECD's corporate CSR guidelines.

### Future challenges to be tackled

Not all considerations for dialogue are equally relevant for individual companies, because every sector has its own pioneers, which have gone to great lengths to prevent and reduce the risks described in the sector analyses. Moreover, it takes more than a sectoral approach to tackle cross-sectoral or country-specific risks.

Therefore, there are four relevant levels for further analysis and elaboration of the considerations for dialogue within the various sectors:

- Companies: launch or extension of due diligence activities;
- Sectors: tackling CSR risks that companies cannot tackle on their own;
- Cross-sectoral topics and agendas for high-risk countries: international approach with fellow governments;
- Chains: for risks that are not linked to a specific sector, but rather to a key raw material that is used by various sectors.

For years now, The Netherlands has been focusing on making supply chains more sustainable, e.g. through 'The Sustainable Trade Initiative' (IDH). However, there remain some 'blind spots' in the systematic approach to chain-linked risks, particularly for biofuels, some agricultural raw materials used in animal feed and Food and beverage industry, and last but not least, various metals.

These four levels are required to prevent companies or sectors from being forced to terminate business relationships with certain countries or regions based on their own due diligence, because they are confronted with risks they cannot prevent or reduce themselves, and due to a lack of a cross-sectoral, chain- or country-specific approach. That is not as the 'Ruggie Framework' and the OECD guidelines for Social Corporate Responsibility (CSR) intend; they state that 'disengagement' is truly the last option.

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02

**INTRODUCTION:  
BACKGROUND  
AND TARGETS**

## 2.1 Background

In June 2013 the Minister for Foreign Trade and Development Cooperation and the Minister of Economic Affairs sent a letter titled 'CSR pays off'<sup>1</sup> to the House of Representatives. This letter to the Cabinet included a policy to further promote Corporate Social Responsibility (CSR) and announced that a Sector Risk Assessment (SRA) would be carried out.

Our jeans and smartphones are not produced in the Netherlands, but in countries where production and transport costs are the lowest. This is the consequence of economic globalisation and results not only in (financial) advantages for Dutch companies and consumers, but also contributes to the development of local economies in the (developing) countries in question. However, this approach also carries risks. If a company does business on an international scale the risks can be quite different from those encountered in the Netherlands. For example, a business can be directly or indirectly involved in a grave breach of labour rights, such as child labour, life-endangering labour conditions, e.g. in the textiles sector in Bangladesh, or extremely long working hours. However, intimidation or threatening of trade union members, land grabbing or damage to vulnerable ecosystems are also a possibility. In the past few years we have encountered various such cases involving Dutch companies. Shoe manufacturers were associated with child labour in the leather production process. Child labour in hazelnut production also raised questions at the Dutch House of Representatives. The general public is probably most familiar with the collapse of the Rana Plaza textile factory in Bangladesh. All these cases have prompted politicians to call for measures to counter these issues.

In order to prevent such risks, the Dutch government, representatives of employers' and employee organisations, consumer and civil society organisations expect companies to respect both people and the environment whilst conducting business - in other words, they should exercise Corporate Social Responsibility (CSR). At national level, legislation forms the basis for CSR, which refers to companies' efforts above what is legally required. At international level, CSR is about meeting international standards for human rights, labour conditions and the environment, among other things. These international standards are set out in the OECD guidelines for multinationals<sup>2</sup>, the UN Guiding Principles on Business and Human Rights<sup>3</sup> and the ILO fundamental labour standards<sup>4</sup>, which form part of the latter. These guidelines, and the principle of 'responsibility to respect' they include, aim to prevent breaches of human and labour rights, and to protect the environment. Moreover, they provide approaches to implement these standards in policymaking and in practice.

In these guidelines, 'due diligence' or 'CSR risk management' takes centre stage. This refers to the process that companies use to identify, prevent and reduce the real and possible negative impact of their (lack of) interventions, as well as the way they justify their approach to the identified risks towards their stakeholders. In the due diligence process it is not the identification of the risks for the company that is key, but the identification of the possible and real risk of a negative impact on others, such as employees and local communities. With this SRA the Cabinet aims to get an insight into the sectors of the Dutch economy that pose the greatest risks for people and the environment, with a view to making its policies and those of Dutch business in general more proactive and less incident-based. The government plans to

map out to what extent the sectors with a relatively high risk profile carry out their due diligence. Are the companies in these sectors aware of the risks and how do they tackle both identified risks and possible malpractices? Subsequently, the Cabinet wants to get around the table with the sectors and stakeholders to analyse where and how risks can be further minimised. The sectors' collaboration with the government, trade unions and civil society organisations will result in a more structured approach to tackling these issues. A logical next step will be to merge all efforts into covenants. In its recommendation dated 25 May 2014, the Social and Economic Council of the Netherlands (SER) recommends companies to take initiative in forming covenants about (international) CSR with the government and civil society organisations<sup>5</sup>.

In October 2013 KMPG started carrying out this SRA, which kicked off with an analysis of all sectors operating in the Netherlands. We carried out a review of the available literature and made an inventory of the risks encountered based on expert and stakeholder information, which, in turn, was used for the selection of 13 sectors with CSR risks assessed as relatively high. Subsequently, we further assessed the risks and the approaches to the principle of 'responsibility to respect'. This report includes the results of this analysis and explains the methodology used to obtain them.

## 2.2. Targets

This research is a first step in the implementation of a sectoral due diligence process for Dutch business, facilitated by the Dutch government.

More specifically, the CSR Sector Risk Assessment aims to:

1. analyse which sectors may carry a higher risk profile;
2. identify the main risks in each risk sector;
3. show to what extent the sectors are currently fulfilling their 'responsibility to respect';
4. give an indication of the social appreciation for the sectors' approach to the principle of 'responsibility to respect'.

The SRA can be used as input for dialogue between the different sectors and provides the government with a tool to contribute to this dialogue and the agreements made, where appropriate. The findings of the SRA thus form the starting point for dialogue in and with the sectors, which may lead to the creation of covenants. According to the SER recommendation<sup>6</sup> these covenants aim to:

- substantially decrease specific risks in an ambitious and realistic timeframe of 3 to 5 years for groups experiencing negative effects;
- find joint solutions for problems companies cannot solve on their own.

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In this respect, the focus is on the companies' responsibility to conduct business in a socially responsible manner, in collaboration with the stakeholders and, where useful and desired, with support from the government.

### 2.3. How was this SRA carried out?

The SRA was a process involving multiple stakeholders, including the Dutch government, businesses and civil society. The SRA was carried out by KPMG, which was monitored by a project team and a steering committee at government level. Both the project team and the steering committee included representatives of the two ministries involved, the

Ministry of Foreign Affairs and the Ministry of Economic Affairs. Officials from various ministries attended meetings and provided information. Civil society was represented by a 'permanent stakeholder group', which was asked to provide information and was updated at various stages of the project. The 'permanent stakeholder group' included the 'MVO Platform' (CSR Platform), VNO-NCW (the Confederation of Netherlands Industry and Employers), FNV (the Dutch Trade Union Federation), IUCN (the International Union for the Conservation of Nature), BMO (The Netherlands Human Rights Network) and 'De Groene Zaak' (Dutch umbrella organisation for sustainable business practices). The priority sectors were closely involved in the entire

project. They were asked to complete a self-assessment questionnaire on CSR risks. Subsequently, workshops were organised per sector, which representatives of the sectors attended. Apart from the permanent stakeholder group mentioned above, various other civil society organisations were involved in the process and asked to provide their input, which included data for the assessments carried out by KPMG in the selection of sectors, testing KPMG's findings and completing a questionnaire on the CSR risks for each sector (see chapter 3.2 for more information on this part of the study). In total, more than 29 organisations collaborated in this manner. In Annex D you will find an overview of the civil society organisations that took part in the study. The CSR Risk Check website developed by 'MVO Nederland'<sup>7</sup> was also used as a reference tool for this study. Where relevant, the results of the SRA will be used to further update the CSR Risk Check website.

### 2.4. About this report

The following chapter describes which 13 priority sectors we selected and the criteria used in the selection process. Chapter 3.3 explains the methodology used and chapter 4 includes the findings and the analysis. We start by giving you an overview of cross-sectoral risks. Then, for each risk category, we describe risks that apply to several sectors, and we explain the principle of 'responsibility to respect'. We then proceed to explain how we consulted with the sectors and stakeholders, and describe each of the 13 sectors selected. In closing, the final chapter of the report provides an overview of our conclusions and recommendations.

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A nighttime photograph of a city skyline, featuring the Petronas Twin Towers and other skyscrapers. In the foreground, a multi-lane highway is shown with light trails from cars, indicating long-exposure photography. The sky is a mix of purple, pink, and blue, suggesting dusk or dawn. A white circular graphic with the number '03' is overlaid on the left side of the image, connected to the text 'SECTOR SELECTION' below it by a white line.

**03**

**SECTOR  
SELECTION**

### 3.1 Priority sectors

We started our research by mapping out all the sectors of the Dutch economy. We carried out a review of the available literature and collected the available information on risks from experts and stakeholders, which, in turn, was used for the selection of 13 sectors with CSR risks assessed as relatively high. We also took into consideration the importance of the sectors for the Dutch economy. The 13 priority sectors are listed below (alphabetically):

-  Agriculture and horticulture
-  Chemicals industry
-  Construction
-  Energy
-  Finance
-  Food and beverage industry
-  Metal / Electronics
-  Oil and gas
-  Retail
-  Textiles and clothing
-  Wholesale
-  Wood and paper

In Annex A you will find a delineation of these sectors.

### 3.2 Sector selection process and criteria

The starting point of our research was a list with all the sectors operating in the Netherlands according to the SBI (Standard Business Classification) codes<sup>9</sup>. The SBI comprises 86 sectors, subdivided into economic categories. Through a step-by-step analysis we prioritised these sectors and reduced them in number. As the research process progressed, the analysis became more and more detailed. We eventually carried out a thorough risk analysis of 13 priority sectors. Below you can see how we arrived at these 13 sectors:

- 1. Initial prioritisation of sectors:** A number of sectors were not analysed further because they meet (each of) the following criteria:
  - No (large-scale) use of raw materials and energy;
  - No (large-scale) use of soil and/ or no major emissions;
  - No (large-scale) use of unskilled workers;
  - The sectors are mainly active in the Netherlands.

The sectors that did not make this initial priority list include hotels, cleaning companies, hairdressing, real estate rental companies and IT service providers.

- 2. Analysis of the economic importance and risks in the value chains:** In this step we analysed the 51 remaining sectors to find out their CSR chain risks. Moreover, we studied the importance of each sector for the Dutch economy, the aim of which was to allow us, at a later stage, to focus our (human) resources on the major

sectors with relevant CSR risks. In this stage, we also further reduced the number of sectors by creating clusters of logically linked sectors (such as the extraction of raw materials and the associated services).

The chain risks were assessed for the risk categories Environment, Labour, Human Rights and Corruption. In order to assess the Environmental risks, we studied the use of natural resources (biotic and abiotic) in each sector<sup>9</sup>. Risks linked to Labour, Human Rights and Corruption were assessed based on a sector's presence in risk countries, major investments in or imports from those countries (according to data from Statistics Netherlands, or CBS). In this study, child labour is included under the 'Labour' indicator and 'Human Rights' mainly refers to malpractices caused by the (lack of) corporate interventions, because companies also have room for movement in these situations. Land grabbing and the depletion of natural resources for future generations are relevant risks within various sectors. The 'risk countries' vary for each risk category we studied<sup>10</sup>, and several indexes were used to determine whether countries qualify, including the Corruption Perception Index by Transparency International.

The economic importance of a sector is determined by its share in the total turnover and employment rate in the Netherlands, based on data provided by Statistics Netherlands (CBS)<sup>11</sup>.

In order for us to narrow down the study to 20 priority sectors, we selected the sectors with the greatest economic importance and the highest CSR chain risks. It is important to note that all sectors are faced with CSR risks,

including the ones that did not make it to our list of 20 priority sectors. Due to globalisation, virtually all sectors deal with countries – for example through purchases – where the Environmental, Labour, Human Rights and Corruption regulations are less stringent or that have less compliance than the Netherlands. We selected 20 priority sectors in which the chances of being confronted with CSR risks are greater because of imports from risk countries and the use of natural resources. A number of sectors that did not make it to this list even face 'serious' CSR risks, but were not included because of their lower economic importance in the Netherlands. Two examples are the pharmaceutical sector (production of medicines) and mining. The risks these sectors face, however, are included in the overall risk analysis for the other sectors. CSR risks in mining are included in the metal and electronics sector chains. In Annex C you will find a complete overview of the CSR risks identified for each sector.

One sector that was not included in this list of 20 priority sectors deserves a special mention. Since the consultancy agency that carried out this research belongs to a sector, namely legal and advisory services, we decided to retain this sector after step 1 of the study. However, legal and advisory services attained a low score for all chain indicators, and this led to it not being included among the 20 priority sectors. The researchers are aware of the fact that, at the moment, KPMG is under scrutiny in terms of CSR, and that there is an ongoing investigation into possible tax fraud. However, we believe there are no sectoral reasons to change course, and we therefore decided to stick to our initial decision.

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The other sectors that were excluded in this stage are forestry (in the Netherlands), waste processing, leather (with the exception of fashion and clothing), mining (in the Netherlands), machine construction and repair, tobacco, pharmaceuticals, shipping, aviation, automotive, postal services, the printing industry, and water and utilities. For more details on the reasoning behind this exclusion we refer to Annex B.

### 3. Detailed analysis of CSR risks:

In order to further narrow down these 20 sectors to a smaller priority group, we carried out a detailed three-step analysis:

- **Literature review:** to assess to which extent the sector is affected by CSR risks linked to the Environment, Labour, Human Rights and Corruption, and to quantify the risks based on professional judgement. Each of the 20 sectors was assessed through a number of indicators related to the Environment (water, land, energy

and raw materials use), Labour (health and safety, forced labour/child labour and low wages), Human Rights (general, land grabbing) and Corruption. For this analysis we consulted 148 sources, including all relevant sources from the CSR Risk Check website by 'MVO Nederland'.

- **Stakeholder verification:** the scores assigned during the literature review were then verified by external experts and stakeholders who specialise in one of the risk categories assessed, namely the Environment, Labour and Human Rights. As for Corruption, we did not manage to find parties who could confirm our findings (information about corruption is often linked to specific companies and is usually only made public when incidents occur). For each risk category we asked a stakeholder to evaluate the criteria assessed by KPMG ('The Sustainable Trade Initiative' for Environmental risks, 'CNV International' for Labour risks, and 'OxfamNovib' and the University of Amsterdam for Human

Rights risks). Subsequently, we analysed the differences and amended a number of aspects of our initial assessment. In addition to this verification of assessments based on the literature review, we also consulted a large group of 20 stakeholders (including FNV – the Dutch Trade Union Federation, WO=MEN, Cordaid, WSPA, OECD Watch and Friends of the Earth Netherlands), who determined which of the 20 sectors they considered to carry the main CSR risks. We further tweaked our findings based on this consultation.

- **Data and text mining:** in addition to the steps mentioned above we carried out a large data and text mining exercise for the 20 sectors, to find out whether these sectors could be linked to CSR risks. Data and text mining includes extensive online searches (using various search engines) and filtering the obtained information in search of logical links. A search of 15 terms in Dutch and English for each sector revealed Environmental, Labour, Human Rights and Corruption risks for all 20 sectors. The outcome of this process was an overview of 'hits' for each sector and a (relative) distribution of hits per sector across the various risk categories, including the sentiments associated with them (both positive and negative). This gave us an insight into the relevance of the risk categories in the various sectors, according to online sources. The results of this exercise allowed us to confirm links that had also emerged from the literature review, albeit less explicitly. We then proceeded to adjust the risk assessments for a number of sectors. We used a total of 45,263 sources in this process.

This next step of analysis outlined above enabled us to identify the sectors with the highest CSR risks. In consultation with the commissioning body we decided to focus on 13 sectors. The sectors that were excluded in this stage are furniture, automotive retail, temp agencies, transport, fishing and government. The wood and paper sectors were joined together because the CSR risks in the (wood) chain largely overlap. For more details on the reasoning behind the exclusion of these sectors we refer to Annex B. Government obtained an average score in all risk categories, because it is active across the entire economic spectrum. It does, however, exercise sufficient due diligence, partly thanks to its programmes for sustainable purchasing and its Cabinet policy. Consequently, we decided not to include government in our 13 priority sectors.

### 4. Desk research and self-assessments:

Based on the detailed analysis described above, we pinpointed 13 sectors with increased CSR risks. For each of these sectors we identified so-called 'material risks', risks of material importance for humans, the environment or society. In chapter 3.3.2 you will find an explanation of the concept of materiality. We listed 13 to 24 single risks for each sector (in Annex C you will find an overview of the material risks per sector). Subsequently, our desk research team focused on each individual risk by assessing its impact on society, the sector's role in this respect and its approach to the principle of 'responsibility to respect' based on hundreds of sources (in chapter 3.3 we explain the methodology used in this step and in the separate reference book you will find an overview of the sources consulted for each sector). The 13 sectors and numerous stakeholders (NGOs, trade unions and scientists)

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were involved in this stage of the project. Sector representatives were asked to complete a self-assessment in which they had to rate the impact of the CSR risks identified for the sector, the sector's involvement and its approach to the principle of 'responsibility to respect'. A large number of civil society organisations and several scientists were asked to complete a questionnaire assessing the same issues. This allowed us to compare the sector's internal views with those of the civil society organisations.

The sectors participated in this part of the study through sectoral and industry organisations. More than 30 civil society organisations (NGOs, trade unions and scientists) stepped in to assess the risks. Annex D provides an overview of the organisations that took part in the study.

#### 5. Dialogue with priority sectors:

Once the sectors had completed their self-assessments and the civil society organisations had filled out their questionnaires, our desk research findings were complemented and amended where necessary. In order to do so, we first held one-to-one meetings with sector representatives, followed by workshops attended by sector representatives, various civil society organisations and government representatives. During these workshops the findings of the sectors and stakeholders concerning the risks were interpreted and compared. Moreover, the participants discussed what they thought to be the main CSR risks that should be tackled by the sectors in the years to come. As such, the workshops were a first step in the dialogue with the sectors, and they could also be used as the basis for continued dialogue during or

after the summer of 2014. The draft findings for each sector were submitted to the sectors for a reaction. The findings about cross-sectoral risks were formulated in consultation with civil society organisations specialised in the subject.

Twelve sectoral workshops were held. The workshop for the construction sector was cancelled due to a lack of interest from stakeholders. The number of participants varied for each sector, from 3 (wholesale) to 20 (financial sector).

### 3.3 Methodology

#### 3.3.1 Scope

In his work, as described in the UN Guiding Principles on Business and Human Rights<sup>3</sup>, Professor John Ruggie quotes due diligence as a method for analysing risks in corporate chains and processes, and to take appropriate action to prevent or reduce said risks. Although his focus is on Human Rights, the OECD guidelines also define other risks, such as Environmental, Labour and Corruption risks. For this SRA we decided to use the scope of the OECD guidelines as a guiding principle, whilst also applying Ruggie's views to other CSR risk categories. The SRA focuses on the risk categories Environment, Labour, Human Rights and Corruption. We started off by making an inventory of the applicable international principles in each risk category to assess whether, when and to which degree there are risks caused by Dutch business' actions<sup>12</sup>. In the SRA, 'risks' refers to harmful consequences for society due to (the lack of) interventions by Dutch businesses. That being said, the word 'risk'

deserves a more detailed explanation. Theoretically, 'risks' refers to events that may occur in the future, but for the issue tackled in this analysis, it mainly refers to current situations. In a number of other cases, it is unclear whether or not certain activities (such as child labour) occur within the supply chains of sectors. An example: by doing business in or purchasing from certain countries, there could be a higher risk of child labour within the chain. This report mentions risks of current or likely malpractices related to the environment, humans and society. In other words, the SRA focuses also – and mainly – on risks within chains that Dutch sectors are active in. This includes risks posed by (suppliers of) suppliers of Dutch companies. If companies contribute to risks in any way, Ruggie believes they should use their influence to mitigate these risks. In the Netherlands this applies to companies that go beyond what is legally expected of them. At international level, it refers to meeting international standards for Human Rights, Labour conditions and the Environment.

#### 3.3.2 Materiality

One of the targets of this SRA is to identify the main ('material') CSR risks within the high-risk sectors. 'Material' refers to business risks that have a great impact on society. For each of these material risks we needed to assess how the sectors are currently dealing with their 'responsibility to respect'; in other words, how business is acknowledging and limiting these risks. In order to identify the material risks, the researchers carried out a materiality analysis. Through an analysis of reports by leading companies, GRI sectoral documents and desk research, as well as consultation with stakeholders, including NGOs, trade unions and scientists, we identified the main risks for the 13 priority sectors. These risks were presented to the sectors and stakeholders in order to distil the main risks from them.



### 3.3.3 Model for CSR risk comparison

In order to assess the main risks, we used a methodological framework that allowed us to determine the scope of a wide variety of CSR risks as objectively as possible. The possible CSR risks included in the scope of this research are all very different, and have distinct characteristics and consequences for society. This makes it difficult to proceed to a normative comparison and to determine which risks are more important than others. An example: it is not possible to determine clearly whether the risk of child labour in a specific sector is more important than major environmental pollution. Not only do stakeholders not agree on which risk carries greater importance, the different nature of the risks makes it difficult to compare them. Some risks have limited consequences, but affect a great number of people. Any methodology aimed to make a uniform comparison between these risks has its limits and consequently, we had to simplify certain aspects of the study and the risk assessment. Nevertheless, it was necessary to establish a framework for quantitative risk assessment to provide an overview of the large number of risks, to identify and to rank them. The framework illustrated below meets this requirement as much as possible, whilst respecting the differences between the individual risks. As mentioned earlier, the methodological framework for the SRA is based largely on the OECD guidelines and John Ruggie's work. Although the concepts in the UN Guiding Principles on Human Rights have widely been accepted and are very recognisable, they were not drawn up in such a way that they allow for the scope of risks to be measured. Moreover, they cannot be used to determine the companies' responsibility in causing risks. This is even more difficult when it comes to entire sectors. The model presented in the article 'The Arc of Human Rights priorities: A new model for managing business risk'<sup>13</sup>

does offer this possibility. This model was developed by the Danish Institute for Human Rights and allows for (human rights) risks to be prioritised from a business perspective. We merged this method with Ruggie's theory and made it operational, resulting in a framework for the quantification and assessment of risks and the evaluation of companies' approach to the 'responsibility to respect'. KPMG applied this method to the risk categories in scope (Environment, Labour, Human Rights and Corruption). The SRA framework assesses risks based on three factors: impact, involvement and influence, as well as the approach to the 'responsibility to respect' principle. For each risk we analysed its *impact* on society, the companies' responsibility in minimising this risk (*involvement*) and the actions they are currently implementing in this respect (the *approach to 'responsibility to respect'*). Below you will find a definition of the terminology used in this framework:

- **Impact:** concerns the impact of the risk on people and society as a whole. When determining the impact of a given risk, two factors are key:
  - **Scope:** the scope of the risk, which can be measured based on the number of people affected (in terms of Labour, Human Rights and Corruption) or on the extent of the environmental damage caused.
  - **Severity:** the severity of the consequences of the risk. Risks that affect people's physical integrity are assessed as more serious than others. We also assessed to what extent the risk is reversible. An example: in the 'Environment' category, the large-scale destruction of natural habitats (such as felling of rain forests to cultivate soy) is labelled as severe, because it cannot be undone.

- **Involvement and influence:** refers to the possible involvement of companies or sectors in causing risks. According to Ruggie, companies should avoid breaching rights through their business activities and prevent or limit (human rights) breaches linked to their operations, even if they have not directly contributed to them<sup>14</sup>. Involvement is an important factor because it allows us to determine whether or not companies are responsible to take action in order to reduce the impact of the risk. This partly depends on the stage in the product chain where the risk occurs. First of all, companies should determine their involvement in the risks, subsequently they should assess whether they have an influence and finally whether or not they can make use of this influence. According to Ruggie, companies have influence (or 'leverage') when they have the possibility to enforce changes in the activities of the entities causing the damage in question. If companies can play a role in preventing or limiting the consequences of any given risk, they should. If they cannot, there are sometimes way to increase their leverage. In our model for the comparison of CSR risks, a distinction can be made between two types of involvement:
  - **Direct or indirect:** in case of direct involvement, the company/sector is responsible for causing the risks; in case of indirect involvement, the suppliers or other links in the chain are responsible. In the case of indirect involvement, companies still need to take action, but their responsibility here is relative to the influence they can exert.
  - **Individual versus collective:** the difference between individual and collective involvement refers to the degree to which the risk is caused by a number of individual companies in the sector or (virtually) the entire sector.

- **Approach to the 'responsibility to respect' principle:** according to Ruggie, companies are special entities in society and they are obliged to comply with all the applicable laws and respect human rights. This 'responsibility to respect' is an international standard for companies, regardless of the country they operate in, which supersedes national laws and regulations<sup>16</sup>. Companies' approach to the principle of 'responsibility to respect' entails that they do not breach any (human) rights and try to prevent violations linked to their operations, products or services, even if they have not directly contributed to them. In order to assess this, companies are expected to carry out a due diligence process, in which the actual and possible negative impact of their interventions (of lack thereof) is identified, prevented and/or reduced. Moreover, as part of their due diligence they are expected to explain how they deal with the risks identified. In order to assess the identified sectors and their approach to the principle of 'responsibility to respect', we created four profiles with four dimensions (Insights, Results (actions launched), Transparency and Participation):
  - **Insufficient:** this profile presumes that due diligence has not been taken up, neither at sectoral level nor at company level. This means no research was carried out into the risks (Insights), no measures were taken to mitigate the risks (Results), no explanation was given as to how the risks are dealt with (Transparency) and no sectoral initiatives or collaboration agreements with social partners have been set up (Participation).
  - **Defensive:** defensive sectors are deemed to have a limited view of the risks, only take measures to comply with the (local) legal provisions, report minimally on the matter, and limit dialogues

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with the rest of the sector. Supplier codes are not standardised for the entire sector and if they are used, their scope is often limited and/or compliance is not strictly enforced.

- **Sufficient:** sufficient sectors have provided an overview of the material risks, actively take part in risk mitigation, report on the matter and actively collaborate within their sector. An example of a sufficient sector is fashion & clothing. For a number of risks related to Labour and Human Rights, this sector has actively contributed to reducing their impact, e.g. through the Bangladesh agreement and an action plan drafted by industry organisations, which focuses more on audits, among other things. Behaviour that suits this category is the use of (and monitoring of the use of) supplier codes (and preferably asking suppliers to impose regulations in this regard on their own suppliers).

- **Leader:** leading companies have an in-depth view of the risks and their consequences for society. They are committed to eliminating risks in the entire sector and are proponents of full transparency (also with any dilemmas they may face themselves). Moreover, they are involved in sectoral risk-reducing efforts in collaboration with other stakeholders, such as NGOs and trade unions.

By assessing all identified material risks through the criteria detailed above, the impact of a specific risk can be measured against the sector's involvement and approach to due diligence. In other words, this step leads to an overview of the main risks and the sector's response to them. We used this form of analysis to facilitate dialogues with the sectors, civil society organisations and governments during the workshops. Moreover, it provided us with a good foundation for possible dialogue with the sectors upon completion of the SRA. The

most interesting risks to be studied are the risks with a high impact, involvement and influence (leverage) assessment, that yet see little action being taken by the sector (limited approach to the principle of 'responsibility to respect'). These risks will be discussed in the following chapter. It is important to note that the method outlined above is only intended to highlight the main risks within sectors and to offer starting points for possible further dialogue with the sectors. CSR risks are present in every sector, and there are major differences between the approaches taken by companies within one and the same sector. The outcome of this risk analysis is not a ranking of sectors with the highest CSR risks, although some sectors may present more and greater risks than others. The focus, however, remains firmly on the initiatives launched by the sectors to limit the risks encountered and/or caused.

### 3.3.4 Limitations of the study

A research project like ours, that aims to categorise the CSR risks per sector and highlight the main risks, has its limitations. As mentioned previously, stakeholder opinions differ as to which risks are more important, depending on the person's or organisation's viewpoint. Below you will find a list of other limitations encountered in our research:

- **There is no such thing as the 'Dutch sector':** when can a company be considered 'Dutch'? There is no single answer to that question. There are 'foreign' companies with major sites in the Netherlands and 'Dutch' multinationals whose activities are mainly carried out abroad. In this study, 'Dutch companies' are companies headquartered in the Netherlands.
- **Delineation of sectors:** it is difficult to delineate a sector, because we are used to thinking in terms of products and supply chains. An example: a DIY retailer sells a wide variety of products, each with their own, very different production chains. Moreover, sectors can be delineated at different levels and according to different characteristics. In this study we opted to use the Standard Industrial Classification (SBI) by Statistics Netherlands (CBS). One of its disadvantages is that some sectors have a very broad scope. In the agricultural sector there are 18 branches, in wholesale 40. The Dutch metal sector consists of one major player and many smaller metal-processing companies. Consequently, not all material risks identified (for a given sector) apply to all companies in that sector.
- **Hybrid company structures:** this aspect is closely linked to the previous one. Companies are opting increasingly for hybrid structures and are moving away from the traditional sector breakdown. Supermarkets, for example, used to

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be considered retailers, but are now slowly but surely turning into major foodstuff companies. Large horticultural companies import products from various countries, and have their own production sites or participate in foreign companies. Consequently, it is sometimes difficult to work with a traditional view of the different sectors.

- **Risks instead of opportunities:** this research is based on a risk perspective and the negative consequences of companies' interventions (or lack thereof) for the environment, humans and society. Companies are more used to looking at the opportunities that risks offer. An example: the opportunity to develop products with lower CO<sub>2</sub> emissions or requiring less water usage.
- **Differences within sectors:** when it comes to CSR and reducing CSR risks, there are major differences between leading companies, average performers and laggards in any given sector. Moreover, there are major differences in the set-up of supply chains within the sectors. This can sometimes make it difficult to paint a picture of the entire sector. Sometimes the sectors themselves have difficulties in this regard, because of different economies of scale.
- **All sectors are faced with CSR risks:** as mentioned earlier in this chapter, we identified 13 priority sectors based on the CSR risks encountered and their economic relevance. However, it is important to note that this research does not acquit all other sectors. Virtually every sector is faced with CSR risks and has its own 'responsibility to respect'.
- **Benchmarking:** this research can be considered a benchmarking exercise, which successfully carried out a due diligence for Dutch business

in a limited timeframe. In doing so, our desk research focused mainly on making an inventory and analysis of the information available from public sources, as well as the data provided by the sectors and civil society. One limitation of this approach is that not all specific chains of every sector were scrutinised, making their overview partially incomplete at the time of publication.

The factors described above sometimes make it difficult to assess the involvement of a specific sector in certain risks, as well as the initiatives 'the sector' is currently launching to reduce these risks. One consequence of this limitation is that our findings apply to the sector in general, not to individual companies. We chose to assess separate risks, which does not reflect the complexity of the risks caused by the joint actions of various companies (with both good and bad intentions), sometimes vulnerable people and habitats, and the laws of the markets.

A close-up photograph of a person's hand, wearing a light-colored striped shirt, holding a large, tangled pile of wooden toothpicks. The toothpicks are painted with various colors, including green, red, and yellow. The background is a solid, deep blue. The overall composition is dynamic and textured.

**04**

**FINDINGS  
AND ANALYSIS**



- 01 Water and soil pollution in textile production (Bangladesh and China)
- 02 Working conditions in textile production (lack of safety, low wages, excessively long working hours; Bangladesh, China, Turkey etc.)
- 03 Breach of women's rights (textiles, among others: bonded labour/ Sumangali system, Southern India; electronics, China; food production, Indonesia, China and India)
- 04 Land use in vulnerable areas for soy production (Brazil, Argentina)
- 05 Extraction of natural stone (breach of labour rights, forced labour, India and China)
- 06 Greenhouse gas emissions (resulting in melting ice caps on the North and South pole, all sectors are involved)
- 07 Working conditions in the mining sector (child labour, low wages, lack of safety at work, various countries and sectors are involved: metal, construction, oil and gas, and energy)
- 08 Extraction of conflict minerals (Eastern Congo)
- 09 Disappearance of primary forests for the production of palm oil, soil exploitation (Indonesia and Malaysia)
- 10 Water scarcity due to food production (e.g. in Spain, Turkey, India, Ivory Coast, Ghana, Pakistan and United States)
- 11 Working conditions in the manufacturing of non-food consumer products, e.g. electronics and toys (China)
- 12 Air pollution due to energy production, among others (the Netherlands/ Western Europe)

- 13 Unsafe and unhealthy working conditions (various sectors, the Netherlands)
- 14 Depletion of natural resources for future generations in the countries where they are extracted (e.g. oil and gas, mining, metal and construction in various countries including Russia, Colombia, South Africa and Australia)
- 15 Water and soil pollution due to oil leaks; deprivation of the right to a clean and safe living environment (Nigeria)
- 16 Water and soil pollution due to acidification and eutrophication in livestock farming (the Netherlands)
- 17 Impairment of animal welfare related to transport, living environment, slaughtering and breeding (Western Europe)
- 18 Land grabbing related to soy production (Brazil) or mining activities (China, India, Indonesia and Ghana, among other countries)
- 19 Child labour in cotton and textile production (Turkey, Uzbekistan and Bangladesh, among others)
- 20 Water scarcity due to cotton production (India, China, Turkey and Uzbekistan, among others)
- 21 Breach of trade union rights (Colombia, Argentina and China, among others)
- 22 Disappearance of primary forests due to felling (Cameroon, Gabon and Indonesia)
- 23 Flower cultivation (breach of trade union rights and women's rights, Kenya and Ethiopia)
- 24 Child labour in food production (e.g. cocoa in Western Africa)
- 25 Working conditions in construction (e.g. in the construction of football stadiums, Middle East/Qatar)



### 4.1 Risks in all 13 sectors

Virtually all sectors are faced with material CSR risks across the world. This overview shows 25 risk 'hotspots', i.e. places all over the world confronted with major Environmental, Labour and Human Rights risks. A hotspot can be home to various (sub)risks and cover more than one country. The overview illustrates the places where the risks for Dutch business occur. This type of overview can never be complete, as

there are far more locations faced with material CSR risks than those shown. What is more, many risks occur in virtually all countries. These risks have not been included on this map. Given the international nature of their chains, the priority sectors also face risks linked to Corruption and Tax Evasion. Since these risks occur in all sectors and across the globe, they have also been excluded from this overview.

For more CSR risks have a look at MVO Nederland's CSR Risk Check website. [www.mvorisicochecker.nl/nl/wereldkaart](http://www.mvorisicochecker.nl/nl/wereldkaart)

The overview shows that risks are plentiful all over the world. They are widely spread across sectors partly because of the prominence of chain risks in this study. This becomes evident when we look at the sectors' presence in risk countries, as described in stage 2 of our research (see chapter 4.3). Virtually all sectors have links with countries that, according to various *indexes* (such as the Human Rights Risk Atlas and the Corruption Perception Index), are qualified as 'risk countries'. These links arise from product imports, local sites or direct investments.

Many suppliers of raw materials and end products are based abroad. Although the Netherlands has always been dependent on other countries for raw materials, in the last few decades many production sites have relocated abroad for economic reasons. An example is textiles production, which used to be a major industry in the Netherlands. Many countries that act as important suppliers of raw materials and/or products to the Netherlands do not comply strictly with fundamental rights in the field of Environment, Labour and Human Rights.

An example is the labour-intensive production of agricultural raw materials (such as cotton) and foods (cocoa and sugar, among others). The same goes for raw materials sourced through mining, such as coal. Labourers often have limited rights in terms of work safety and working conditions, as well as joining and forming trade unions, or their rights are not fully respected. Vulnerable groups, including women and children, are those most at risk. In chapter 4.2 you will find a detailed explanation of these - often cross-sectoral - risks, which are becoming increasingly common.

Raw materials production also requires extensive land use, e.g. the production of agricultural raw materials, such as coffee, palm oil, soy and sugar,

but also raw materials such as metals, natural stone, oil and gas. This often results in environmental problems, such as the destruction of (primary) forests due to felling (Cameroon), soy cultivation (Brazil, Argentina) and palm oil (Malaysia, Indonesia), or water scarcity due to irrigation (e.g. for cotton production) or mining (e.g. shale gas). Moreover, the demand for land gives rise to conflicts with the local population and the expansion of mining activities (oil and gas, coal, natural stone etc.) also pushes inhabitants out of their original living environment, which results in major social issues (see chapter 4.2 for a description of this issue).

The world map illustrates the risks based on their impact and involvement assessment. In other words, we only looked at the scope of each risk, not at the efforts undertaken by the sector to limit these risks. However, it must be said that many sectors are doing their best to limit the risks discussed (for more details on their efforts go to chapter 4.3 about the 'responsibility to respect' principle). The world map on the previous pages also shows the risks are widely spread across the various risk categories, namely the Environment, Labour and Human Rights. Certain risks apply to more than one sector. Here you will find a brief description of a number of these risks:



ENVIRONMENT

- Greenhouse gas emissions/air pollution (all priority sectors)
- Water and soil pollution (chemicals industry, metal, agriculture and horticulture, oil and gas, among others)
- Water scarcity (textiles and clothing, Food and beverage industry, agriculture and horticulture, and others)



LABOUR

- Unhealthy and unsafe working conditions (all priority sectors)
- Child labour (including electronics, textiles and clothing, food and beverage)
- Breach of women's rights (electronics, metal, textiles and clothing, food and beverage, agriculture and horticulture, and others)



HUMAN RIGHTS

- Land grabbing (chemicals industry, wood and paper, Food and beverage industry, and others)
- Deprivation of (the right to) a clean, safe and healthy living environment (construction, metal, oil and gas, among others)
- Depletion of natural resources (energy, oil and gas, among others)



The management of a number of risks is not limited to the implementation of Corporate Social Responsibility (CSR) activities. The reduction of greenhouse gas emissions and the prevention of air pollution, for example, are subject to legal requirements, which often differ between countries. In some countries risk management may be a legal requirement, while in others it may be non-statutory. In the case of labour risks, for example, the right to free association and collective bargaining may be anchored in national law in different ways. In this SRA we are therefore including risks that for some companies in a specific sector and/or country (also) have a legal basis. Moreover, the initiatives to manage the risks may also go beyond what is legally required. A particular risk in this regard is the emission of greenhouse gases and its impact on climate change. In this field, the largest companies in most sectors must comply with the EU Emissions Trading System (ETS) and its requirements for individual companies (have a look at the Energy sector analysis for more information).

## 4.2 Cross-sectoral risks

The analysis carried out in the framework of this SRA focused mainly on the risks in individual sectors. However, during the risk analysis, it became clear that a number of these risks affect (virtually) all sectors and consequently call for a cross-sectoral solution, possibly in addition to the sectors' own approach. The cross-sectoral risks can be subdivided into two types:

- A. Risks that have been caused by different sectors jointly. They require not only a sector-wide approach, but also a solution of greater scope.
- B. Risks that are country-specific, e.g. caused by a lack of protection of and compliance with fundamental employment laws, which affect several sectors operating in the country in

question. These risks also call for a solution involving more than one sector at once. Due to their country-specific character, the solution for these risks also benefits from active government (i.e. political) participation.

In a nutshell, cross-sectoral risks cannot be tackled within the sectors themselves. They differ from risks that do apply to more than one sector but can be solved within the sectors themselves, such as the risk of child labour in the production of various products. That is something companies can in principle control by monitoring their suppliers. Needless to say, it is extremely difficult in certain countries, because of multiple breaches of human rights and non-compliant working conditions. We opted to include the breach of employment and human rights in this study as a cross-sectoral risk for specific countries.

The following cross-sectoral risks emerged during our research: (1) Nexus between land, biodiversity and food, (2) risks concerning mining activities, (3) breach of employment and human rights in China, Bangladesh, India etc., (4) breach of trade union rights and (5) breach of women's rights.

### 1. Link between land use, biodiversity and food

The extensive use of land for the production of agricultural raw materials to be exported across the globe (including to the Netherlands) is, to some extent, controlled by a limited number of major players<sup>18</sup>. This leads to disruptions of the local food provision, affects ecological values, eco-system services and land use, and breaches the (land) rights of local populations, particularly women<sup>17</sup>, across the globe.

This risk occurs both within a given sector (such as the food and beverage industry, where interlinked risks occur in the cultivation and export of 'cash crops' like palm oil) and across several sectors. The Port of Rotterdam in the Netherlands plays an important role in the transit, production, processing and refining of some of the raw materials concerned. The effects of this risk differ and are mainly influenced by the continued increase of the world population and prosperity, which result in a growing demand for:

- biofuels (e.g. soy, sugar cane, palm oil and jatropha)
- co-firing with biomass (e.g. wood pallets and palm oil)
- bioplastics (e.g. maize and sugar cane)
- eggs, dairy, meat and fish (e.g. soy)
- other foods (e.g. palm oil and soy)
- cosmetics (e.g. palm oil)

The rise in the demand of these products is also caused by an inefficient use of raw materials and (political) choices with regard to the combination of fuels used and the accompanying subsidy and taxation policy.

These raw materials do not only carry risks, they also provide benefits. Biofuels, bioplastics and other bio-based solutions can contribute to the reduction of CO<sub>2</sub> emissions, although this is not always the case, as revealed by the latest IPCC<sup>19</sup> and UNCTAD<sup>20</sup> reports. The EU recently banned palm oil and soy as biofuels. Several NGOs also have a very critical view of biofuels<sup>21</sup>.

Palm oil and soy, however, are unique in that they offer a very high yield per hectare, for use in food production among other things. Alternative raw materials for the same use often require much more land, making them even more harmful to both the local populations and the environment. In short, there are difficult dilemmas to manage<sup>22</sup>.

The risks discussed above are caused by (a lack of) interventions by a large number of parties in the countries of origin and in the importing countries, which include the Netherlands. Of all the sectors studied in the SRA, these risks mainly affect the following:

- agriculture (due to the need for animal feed)
- food and beverage industry (animal feed, ingredients)
- energy (co-firing with biomass)
- chemicals industry (bio-based)
- oil and gas (biofuels as part of the fuel mix)
- finance (financing of companies active in the sectors concerned)
- retail (food and non-food)

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Since the effects of many of these risks occur mainly in the context of the transformation of land, outside the plantation and indirectly (water systems and migration patterns are affected, new infrastructure is built, local foods become more expensive etc.), a more sustainable or responsible approach to the cultivation of the raw material in question is only part of the solution. The International Finance Corporation (IFC) drafted comprehensive guidelines on the management of environmental and social risks in agricultural supply chains, with a focus on 'good governance' on-site<sup>23</sup>.

Sustainable soy cultivation through collaboration with small-scale producers or the certification of plantations, for example, can be an effective solution. However, it requires participation from the entire production chain<sup>24</sup>, because small price differences can have a major impact on the distribution of supply and demand. Another partial solution is boosting the productivity of small farmers<sup>25</sup>. In India soy is cultivated by about six million small farmers. By increasing their productivity, the expansion of soy-producing areas by some 4 million hectares by 2020 can, in theory, be prevented<sup>26</sup>.

Dutch companies can contribute to tackling these risks, both individually and as part of sector-driven initiatives. However, they operate on a complex global market<sup>27</sup>. An effective approach only seems feasible in combination with the measures taken by individual companies and sectors, through an international cross-sectoral approach with participation of the governments in the countries of origin and in the importing countries<sup>28</sup>. The involvement in this complex issue and the possibilities to contribute to reducing these risks vary from one sector to the next.

## 2. Risks linked to mining

The chains of various sectors include mining activities, which, in many cases, have negative consequences for people (working conditions, land grabbing and the deprivation of the right to a safe living environment) and the environment (pollution, a loss of biodiversity, deforestation, water scarcity and particulate matter). Mining can refer to the extraction of raw materials, such as coal, oil and (shale) gas, (precious) metals and construction materials (cement, natural stone), and the production of artificial fertilisers (phosphates). Various sectors are involved, including the agricultural and horticultural sectors, metal,

electronics, construction, energy, oil and gas. Here too, the problem affects more than one sector and cannot be solved by the Netherlands alone.

An example is tin mining on the Indonesian island of Bangka, which is plagued by major environmental pollution and human rights breaches<sup>29</sup>. It is a major problem, yet it is not easy to pinpoint who is responsible for it. Metals like tin, which can be found in consumer electronics, such as mobile phones, among other things, have a lot of applications and are used in many sectors across the globe. Here too cross-sectoral solutions are a must, and they require the participation of various players, including the government. A similar situation applies to the extraction of the raw material for aluminium (bauxite), to be used in transport applications (cars, trucks, buses, trains and planes), in construction (roof, wall, window and door coverings), packaging (cans, foil and cardboard) and high-tech electronics<sup>30</sup>.

Yet another example is the extraction of raw materials causing conflicts<sup>31</sup> (e.g. in Congo) or mining that results in local conflicts (with employees or local populations), such as platinum mining in South Africa (Lonmin Platinum). The Netherlands is highly dependent on metals from conflict regions, where it is involved at various levels, i.e. in the processing of raw materials into half-finished products, as a producer of end products and as a consumer. This does not only affect the metal and electronics sectors. Currently, both the market and the EU are taking initiatives to guarantee supplies and reduce the number of components originating from conflict regions. Since conflicts make the delivery of metals unpredictable, the Dutch government is trying to take steps to guarantee their delivery through the raw materials initiative and the Dutch raw

materials initiative. Moreover, the EU is drafting a Directive on raw materials from conflict regions.

That being said, the current initiatives have so far not succeeded in bringing about any changes in the scope and severity of the problems in conflict/mining regions. This issue requires a tougher and joint stance by all the market players, governments, civil society organisations and local communities.

## 3. Breach of employment and human rights in high-risk countries

Various high-risk countries<sup>32</sup>, such as China, India, Pakistan and Bangladesh, are responsible for major breaches of Employment and Human Rights regulations, which Dutch sectors are often confronted with. Due to subcontracting to low-wage countries, many production processes of Dutch sectors have moved to these countries, which has resulted in the 'import' of a number of associated risks. The chapters dedicated to the sectors show the main import countries for specific raw materials and products in a number of sectors. China represents the biggest chunk in virtually all high-risk manufacturing sectors, with a share that often equals 10 to 25% of the direct import value.

An example of Employment and Human Rights breaches in the electronics sector is that electronics factories in China often fail to comply with labour standards, resulting in long working hours, low salaries, exposure to toxic chemicals, forced overtime and abuse of vulnerable minority groups, such as migrants. There are several ongoing initiatives in the sector to tackle these issues, (such as the EICC, the Electronics Industry Citizenship Coalition<sup>33</sup>), but it remains difficult to obtain results without involving (the Dutch and

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local) governments and other sectors. That allows for stricter compliance of laws and monitoring of the protection of fundamental rights.

#### 4. Breach of trade union rights

The right to free association and collective bargaining, including the right to collective action, are laid down in the Universal Declaration of Human Rights and confirmed by other treaties, such as the ILO conventions and the OECD guidelines. The right to free association (i.e. the right to join a trade union) is one of the fundamental rights in the international Labour and Human Rights frameworks. Trade union rights also 'open doors to solving other labour risks'. If workers are not allowed to join forces, they cannot take a stand against their employers and the bad working conditions in certain countries and sectors, including low wages, temporary contracts and systematic overtime. Some countries' governments do not safeguard trade union rights. In certain cases, the legislation is in place, but it is not enforced. Moreover, certain countries and sectors systematically only offer temporary contracts, effectively undermining the right to free association. Free and independent trade unions can only exist where there is no violence, oppression, fear and threatening behaviour. In countries where trade unions members are met with violence, fewer people tend to join, making it impossible for the trade unions in question to protect the employees' interests. Violence against trade union members is common in more than twenty countries. The countries at risk include China, Guatemala, Zimbabwe, Belarus and Colombia. In Guatemala 53 trade union members have been killed in the past six years and only 1.6% of all workers have joined a trade union. In Colombia eighteen trade union members were killed in 2012 and 2013<sup>34</sup>.

Companies and sectors should fulfil their 'responsibility to respect'. They should allow free trade unions to hold dialogues and promote participation. Nevertheless, part of the solution lies with the governments of the countries in question. Solid agreements with these countries and the introduction of adequate regulations must be pushed and strengthened continuously. A major role for both the Dutch and the local government is key and should be demanded in the framework of the governments' duty to protect. Unlike the sector-driven views of Dutch business, international trade unions often see matters from a different point of view, e.g. on an international level or as part of a production chain. In our descriptions of each sector, we acknowledge the breach of trade union rights in various sectors, such as the chemicals industry, metal, oil and gas, textiles, Food and beverage industry, and agriculture and horticulture.

#### 5. Breach of women's rights

Women's rights and gender equality are a necessary condition in the fight against poverty, the promotion of sustainable development, a dignified job and social cohesion. The risks related to women's rights are acknowledged in various sectors (see the next chapter), but this does not do justice to the complexity of the gender issue. In addition to the risks for women's rights explicitly identified for each sector, women are often also the victims of other risks described in the categories Environment, Labour and Human Rights<sup>35</sup>.

##### *Employment rights and the informal sector*

Women often carry out a large share of the work at the bottom of the production chain, e.g. in the cultivation of raw materials for the food

industry<sup>36</sup>. They are paid low wages and work in bad conditions. One of the main risks women are faced with is the fact that they often work in the informal sector, which results in malpractices falling under the radar of human rights reporters. Given their socially and culturally disadvantaged position and their responsibility in taking care of the children and the household, they are in an unfavourable position when it comes to negotiating, and they are often scared to lose their job<sup>35</sup>. This makes women vulnerable and an easy target for exploitation and sexual intimidation. Moreover, women are hardly represented in trade unions. In practice, in a context with male managers, the risks of exploitation, rape and physical and verbal abuse are higher, for example in the metal mining sector<sup>37</sup>. Women are, for example, overrepresented in the cotton, textiles and clothing industry. They generally earn less than their male colleagues who carry out the same work and are faced with verbal, physical and sexual intimidation<sup>38</sup>. In certain countries women are forced to do a pregnancy test when they start employment.

##### *Human rights risks*

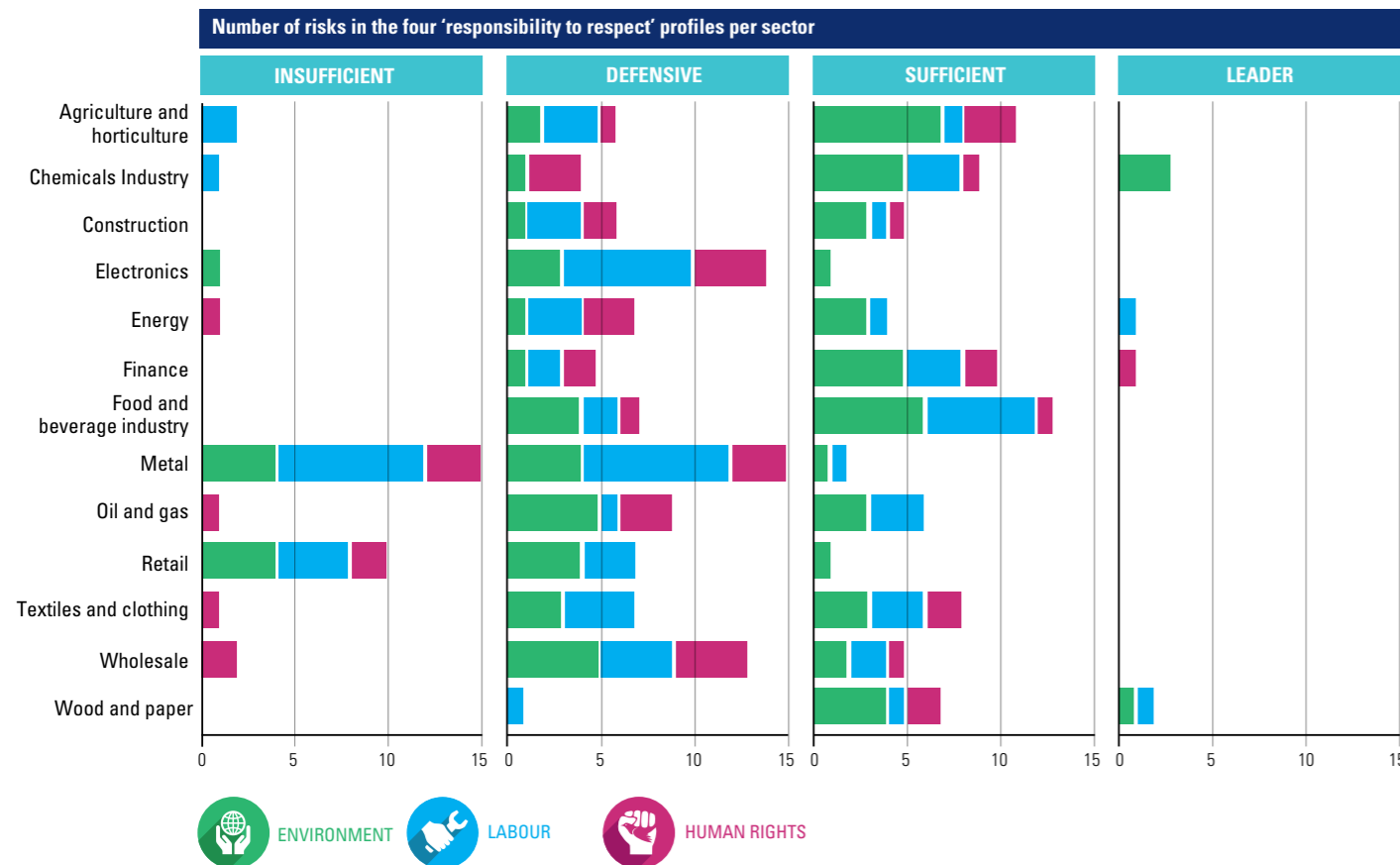
Women are often the victims of environmental risks, e.g. land degradation, because they need to make a greater effort to secure water and food<sup>39</sup>. This puts additional pressure on their – often double – workload, threatening the food security of entire families and communities. This does not only imply a lack of water and food on the local market due to water scarcity, among others, but also the pollution of the available water sources and soil, poisoning crops. Due to their social role, this issue affects women more than men. Land grabbing often also affects women the most, because any compensation

(in the form of payment or land) that the local populations receive usually goes to men, who are considered the main breadwinners.

An example: India is known for the mass exploitation of young women in the textiles and clothing sector under the Sumangali system. Women are given three-year contracts and paid extremely low wages. They are expected to work long hours in unhealthy conditions. A large part of their salary is only paid upon expiry of their contract, on condition that they reach the term. The female workers live in or near the factories in closed complexes, and have hardly any contact with the outside world<sup>40</sup>.

The risk of malpractices related to women's rights is linked to deeply rooted standards and values in society and call for a specific, explicit approach, and for cross-sectoral policy interventions.

Figure 4.1 / 'Responsibility to respect' profiles per sector



### 4.3 Responsibility to respect

For all severe and very severe risks, KPMG evaluated the approach to the principle of 'responsibility to respect' based on four dimensions (Insights, Results, Transparency and Participation) using public sources as a reference. The sectors' approaches were assessed on a scale from 0 to 3 (0 – Insufficient, 1 – Defensive, 2 – Sufficient and 3 – Leader). In the graph above, the average values are as follows: Insufficient (0-0.75), Defensive (0.75-1.75), Sufficient (1.75-2.5) and Leader (2.5-3.0). At the same time, we assessed the 'responsibility to respect' of the sectoral organisations through a self-assessment and consultation with stakeholders (see chapter 3.2 and 3.3). In doing so, we took account of the diversity

within the sector as much as possible. This also explains why there is only a limited number of risks at sectoral level ranked as 'Leaders'. In all sectors there are Leaders for (almost) all risks, but usually there are also companies for which less information is available or which are lagging behind in risk management.

The X-axis in the graph shows the number of risks. An example: there is one risk for the chemicals industry sector for which the approach to the 'responsibility to respect' can be classified as 'Insufficient', four risks which were assessed as 'Defensive', nine risks for which the sector is 'Sufficient' and three risks for which it is a 'Leader'. Virtually all sectors have more than five risks in the categories 'Insufficient' and 'Defensive' put

together. Further analysis of the graph shows that the majority of material risks fall under the categories 'Defensive' and 'Sufficient'. Several sectors are 'Leaders' in the management of specific risks. However, in all sectors there is scope for improvement. Most sectors are faced with a variety of risks that require a more targeted approach to the 'responsibility to respect'. The graph also shows that the risks for all profiles are spread across the three risk categories (the Environment, Labour and Human Rights). Finally, the graph reveals in which risk categories the sector is already performing well and where there is scope for improvement.

In chapter 6 you will find a detailed overview of the main risks for each sector where the due diligence process needs to be strengthened further. Moreover, you will find explanations of several risks and the sector's approach to the principle of 'responsibility to respect' in that regard. Finally, we also list best practices and considerations for dialogue.

### 4.4. Corruption

Corruption risks were an integral part of the study, yet this category is somewhat different from the other risk categories – the Environment, Labour and Human Rights – because it is difficult to link corruption risks to specific sectors. Individual companies have been called into question for corruption, but these need not be a reference for the entire sector. Moreover, it is highly likely that corruption also occurs in companies that have not revealed any information on the matter, making it difficult to carry out an objective analysis. Reliable data on the subject and its scope is, in many cases, not available. Nevertheless, information is available on the corruption risk at country level, e.g. through the 'Corruption Perception Index' by Transparency International. This index is used in

the analysis of chain risks and the identification of priority sectors, and as such, corruption is taken into account in the selection of priority sectors. We analysed whether or not forms of corruption occur in the priority sectors. Our analysis was mainly focused on countries other than the Netherlands, where there are laws and regulations on the matter, and CSR comes in where legal coverage ends. There are various forms of corruption, each with a different extent. In our analysis we did not look at individual cases of fraud within companies, but rather at transactions in the chain involving various parties, with a major negative impact on society. We analysed, among others, the following (sector-specific) risks:

- **Corruption and bribery (of officials to obtain land rights, for example):** this occurs in the production of agricultural raw materials, among others. Our findings: international research by Transparency International shows that 10 to 20% of respondents pay bribes to the government to obtain land. In Brazil and Indonesia large areas of rainforest are regularly sold for the production of soy and palm oil, among others. The local population often has little say in the decisions taken and in extreme cases, people are forced out of their homes.
- **Sham arrangements in the recruitment of foreign employees (e.g. to avoid having to apply for the obligatory work permit):** the agricultural and horticultural sectors in the Netherlands are at high risk of labour market fraud. They have a relatively high number of foreign seasonal and temporary workers, because the amount of work depends on the season. This increases the risk of low wages, illegal employment, bad working conditions and fraud. An analysis carried out by the labour inspectorate in 2012 shows that 15% of all inspections<sup>41</sup> revealed violations.

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- **Irregularities for certified products:** this risk is best documented for tropical (hard)wood<sup>42</sup>, but also occurs with other types of wood, textiles, agricultural raw materials, fruit and vegetables<sup>43</sup>. Given its nature, the risk in these sectors is not well documented, making it impossible to determine its size and link with Dutch sectors.

These risks were discussed with several NGOs, which expressed their concern on the subject. The data and text mining exercise for the selection of sectors (see chapter 3.2) also revealed several cases. The risks in question are recognised by the sectors, but it proved impossible to assess the impact and involvement of entire sectors.

## 4.5 Taxation

The OECD guidelines<sup>44</sup> state the following about taxation: *“It is important that enterprises contribute to the public finances of host countries by making timely payment of their tax liabilities. In particular, enterprises should comply with both the letter and spirit of the tax laws and regulations of the countries in which they operate. Complying with the spirit of the law means discerning and following the intention of the legislature. It does not require an enterprise to make payment in excess of the amount legally required pursuant to such an interpretation.”*

Tax evasion and the optimisation of tax obligations through financial arrangements like ‘mailbox companies’ are increasingly seen as CSR risks by society. Corporate tax planning per se is not illegal, but it can result in lower tax payments than those envisaged by the taxation regulations in the country where the multinational has a branch. This could be the result of differing taxation regulations

between countries (for more information, we refer to the OECD Action Plan on Base Erosion and Profit Shifting<sup>45</sup>) and vulnerable taxation services in the countries in question. The subject has come to the attention of the House of Representatives and the Cabinet. The Cabinet reacted as follows to the SEO report (titled ‘Uit de schaduw van het bankwezen’<sup>47</sup>, translated as ‘Out of the shadows of the banking sector’): *“The Netherlands should take a critical look at itself. In some cases, the question may arise whether it is in line with the Dutch regulations and the intentions of the countries the Netherlands has signed treaties with, that link companies based in the Netherlands use the Dutch treaty network. The Cabinet is aware of the criticism on the role of Dutch link companies in international groups and the major money streams involving Dutch special financial institutions.”* In that same letter, the Cabinet promises to take measures to counter tax evasion, particularly in cases that have a negative impact on third-world countries. At EU level, initiatives are also under development to counter tax evasion by international businesses. The main target is to boost transparency. The OECD is also actively developing an international taxation standards framework. The plan launched on 19 July 2013<sup>31</sup> contains actions aimed at preventing the undermining of the tax base and shifting of profits. The OECD is looking to include anti-abuse provisions in its model treaty, as well as recommendations for the introduction of anti-abuse measures in national legislation.

Tax evasion is a hot topic, and a complex one too. Consequently, the sectors cannot be assessed on their risk of tax evasion. When we take a closer look at this topic, it becomes clear that tax evasion can take several forms, such as Transfer Pricing (internal price setting for products within companies), underpayment of tax in countries where (Dutch)

companies are operational, and foreign multinationals setting up ‘mailbox companies’ in the Netherlands. Mailbox companies or special financial institutions are companies set up specifically to tap into the advantageous tax regime in the Netherlands, without having any substantial economic activities, and often even without employees<sup>48</sup>. The SEO report<sup>33</sup> states that there are 12,000 special financial institutions in the Netherlands, which jointly generate a turnover of 2,890 billion euro.

As mentioned earlier, tax evasion is a hot topic in the world of CSR. Yet there is currently no internationally recognised framework for the assessment of CSR risks linked to taxation. Moreover, just like corruption, which was discussed in the previous chapter, it is difficult to link tax evasion to specific sectors, because it is individual companies from very diverse sectors that are called into question, not sectors. Moreover, the lack of transparency in the annual reports published by companies also makes it difficult to carry out a reliable analysis. In a nutshell, due to a lack of available data we cannot make any claims at sectoral level.

Given the reasons outlined above, we decided not to analyse taxation as a separate topic, but to include this risk in the sectors’ self-assessments and in the questionnaires for civil society organisations. The self-assessments included the following risk:

Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax in some of the countries where it is active on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.

The evaluations of the risk described above are very diverse. NGOs (in all sectors) assess the risk as ‘high’. The sectors seem to consider it a tricky subject and are often unaware of the taxation risk their sector poses, unlike all other risks, which the sector’s representatives manage to easily assess.

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05

**CONSIDERATIONS  
FOR DIALOGUE  
PER SECTOR**



# AGRICULTURE AND HORTICULTURE



## 1.8 million tonnes of soy per year: 95% of the total Dutch consumption

The Dutch agricultural and horticultural sector has a turnover of 26.5 billion euro a year and comprises more than 67,000 companies, that jointly employ 160,500 annual work units (these figures refer to the main producers, not the total agricultural sector)<sup>285</sup>. After the United States, the Netherlands is the main exporter of agricultural products worldwide<sup>286</sup>. The sector represents a wide variety of companies, that can be subdivided into arable farmers, horticultural companies, grazing and caged livestock, and mixed companies. The umbrella organisation for the sector is LTO Nederland (the federation of agriculture and horticulture). The Dutch agricultural and horticultural sector is mainly active in the Netherlands and makes great efforts to reduce the CSR links related to Dutch production activities. The sector also plays a strategic role in making international chains more sustainable, particularly due to the high imports of soy for animal feed and the cultivation of flowers abroad. An example: the Dutch agricultural and horticultural sector uses 1.8 million tonnes of soy a year, which equals 95% of the total soy consumption in the Netherlands<sup>287</sup>.

In this SRA, foreign agricultural and horticultural companies whose products are exported to the Netherlands are not included in the Dutch agricultural and horticultural cluster, but they are included in the chain of the Dutch food industry if their products are processed into foods by Dutch companies. Consequently, this chapter does not focus on the international agricultural and horticultural sector, but rather on the Dutch sector and its supply chain.

## Dutch environmental issues and their links with labour and international risks

Both the sector and the government focus strongly on CSR risks in the Netherlands, particularly on environmental risks, such as greenhouse gas emissions, water and soil pollution, and the spatial aspects of agriculture, i.e. its contribution to the landscape (spatial planning, contribution to natural development, prevention of odour nuisance) and animal welfare. This has resulted in the launch of numerous initiatives and covenants to reduce environmental risks in the Netherlands<sup>288,289</sup>. Two examples are the 'Sustainable dairy production chain' initiative and the 'Covenant for clean and energy-efficient agricultural sectors' (see box 1). In the past few years, labour risks have also received more attention, such as safety and labour market fraud, including the associated 'good employment practices'<sup>290</sup>. The sector is also responsible for several international CSR risks linked to the import of protein sources for animal feed – such as soy – from abroad, as well as the import of flowers, phosphates and potting soil.

Striking in the sector's approach to the 'responsibility to respect' is the fact that:

- There is an increased risk of bad working conditions in the cultivation of mushrooms and asparagus in the Netherlands. The sector claims a lot of efforts are made to solve this problem, e.g. through active collaboration with temporary employment agencies and membership in the 'Fair Produce Foundation', where employers and employees join forces to prevent labour-related malpractices in the cultivation and trade of mushroom and other fruits and vegetables<sup>291,292</sup>. Stakeholders feel this is still a serious issue. Moreover, last year stakeholders

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received hundreds of complaints on bad working conditions in the cultivation of mushrooms and asparagus. Some of these complaints also involved certified temporary employment agencies<sup>293,294</sup>;

- Phosphate and nitrogen leaching are high on the sector's agenda in its efforts to keep ground and surface water clean. Moreover, the sector is working to reduce the amounts of phosphates required in order to boost efficiency and counter the risk of depletion of natural resources (security of supply). Local CSR issues linked to the extraction of phosphates are less explicitly highlighted<sup>295</sup>;
- The sector states that there are a few hundred Dutch companies that cultivate flowers abroad, more specifically in Eastern African countries, such as Kenya and Ethiopia, which generally poses an increased risk of bad working conditions<sup>296,297,298</sup>. There is currently no sectoral policy to limit this risk, but during the workshop it turned out that both the sector and the stakeholders feel individual Dutch flower producers abroad respect the rules to a more than average extent and adopt a pioneering role in ICSR (International Corporate Social Responsibility) in the sector<sup>299</sup>. Nevertheless, CSR risks in these countries, such as breaching of women's rights, low wages and long working hours, remain an important point of attention, also for Dutch companies that operate there;

- Large amounts of protein sources – soy and other agricultural raw materials – are imported for the production of animal feed. The sector aims to reduce risks linked to soy production by purchasing exclusively certified sustainable soy from 2015 onwards. However, there are no clear strategies for the other protein sources yet;
- In the past few years, animal welfare has constantly improved, partly thanks to the many initiatives launched by the sector (see box 1)<sup>300</sup>. Nevertheless, there are still concerns on animal welfare<sup>301,302,303</sup>.
- The Netherlands (and several other countries in North-Western Europe) have made a commitment to promote sustainable soy which is unique in its kind all over the world<sup>304</sup>. However, the use of this product certification to limit (international) CSR risks results in a high dependence on the quality of the RTRS criteria and audits, and individual companies are forced to meet these obligations. What is more, there are strong doubts about whether it is possible for the sector to only purchase sustainable soy from 2015 onwards<sup>305</sup>.

## BOX 1: EXAMPLES OF SECTORAL INITIATIVES TO REDUCE CSR RISKS

Sustainability takes centre stage in the agricultural and horticultural sector. Below you will find a few examples of sectoral initiatives to reduce CSR risks<sup>306,307,308</sup>:

- The 'Covenant for clean and energy-efficient agricultural sectors': targets to reduce energy usage and emissions, and for the production of sustainable energy;
- Stigas: knowledge centre of the agricultural and horticultural sector which promotes safer and healthier working conditions, e.g. through information provision, risk inventories and assistance in the prevention of illness and incapacity;
- Fair Produce: label for the entire chain that guarantees a socially responsible staff management policy, specifically aimed at improving working conditions in mushroom cultivation;
- SNA (Labour Standards Register): LTO Nederland has joined SNA, which consists of collaboration agreements to prevent malpractices in the temporary employment sector;
- 'Mineral Management Masterplan': aimed at emission-free arable farming by 2030;
- 'Sustainable dairy production chain': see box 3;
- 'Voerspoor' (tracking of animal feed): aimed at reducing the use of phosphates;
- 'Den Bosch covenant': collaboration between meat-producing parties to make livestock farming more sustainable and to transform it into a 'carefully intensive' sector;
- 'Pork production chain platform': innovation and sustainability in the pork production chain;
- 'Noordwijk declaration': aims at bringing piglet castration to a halt by 2015, with the use of anaesthetics in castration as an intermediate solution;
- 'The chicken of tomorrow': promotion of more sustainability in the chicken production chain;
- A more professional approach to quality systems: e.g. through the application of Global Cap certification. Environmental issues, animal welfare and working conditions take centre stage, among other things.

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**Box 2: Examples of CSR risks and approach to the principle of 'responsibility to respect'**

**TYPE OF RISK      IMPACT      RESPONSIBILITY TO RESPECT**



**Environment**

Water and soil pollution due to acidification and eutrophication (livestock farming)

Eutrophication is caused by emissions of ammonia and nitrogen oxides. These same substances combined with sulphur dioxide cause acidification. A few key figures:

- **90%** of Dutch ammonia emissions are caused by the agricultural and horticultural sector (namely livestock pens, use of livestock manure and fertilisers, grazing and manure storage<sup>309</sup>).
- **60%** of the national environmental issues caused by nitrogen and phosphorus are the result of leaching and run-off from agricultural land and nature plots (2011)<sup>310</sup>.

Since 1990, the ammonia emissions of the agricultural sector have reduced by **68%** thanks to emission-free fertilising. The decrease since 2007 is the result of spreading regulations, the adaptation of livestock pens, emission-free animal housing and lower nitrogen levels in cattle feed<sup>311</sup>. In 2014, the sector signed the covenant 'Measures programme for nitrogen management' with the government, as part of which the sector commits to reducing the net ammonia emissions by at least **10 kt** by 2030 compared to 2013<sup>312</sup>.

**TYPE OF RISK      IMPACT      RESPONSIBILITY TO RESPECT**



**Labour**

Breach of women's rights (e.g. right to equal pay in the cultivation of flowers abroad)

**Economic importance:**

- With its yearly imports of more than **800 million** euro, the Netherlands is one of the main importers of flowers worldwide.
- The Dutch wholesale sector is involved in **60%** of the international flower trade<sup>313</sup>.
- **41%** of the flowers imported come from Kenya.

**Women's rights**

- It is estimated that the flower sector in Kenya employs about 100,000 people, most of them women<sup>314</sup>.
- In Kenya women are expected to work an average of **12.9 hours** a day, while men work on average **8.2 hours** a day.
- These extra hours are often unpaid, resulting in lower hourly wages for women<sup>315</sup>.
- The wages that women make are higher than the minimum wage, but in practice they are often lower than a living wage<sup>316</sup>
- Sexual intimidation of women occurs in **50%** of companies in the Kenyan flower sector.

- The Dutch flower sector developed the MPS (More Profitable Sustainability) certification, a label that is now used in over **55** countries, including Kenya. The MPS label sets requirements for sustainable flower cultivation. In the past few years, MPS and other labels have resulted in better conditions for maternity leave, childcare and treatment, and sexual intimidation in Kenya. However, research shows that breaches of women's rights still occur there, specifically in non-certified companies<sup>317,318</sup>. Consequently, these topics remain points of attention with scope for improvement.
- Dutch flower producers abroad are considered to be leaders in ICSR<sup>319,320</sup>. CSR risks abroad can also be influenced through the purchase of flowers<sup>321</sup>. Dutch flower auctions are working on the introduction of a fair-trade label for imported products, but to date, it is still unclear how many sustainably cultivated flowers are imported<sup>322</sup>.

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## Appreciation by civil society parties

Even though the sector adopts different methods to limit international CSR risks, its approach to the 'responsibility to respect' is assessed differently by the sector and by stakeholders as part of this SRA. Stakeholders give the approach to the 'responsibility to respect' a lower score than the sector itself.

This different assessment seems to arise from the different views on the sector's scope and the question as to when the 'responsibility to respect' is sufficiently met. The sector specifically focuses on the role of Dutch companies and the initiatives launched to reduce risks. The sector concludes it is 'Sufficient' or even a 'Leader' when it comes to limiting risks. The stakeholders, on the other hand, mainly take into account the impact and change observed in the Netherlands and abroad.

They believe that while the problems persist, the sector's efforts do not suffice. The stakeholders mainly look at general issues in the international agricultural sector, such as human rights (e.g. land grabbing), working conditions and water scarcity, regardless of their link with the Dutch agricultural and horticultural sector. Therefore it is difficult to properly assess how the approach to the 'responsibility to respect' is perceived in terms of international CSR risks caused by the Dutch agricultural and horticultural sector. During a meeting with representatives of the sector and stakeholders, it turned out that the latter were unaware of various CSR initiatives launched by the sector. As a result, the differences in the assessment of the 'responsibility to respect' between the sector and the stakeholders may seem larger than they would have been if the initiatives in question had been more widely known.

## BOX 3: BEST PRACTICES

### Risk:

Various environmental risks in the dairy production chain.

### Parties involved:

NZO (the Dutch dairy association) and LTO Nederland.

### Activities:

The 'Sustainable dairy production chain' is an initiative launched by the dairy sector and dairy farmers, which aims to make the Dutch dairy sector the worldwide leader in terms of sustainability. Concretely, this has resulted in the following targets<sup>323</sup>:

#### CLIMATE AND ENERGY

- A 30% reduction of greenhouse gas emissions by 2020 compared to 1990, including climate-neutral growth;
- 20% sustainable energy by 2020 and an energy-neutral dairy chain;
- 2% energy efficiency per year (1.5% for factories and 0.5% for the production chain) and an overall energy efficiency of 30% between 2005 and 2020; energy savings of 2% for livestock farmers.

#### ANIMAL HEALTH AND WELFARE

- Reduction of antibiotics resistance. Lower antibiotics use in 2013 to the levels of 1999;
- Increase the average longevity of cows, specifically by lowering the incidence of mastitis and hoof problems;
- All new cowsheds built in 2015 must be fully sustainable.

#### GRAZING

- The current grazing levels should be maintained

#### BIODIVERSITY AND ENVIRONMENTAL ISSUES

- Use of 100% RTRS-certified sustainable soy and sustainable palm kernel expellers by 2015;
- Actions and measures that directly and indirectly influence the volume of phosphates and the ammonia emissions;
- Improvement of biodiversity.

#### Results:

In 2012 the initial results of the 'Sustainable dairy production chain' initiative were presented. They were compared with the 2011 benchmark<sup>324</sup>:

- In 2012 antibiotics use dropped by approx. 25% compared to 2011. In 2012, the use of critical products was also kept to a minimum;
- After a temporary rise, primary fuel usage (electricity, diesel and gas) in dairy farming dropped by 2.8% in 2012;
- Phosphate excretion by the Dutch dairy herd decreased by 3% (to 76.1 million kg) and ammonia emissions by 4% (to 45 million kg);
- The percentage of sustainable soy purchased rose from 19% in 2011 to 34% in 2012;
- For all the remaining topics, there was limited improvement or the results remained stable.

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## Overview of all material risks

Risks generally refer to the chance that an event will take place 'multiplied' by the 'consequence' of that event. In many cases, this allows for risks to be quantified. The SRA uses the term 'impact' to refer to the estimated chance (that a situation will take place, an estimate of the number of people involved, the scope of the environmental damage in the area in question, the emissions measured in tonnes etc.) and the consequences (the severity of the event for the environment, people and animals) of each risk. Risks that affect people and animals' physical integrity and that cause irreversible damage are classified as severe.

The figure below illustrates the impact (scope and severity of the risk) and the sector's involvement (indicated through its position in the chain and the share of companies involved) per risk, with a figure between 0 and 3. These findings are based on the literature review carried out by KPMG, supplemented with the input from the sector and civil society organisations. The sources used in the assessment of the impact and involvement are listed in the separate SRA source book. Corruption and taxation risks were not included in the table, because they cannot really be assessed at sectoral level. For more information on Corruption and Taxation risks we refer to chapters 4.4 and 4.5.

## Main risks

For the approach to the 'responsibility to respect', we also made four (sub)observations for the following dimensions: insight into the risks, results (actions launched), transparency and collaboration.

In the assessment of the 'responsibility to respect' of the agricultural and horticultural sector we took into account the following:

- The findings are based on the Dutch agricultural and horticultural sectors, which also include Dutch companies operating abroad and agricultural products like soy that are used by Dutch agricultural and horticultural companies. International agricultural and horticultural companies that supply products to the Netherlands that are not used by Dutch agricultural and horticultural companies were not taken into account;
- In the SRA methodology, sectoral efforts like the 'Green Deals' and the 'Sustainable dairy production chain' resulted in a high score for the dimensions 'insights', 'results' (actions have been launched) and 'collaboration'. The reasoning behind this is that, in the foreseeable future, the risks should be managed efficiently if the sector honours the clear commitments made. This also applies to the RTRS targets. The fact that there are currently several bottlenecks did not affect the score;
- More efforts could be made to promote more transparency on the risks abroad. In addition to this, individual companies could illustrate their concrete improvements more thoroughly. In order to do so, a better insight is required into the risks in the supply chain of individual companies (due diligence);
- Thanks to the extensive quality systems for food safety, the risks for people's health linked to the consumption of foods from the Dutch agricultural and horticultural sector are very limited.

Figure 5.8 / Findings for the agricultural and horticultural sector



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In the agricultural and horticultural sector, there are several risks with a relatively high impact/involvement and a relatively limited approach to the 'responsibility to respect', namely:

In the Netherlands:

- Water and soil pollution due to the use of crop protection products. The concentrations of crop protection products in the soil and in water have decreased in the past fifteen years, but in about half the places where surface water is analysed, the values measured exceed the standards

Internationally:

- A loss of biodiversity (and an increase of CO<sub>2</sub> emissions) due to peat excavation (in Baltic states). The excavation and use of peat releases a lot of CO<sub>2</sub>. On a yearly basis, the Netherlands import approx. 5 million m<sup>3</sup> of peat. Although the exact impact on the Dutch sector is unclear, internationally it is an important risk and the measures taken in this regard are limited<sup>325</sup>;
- Breach of trade union laws and the right to free association, women's rights (e.g. the right to equal pay) and the right to a living wage (in flower cultivation abroad, e.g. in Kenya and Ethiopia).

## Specific considerations for dialogue

In addition to the (strengthening of) the ongoing sectoral initiatives, we identified the following considerations for further dialogue:

With regard to the CSR risks in the Netherlands:

- Check whether there is the possibility to – in addition to the existing initiatives, such as Fair Produce, Stigas and the partnership with SNA – improve working conditions for foreign workers in the mushroom and asparagus cultivation.

With regard to international CSR risks:

- Flowers, fruit, vegetables and seeds: check whether there is the possibility to – in addition to the existing CSR initiatives launched by individual companies – further reduce CSR risks for Dutch agricultural companies abroad, such as producers of flowers, fruit, vegetables and seeds. The outcome of this analysis can be used as a basis for dialogue about possible new CSR activities and initiatives. This is a challenge for the sector, because some companies have production activities both in the Netherlands and abroad, and others have a Dutch owner but all their production activities are abroad. That last category cannot really be included in the Dutch sector. The purchase of sustainable flowers is its only link with the Netherlands. Although 'Flora Nederland', where the imported flowers are auctioned, is a cooperation of Dutch horticultural businesses, wholesalers and buyers (including retailers) also play a role in making the flower production chain more sustainable;

- Look into possibilities to limit CSR risks in the extraction of phosphate (livestock farming and arable farming) and peat (e.g. mushroom cultivation) in the countries of origin;
- Development of a sustainable protein strategy for the production of animal feed in addition to the targets for the purchase of sustainable soy (see box 4);
- Check how livestock farmers could contribute to this (including the possibilities and/or willingness to pay a slightly higher price for sustainable soy);
- Extend the scope of the initiatives: look into possibilities for sectoral commitments for the purchase of other sustainable raw materials, such as maize and wheat.

## BOX 4: POINTS OF ATTENTION IN THE DEVELOPMENT OF A SUSTAINABLE PROTEIN STRATEGY

### Sustainable protein chains

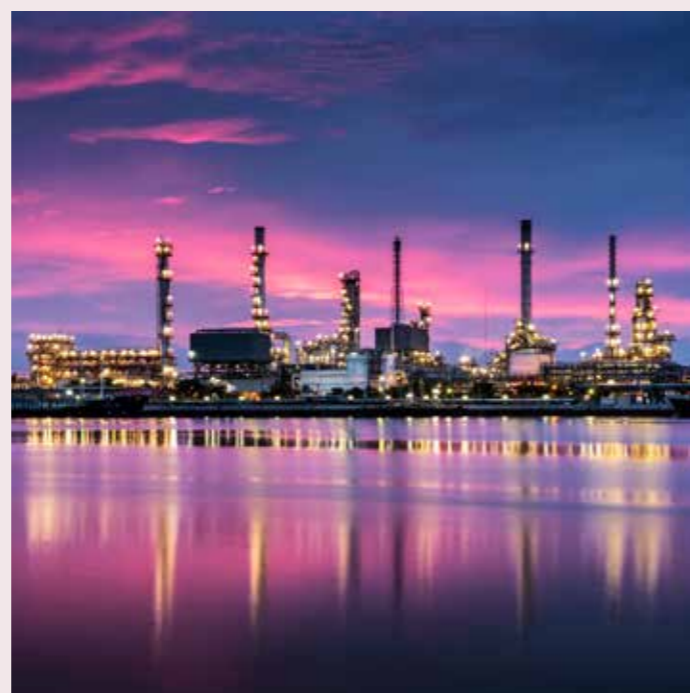
Raw materials usage has a major impact on CSR risks abroad. Given the large quantities of protein imported to produce enough animal feed for the Dutch agricultural and horticultural sector, the development of a sustainable protein strategy is a priority<sup>326</sup>. Soy plays an important role in this respect, as does the production of other ingredients for animal feed, such as maize, wheat, rapeseed and palm oil. They all contribute to CSR risks in the chain. Therefore the dialogue could focus on extending the targets to sustainable purchasing of these raw materials.

### Alternative raw materials

Apart from making the existing chains more sustainable, alternative protein sources with lower CSR risks could replace the existing protein sources. Moreover, dialogues could be held to explore the applicability of such alternative raw materials. A few examples are Dried Distillers Grains with Solubles (DDGS), algae and insects. Other possibilities are new proteins that can be cultivated in Europe, such as field beans, lupin and NW-EU Soy<sup>327</sup>.

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# CHEMICALS INDUSTRY



## World leader in economic value and sustainability

The turnover of the chemicals industry in the Netherlands amounts to 57 billion euro (2013), including a 6 billion euro turnover from the pharmaceutical industry. This makes the chemical sector the second largest of the Dutch economy, after agriculture and Food and beverage industry. In 2013 the Dutch chemical sector employed 62,000 people (including 13,000 in the pharmaceutical sector), spread across more than 400 companies. 80% of all chemical products manufactured in the Netherlands are exported – 80% of them within Europe. The export of chemical products amounts to 17% of the total export of goods and 19% of the exported goods produced in the Netherlands. In 2013 the chemical sector contributed 23 billion euro to the trade balance, which equals 52% of the total for goods. Its share in the GDP is about 2.5% (this includes the pharmaceutical sector)<sup>102</sup>. The SRA focuses on the chemical sector as a whole, and does not discuss any risks that apply specifically to the pharmaceutical sector.

From a sectoral point of view, the input for the SRA was coordinated by the sectoral organisation VNCI, the association of the Dutch chemical industry, which counts companies, associations and donors among its members. Together with its ten member associations, VNCI has direct and indirect links with more than 600 companies<sup>103</sup>. Some of these companies have ranked high in the Dow Jones Sustainability Index for years, operate in more than 50 countries and have several sites in China, India and Brazil. The sector also comprises many smaller chemical companies based in the Netherlands.

The sector processes raw materials such as naphtha, gas and minerals into basic chemicals and chemicals with high added value for a wide variety of manufacturing industries. Apart from basic chemicals such as ethanol, ethylene and ammonia, the sector also produces solvents, resins, pharmaceutical ingredients and products, a number of plastics, colouring agents, fragrances, flavourings and enzymes for use in the food industry, among others. More than 90% of all industrial products are directly linked to the chemical industry<sup>104</sup>.

We based the findings of this SRA on the entire sector and its chain (upstream, own factories locally and abroad, and downstream), not only on large companies and/or leading businesses in terms of CSR. Before providing an overview of all material risks (also see Annex C), we will describe three sector-specific developments:

- Compliance for many environmental and safety risks
- Reduction of greenhouse gas emissions
- Shift to a green and sustainable chemical sector

## Compliance for many environmental and safety risks

The sector has a good insight into the environmental risks (e.g. due to emissions causing air, water and soil pollution, as well as the amount of chemical waste) and safety risks (process and personal safety), and has already taken many steps to effectively manage these risks. Despite the potential risks, the chemical sector is a safe industry in comparison with other sectors. The number of occupational accidents between 2009 and 2012 (49 per 100,000 jobs) was lower than that of the transport sector (57 per 100,000 jobs), construction (179 per 100,000 jobs) and food production (91 per 100,000 jobs)<sup>105</sup>.

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## Reduction of greenhouse gas emissions

Greenhouse gas emissions caused by the production of chemicals and energy usage by the chemicals sector are high, both in absolute and relative terms (about 12% of the national total per year). Greenhouse gas emissions are a major environmental issue in the sector.

The 2012-2030 'Routekaart Chemie' ('Chemistry Roadmap') proposes 6 solutions: improved energy efficiency, replacement of fossil fuels with 'green' raw materials, carbon capture and storage/usage (CCS/CCU, underground storage or reuse of CO<sub>2</sub>), closing of the material chain (recycling), development of sustainable products and sustainable energy.

Most companies are currently focusing on the energy efficiency route. All the solutions mentioned above are primarily aimed at tackling greenhouse gas emissions companies are directly responsible for. The sector's target is to improve its energy efficiency by 2% per year. Moreover, it is working on replacing fossil fuels by non-fossil fuels, both as raw materials and as energy sources.

Between 1990 and 2011 the chemical sector in the Netherlands managed to reduce its greenhouse gas emissions by about 40%. Between 2005 and 2012, it lowered its greenhouse gas emissions by about 11% per tonne of products produced. This makes the Dutch chemical sector one of the leaders in Europe in the field of energy efficiency<sup>106</sup>.

Between 2010 and 2012 the absolute energy usage reduction for the entire chemical production and product chain was by far the largest of all sectors in the Netherlands<sup>107</sup>.

However, in 2012 the CO<sub>2</sub> emissions of Dutch chemical companies slightly increased compared to the previous year. This increase – of about 5% – was the result of a higher production output. In the total CO<sub>2</sub> emissions, we noticed a shift from direct to indirect CO<sub>2</sub> emissions. An important reason for this development is the closing of CHP plants due to high gas prices compared to electricity prices. That is a major setback for the environment<sup>108</sup>.

## Shift to a green and sustainable chemical sector

The sector has launched various initiatives, such as 'Transitieplan Topsector Chemie' (Transition plan top chemical sector). Its main target is to create a green and sustainable chemical sector. Other initiatives are the report 'The environmental impact of the Dutch Chemicals Industry', various 'Green Deals' (certification of green gas, food-paper-chemicals) and the implementation of the Responsible Care programme in the Dutch chemical sector (see box 2).

The replacement of fossil fuels with biomass is possible at the start of the chain (e.g. by replacing fossil ethane with bio ethane or naphtha with bio oil), but also in the subsequent process steps, through the use of intermediary biomass products. An example is the use of glycerol for the production of epichlorohydrin (an ingredient of glue, resin and paint)<sup>109</sup>.

VNCl aims to play a key role in achieving the targets set by the European Commission and the Dutch government, i.e. to halt the loss of biodiversity by 2020 and to halve the country's carbon footprint by 2030. The questionnaire for companies used as a basis for the 2012 'Responsible Care' report (see box 2) included additional questions on biodiversity

to gain an insight into the way biodiversity is being implemented in the existing management systems<sup>110</sup>.

## Appreciation by civil society parties

- Civil society organisations agree that the chemical sector is advanced in the management of traditional environmental and safety risks. Another aspect of chain responsibility is the social component. Traditionally, the environmental impact of the chemical sector garners a lot of attention, but stakeholders feel the social impact factor deserves more attention from the sector<sup>111</sup>. Certain aspects of the sector's CSR agenda are still under development, and the sector's efforts in this respect were therefore given a lower score<sup>112</sup>, namely:

- Land use, land grabbing and depletion of natural resources (including biodiversity)
- Breach of trade union rights and the right to free association
- Animal welfare

With the exception of the depletion of natural resources, the sector also acknowledges that the 'responsibility to respect' in the sector should be further strengthened.

## Land use, land grabbing and depletion of natural resources

Civil society organisations mainly worry about the use of bio-based raw materials in the chemical sector. The civil society organisations that gave their input for this SRA specifically referred to environmental risks related to land use (e.g. deforestation and pollution) in vulnerable areas, as well as cases of land grabbing. They believe this mainly occurs in

the production of palm oil and the raw materials used for bioplastics (such as sugar cane and maize). For more information on land grabbing see box 1.

Palm oil is used for the production of soaps and cleaning products, but according to VNCl only takes up a small part of the raw materials are used by the Dutch chemical industry. On another note, due to pricing issues at international level, the production of bioplastics has (almost) entirely moved away from the Netherlands.

You will find a more detailed description of the cross-sectoral issues of land use, land grabbing and the depletion of natural resources (including biodiversity) in chapter 4.2.

## Breach of trade union rights and the right to free association

The Dutch chemical sector endorses the UN Universal Declaration of Human Rights and a number of companies are active members of the Global Compact Netherlands Network. In their annual reports, large chemical companies include several human rights topics. These companies have also included human rights principles in their codes of conduct, and compliance and integrity management systems. Their codes of conduct also include clauses about respect for trade union rights within the company.

The codes of conduct of a number of major suppliers (oil companies) and chemical companies also explicitly require suppliers to respect their employees' right to free association and collective bargaining<sup>113,114</sup>. Within the sector, the first companies are now also joining the 'Together for Sustainability' (TFS) initiative, as part of which companies share the results of their suppliers' audits.

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Nevertheless, civil society organisations are concerned about the breach of trade union rights and the right to free association in the sector, specifically in the production of raw materials, including oil. An example are (sub)contractors of large oil and chemical companies working in high-risk countries. In this respect, the recent sources we consulted on labour and human rights in the sector, including the questionnaires completed by the civil society organisations for this SRA, do not provide any further information about the link with Dutch companies that have branches abroad<sup>115</sup>.


### Animal welfare

Civil society organisations are mainly concerned about the effects of the end products produced by the sector for people and the environment. They express less concern on animal testing.

Large Dutch chemical companies follow three principles when it comes to animal testing, also known as 'the three Rs': replace, reduce and refine. These efforts are also recognised by the civil society organisations. Nevertheless, many animal tests are required in the framework of the REACH law. At least one major chemical company also reports on the animal tests it is involved in.

Chemicals released in the environment can have a negative impact on wild animals. An example is animals swallowing pesticides and microplastics, and getting entangled in plastic in their water habitats<sup>116</sup>.

### Box 1: Examples of CSR risks and approach to the principle of 'responsibility to respect'

CLUSTER/TYPE OF RISK	IMPACT	RESPONSIBILITY TO RESPECT
 <p><b>Labour</b> Unhealthy working conditions in the production process (exposure to toxic chemicals and dust)</p>	<p><b>Key figures:</b></p> <ul style="list-style-type: none"> <li>- <b>6,500</b> companies in the sector (oil, chemicals, pharmaceuticals, plastics and rubber)</li> <li>- <b>137,000</b> employees</li> <li>- <b>95%</b> of all companies in this sector use dangerous substances.</li> </ul> <p>One of the labour risks in this sector is the (long-term) exposure to dangerous substances. This entails acute risks (fire, explosions, irritation/burns, poisoning and asphyxiation) and chronic risks.</p>	<p>The employer is legally bound to establish limits for all dangerous substances for which no limit values are available. Moreover, the employer must take measures to safeguard the employees' health. The Dutch Social Affairs and Employment Inspectorate joined forces with the sector for the development of tools in this regard<sup>117</sup>. This being said<sup>118</sup>,</p> <ul style="list-style-type: none"> <li>- <b>40%</b> of companies do not fully comply with the law.</li> <li>- more than <b>50%</b> of the shortcomings were linked to the exposure to dangerous substances.</li> </ul> <p>The difference between large companies and SMEs<sup>119</sup>:</p> <ul style="list-style-type: none"> <li>- Large companies can prove that they are managing the effect of the exposure to many (but not all) dangerous substances efficiently.</li> <li>- Many SMEs have taken measures to protect their employees' health, but have not made an inventory of the substances concerned, established limit values or assessed the exposure risk.</li> </ul> <p>The situation in foreign branches of Dutch companies is unknown.</p>

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**CLUSTER/TYPE OF RISK    IMPACT    RESPONSIBILITY TO RESPECT**



**Human rights**

Land grabbing/non-respect of land rights (in the extraction of raw materials and the use of land for factories)

Land grabbing in the chemical sector can occur in mining, fracking for shale gas and biomass production (e.g. sugar cane and palm oil).

**Key figures for palm oil:**

- **90%** of all palm oil is cultivated in Malaysia and Indonesia.
- **5%** of this palm oil enters the Netherlands via the ports and is further processed or exported from there.
- **85%** of the Dutch chemical sector is based on oil and gas.
- The share of bio-based fuels is still limited and according to the 2030 Roadmap it will remain limited.

It is not clear to what extent the Dutch chemical sector is (indirectly) involved in land grabbing for palm oil cultivation for example, and what the impact of this is<sup>120</sup>. There is a lack of reliable data on the subject. The same goes for other raw materials. However, online there are many references to agro commodities for the chemical sector (e.g. sugar and maize) linked to the topic of land ownership and common goods. Some of these sources explicitly tackle land grabbing<sup>121,122</sup>. This is a complex social problem that involves various sectors (also see chapter 4.2).

Dilemmas on the use of biomass are being analysed in consultation with stakeholders in the Corbey Committee. In the recommendation for the chemical sector, land grabbing is not specifically mentioned, but the more general quality requirements for biomass are discussed. The Committee says the following:

There are certification systems for specific raw materials (RSPO, RTRS and Bonsucro). These systems apply to both the crops and the foods, materials and energy usage. Some systems were also specifically developed for biofuels and/or bio energy, such as RSB (Round Table for Sustainable Biomass), Green Gold Label, the International Woodpellets Buyers Initiative (IWBP) and the Dutch system NTA 8080. They must be extended in order for them to be applied to the chemical sector, which, in many cases, is an ongoing process<sup>123</sup>.

The Responsible Care report (2012) and the Sustainability report (2014) do not focus on the issues of land grabbing and land rights<sup>124,125</sup>.

**BOX 2: BEST PRACTICE: RESPONSIBLE CARE**

**Risk:**

Safety, health and environmental risks, among others. Parties involved: VNCI.

**Activities:**

Responsible Care (RC) refers to the continuous improvement of chemical companies' performance in terms of health, safety and environmental issues. The programme explicitly calls for open and transparent communication on these matters. RC also includes the development and application of sustainable chemistry. The RC programme was launched by the chemical sector and has meanwhile been implemented in almost 60 countries via national industry organisations.

The Dutch chemical sector has also joined the RC programme<sup>126,127</sup>. Companies pursue its objectives by launching initiatives for collaboration with the government and other stakeholders on a voluntary basis. VNCI joined the RC initiative in 1992. This is an example of a best practice for collaboration and transparency at sectoral level.

**Results:**

The sector's performance improves every year, in various ways. Since 2006 the focus has been on increasing sustainability, improving chain management and promoting transparency. The Responsible Care reports about the Dutch chemical sector are transparent and focus mainly on the activities of Dutch companies and their direct suppliers<sup>128</sup>. The sector's first full sustainability report was published in 2014. Stakeholders were consulted in preparation of the report, and their views were included in the document<sup>129</sup>.

NGOs highlight it is important to increase transparency on social aspects and the supply chain. The supply chain for the Dutch chemical sector is relatively short. It is mainly the oil and gas sector that acts as a supplier of the main raw materials for the chemical sector, i.e. oil and gas. VNCI agrees that this is an important element.

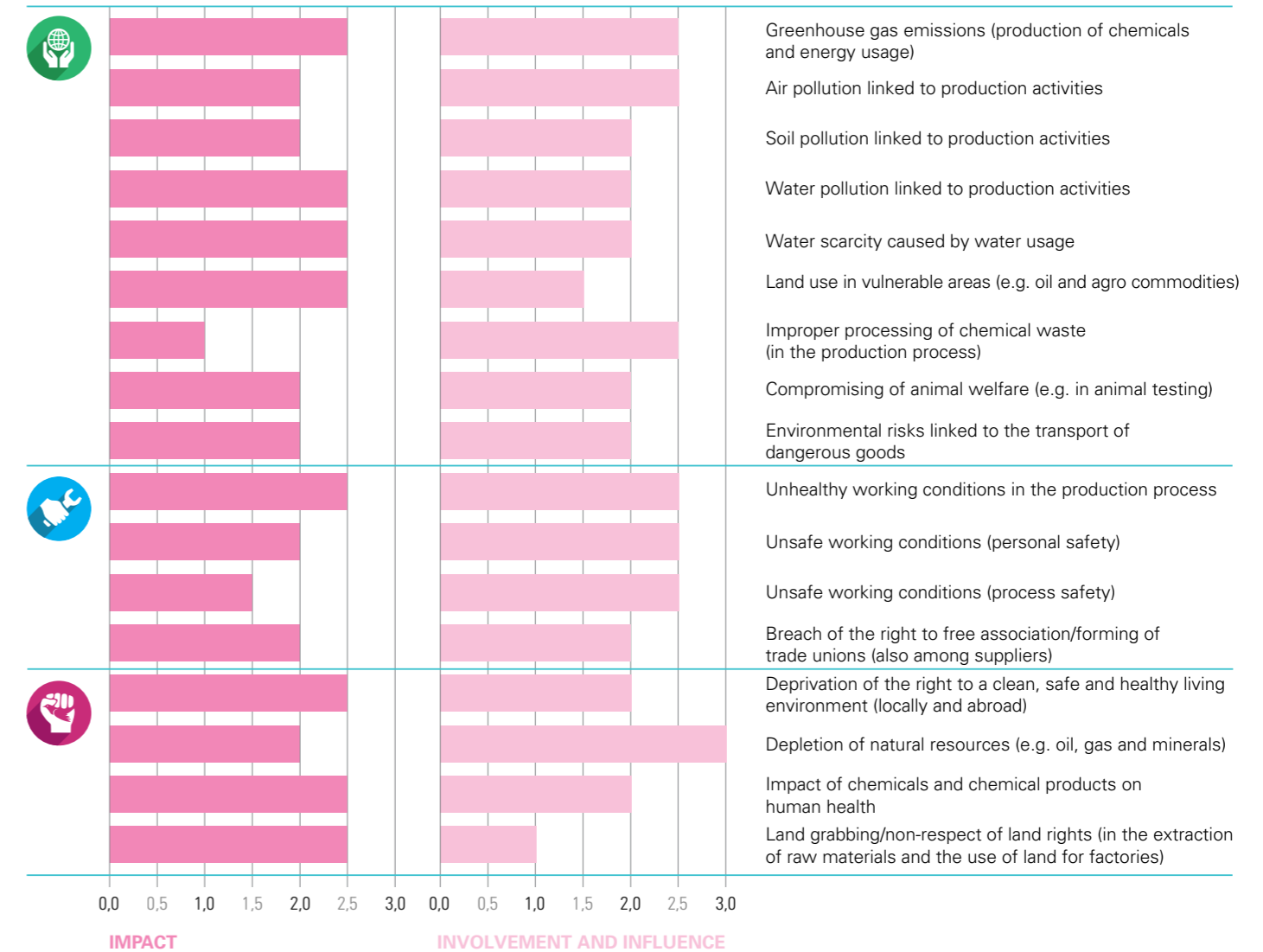
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## Overview of all material risks

Risks generally refer to the chance that an event will take place 'multiplied' by the 'consequence' of that event. In many cases, this allows for risks to be quantified. The SRA uses the term 'impact' to refer to the estimated chance (that a situation will take place, an estimate of the number of people involved, the scope of the environmental damage in the area in question, the emissions measured in tonnes etc.) and the consequences (the severity of the event for the environment, people and animals). Risks that affect people and animals' physical integrity and cause irreversible damage are classified as severe. The figure below illustrates the impact (scope and severity of the risk) and the sector's involvement (indicated through its position in the chain and the share of companies involved) per risk, with a figure between 0 and 3. These findings are based on the literature review carried out by KPMG, supplemented with the input from the sectors and civil society organisations.

Figure 5.2 / Findings for the chemical sector



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The sources used in the assessment of the impact and involvement are listed in the separate SRA source book. Corruption and Taxation risks have not been included in the table, because they cannot really be assessed at sectoral level. For more information on Corruption and Taxation risks we refer to chapters 4.4 and 4.5.

### The main risks

For the approach to the 'responsibility to respect', we also made four (sub)observations for the following dimensions: insight into the risks, results (actions launched), transparency and collaboration.

In the assessment of the 'responsibility to respect' of the chemical sector we took into account the following:

- The Dutch chemical sector is currently primarily based on fossil fuels;
- The share of bio-based fuels is growing, but fossil fuels are by far the dominant choice;
- The sector comprises a number of major international companies that lead the way in terms of CSR, as well as smaller companies with differing CSR results.

All the selected CSR topics in this SRA were acknowledged by both the stakeholders and the sector. The CSR topics for which the approach to the 'responsibility to respect' is still insufficient are the following:

- Land use in vulnerable areas (including land grabbing);
- Breach of the right to free association and forming of trade unions.

### Specific considerations for dialogue

The sector has a structured stakeholder consultation base through VNCI and a number of large companies. In addition to the Responsible Care programme, several CSR topics with upstream and downstream effects may require further attention. These include:

- Risks linked to the extraction of oil and gas.
- The sector currently considers this an aspect it has little control over;
- Boosting of energy efficiency in the chain to further reduce greenhouse gas emissions (upstream, own operations and downstream);

- (Labour) risks among (sub)contractors in the extraction of raw materials in high-risk countries;
- A better insight into possible issues linked to the right to free association among (sub)contractors of branches of Dutch chemical companies in high-risk countries, and among suppliers from these countries. Currently, little information is available on the subject;
- Many of the current criteria for specific crops for the bio-based economy are not yet suitable for use in the chemical sector. Therefore, efforts must be made to develop criteria for sustainable biomass in the chemical sector;
- The issue of land grabbing, including women's rights and local food provision, must be explicitly included in the further development of criteria for sustainable biomass and in sustainability reporting in the sector.
- Animal welfare issues linked to the use of chemical products, such as pesticides, (micro)plastics and medicines. Animal welfare is, however, well regulated when it comes to animal testing.

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# CONSTRUCTION



## 14 million m<sup>3</sup> of concrete and 2.9 million m<sup>3</sup> of wood

The Dutch construction sector, with its turnover of more than 90 billion euro, 134 thousand companies and 392,000 employees (2011), is important for the Dutch economy<sup>49,50</sup>. The sector consists of a wide range of companies, each with a distinct turnover and activity: the turnover of the ten largest companies in the sector (0.01% of the total number of companies) was more than 25 billion euro (29% of the total turnover of the sector)<sup>51</sup>, while 77% of the companies were registered as sole traders<sup>52</sup>. These companies specialise in very different fields, from road construction to plastering, and from dredging to building installations. Despite this diversity the sector can be subdivided into four major subsectors: the building materials industry, residential and non-residential construction, civil engineering and other (specialised) construction.

The construction sector is known for its extensive use of materials such as concrete, steel and wood. On a yearly basis, the sector uses about 14 million m<sup>3</sup> of concrete and 2.9 million m<sup>3</sup> of sawn timber<sup>53,54</sup>. The risks linked to the extraction of raw materials were taken into account in this SRA. The construction sector has a relatively large impact on the chain compared to the direct risks of construction works. An example: 80% of the emissions in the supply chain of concrete are linked to cement production. Due to the great diversity of the construction sector, there are also many industry organisations representing subsectors. Part of the sector is represented by the umbrella organisation 'Bouwend Nederland' (the association of construction and infrastructure companies) and AFNL, the federation of Dutch contractors. The building materials industry is represented by NVTB, the Dutch Association for Construction Supply. These industry organisations also provided input for this SRA.

## CSR in the chain

The sector pays a lot of attention to CSR risks in the Netherlands, particularly environmental risks, such as greenhouse gas emissions. This has resulted in several initiatives to limit CSR risks, such as the 'Spring Agreement' (Lenteakkoord) and Green Deal GWW (see box 1). However, the main CSR risks in the sector, which do not yet receive as much attention, are linked to the import of building materials from abroad.

A few remarkable findings on the sector's approach to the principle of 'responsibility to respect':

- Traditionally, the sector's CSR agenda focuses more on risks in the Netherlands than on international CSR risks;
- Safe working conditions and labour market fraud are high on the agenda. Nevertheless, there are still many risks related to these two topics<sup>55,56,57</sup>. For example, the sector still has the highest number of occupational accidents of all sectors and an increased risk of labour market fraud<sup>58</sup>;
- The sector believes that health and safety can be further increased, e.g. by using more pre-fabricated parts. This would eliminate the need for scaffolding and digging of trenches<sup>59</sup>;
- A few large Dutch construction companies also have operations abroad, including in countries at high risk for bad working conditions, e.g. in the Middle East. It is not always known how the sector deals with the increased CSR risks in these countries (see box 2);

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## BOX 1: EXAMPLES OF SECTORAL INITIATIVES FOR THE REDUCTION OF CSR RISKS

Sustainability is an important target in the construction sector. Below you will find a few examples of initiatives launched by the sector to limit CSR risks:

- Energy agreement for sustainable growth: the construction sector is participating in this cross-sectoral initiative, which includes agreements on energy savings in the built environment<sup>60</sup>;
- Spring agreement: construction of more energy-saving houses (see box 4);
- Green Deal initiative for more sustainability in the entire concrete chain<sup>61</sup>;
- CO<sub>2</sub> performance ladder: virtually all large civil engineering companies have been certified based on the CO<sub>2</sub> performance ladder<sup>62,63</sup>;
- Green Deal for civil engineering companies: promotion of sustainable innovation and energy savings in civil engineering<sup>64</sup>;
- 'The Rapids' ('De Stroomversnelling'): collaboration between construction companies and housing associations to rebuild houses into 'zero on the energy meter'-residencies;
- 'Colour your municipality green': collaboration between various parties to encourage citizens to save energy<sup>66,67</sup>;
- Green Deal for the promotion of sustainable forestry: to increase the share of sustainable wood (see box 5);
- Construction Safety Platform: to boost safety in the Dutch construction sector<sup>68</sup>;
- Guidelines for commissioning construction companies: promotion of collaboration between professionals and chain responsibility in the construction sector<sup>70</sup>;
- Work in progress: CSR vision for the construction sector<sup>70</sup>;
- Sustainable sales and procurement in practice: promoting sustainability in the construction sector through inspiring examples of sustainable sales and procurement by leading sustainable companies in the sector<sup>71</sup>.

- It is unclear which due diligence the companies in the sector carry out for the various building materials they use, such as steel, aluminium and natural stone;
- An important method for the sector to limit the CSR risks linked to wood is to purchase certified sustainable wood. A point that deserves further attention is the limited amount of certified hardwood used (see box 5);
- The commissioning parties have a major influence on the projects completed by the construction sector. As an important client, the government has a major impact on the tender criteria and can give parties greater (financial) scope when assignments are carried out sustainably, allowing the sector to fulfil its 'responsibility to respect'.


## BOX 2: CSR RISKS IN CONSTRUCTION PROJECTS ABROAD


Most of the construction sector operates in the Netherlands itself, but a number of large Dutch construction companies (including engineering agencies) are also active abroad. Currently, there are concerns about the working conditions of construction workers in the Middle East. Construction projects in the region pose risks in terms of exploitation of migrant workers, abuse and deadly accidents<sup>72,73</sup>. Research by FNV (Federation Dutch Labour Movement) shows that a number of Dutch companies also participate in projects characterised by bad working conditions in preparation for the World Cup in Qatar<sup>74</sup>. This puts Dutch companies at risk of breaching employment rights, even if they are not directly involved in the project through their own construction activities. Dutch companies working in the Middle East pay a lot of attention to working conditions in their own projects<sup>75,76,77</sup>. However, it is unclear how they deal with CSR risks in construction projects they are indirectly involved with, e.g. through the supply of parts to companies that might be responsible for bad working conditions, or through the use of such parts. It is also unclear what the total share is of Dutch involvement in construction projects in countries with major CSR risks<sup>78</sup>.

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**Box 3: Examples of CSR risks and approach to the principle of 'responsibility to respect'**

TYPE OF RISK	IMPACT	RESPONSIBILITY TO RESPECT
 <p><b>Environment</b> Emission of greenhouse gases (CO<sub>2</sub> equivalent) linked to cement production</p>	<p>Cement is an important raw material for concrete production. The production of cement requires high energy usage, which, in turn, results in high CO<sub>2</sub> emissions:</p> <p><b>5%</b> of all greenhouse gas emissions worldwide are linked to cement production<sup>79</sup>;</p> <p>In the Netherlands, <b>14 million</b> m<sup>3</sup> of concrete was used<sup>80</sup> in 2010;</p> <p>Concrete use in the Netherlands results in CO<sub>2</sub> emissions of about <b>3.5 Mt</b> per year, i.e. <b>1.7%</b> of the total Dutch CO<sub>2</sub> emissions<sup>81</sup>;</p> <p><b>80%</b> of the Dutch CO<sub>2</sub> emissions in the concrete chain are linked to the production of cement<sup>82</sup>.</p>	<p>Companies in the concrete chain joined forces with the government for the 'Green Deal initiative for more sustainability in the entire concrete chain' to reduce CO<sub>2</sub> emissions in the concrete chain<sup>83</sup>. This included an LCA of the concrete chain and the development of various alternatives to further reduce CO<sub>2</sub> emissions<sup>84</sup>. In practice, the sector is using more and more new types of cement and concrete (new blends) which result in lower CO<sub>2</sub> emissions. This has partly led to lower CO<sub>2</sub> emissions in the Netherlands of about <b>250 kg/m<sup>3</sup></b> of concrete, i.e. <b>66%</b> lower than the average emissions in Europe<sup>85</sup>.</p>

TYPE OF RISK	IMPACT	RESPONSIBILITY TO RESPECT
 <p><b>Labour</b> Unhealthy and unsafe working conditions in construction (in the Netherlands)</p>	<p>The construction sector in the Netherlands employs about <b>5%</b> of the active population (<b>7.8 million people</b>)<sup>86</sup>. Together with agriculture and fisheries, construction is one of the riskiest sectors to work in<sup>87</sup>. Known risks for workers in this sector are excessive physical efforts, exposure to harmful substances and falling off heights. A relatively small part of the accidents is caused by construction faults. The chance of an occupational accident followed by a hospital admission is <b>1.6%</b> per employee per year. This is three times the average. In <b>2011</b>, 9 people died on construction sites in the Netherlands<sup>88,89</sup>.</p>	<p>The construction sector pays a lot of attention to unhealthy and unsafe working conditions, e.g. through information websites hosted by the industry organisations, the health and safety guide to comply with the legal obligations and VCA certification to improve safety levels in construction companies<sup>90,91,92,93</sup>. Moreover, the government plays an active role in reducing and monitoring risks in the workplace<sup>94,95</sup>. Nevertheless, violations of working condition regulations still occur, particularly as part of large projects, because it is not always clear who is responsible for safety. The Dutch Safety Board believes both construction companies and governments should focus more on this issue<sup>96,97</sup>.</p>

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## Appreciation by civil society parties

The sector participates in various CSR risk reducing efforts, yet we see differences in the way civil society organisations evaluate the risks and the approach to the 'responsibility to respect' principle as part of this SRA. Stakeholders often rate the approach to the 'responsibility to respect' lower than the sector itself.

In many cases this seems due to the different perspectives of the sector and stakeholders. The sector seems to focus more on (direct) risks (first tier) in the Netherlands and the initiatives to reduce these risks. Stakeholders mainly focus on the existence of risks and problems, both in the Netherlands and in the chain the sector is involved in through imports. Stakeholders seem to pay less attention to the influence the sector has on these risks and the sectoral initiatives in place to reduce them.

### BOX 4: BEST PRACTICES

**Risk:**

Energy use and greenhouse gas emissions.  
Parties involved: Various parties, including the construction sector and the government.

**Activities:**

'Spring agreement': the aim of this agreement is to build more energy-efficient residential and non-residential buildings, taking the wishes of the end users, such as comfort, a healthy indoor environment, low energy costs and added value, into account.

**Results:**

The 'Spring agreement' has produced or will produce the following concrete results<sup>98</sup>:

- A 25% lower energy usage in new buildings in 2011 compared to 2007.
- A prospected 50% lower energy usage in new buildings in 2015 compared to 2007.
- Energy-neutral construction by 2020.

Meanwhile, the first target, to increase energy-efficient building by 25% compared to 2007, has been achieved<sup>99</sup>.

### BOX 5: USE OF SUSTAINABLE WOOD IN CONSTRUCTION

An important way for the sector to reduce CSR risks related to wood is the purchase of FSC- or PEFC-certified sustainable wood. Various industry organisations, including AFNL (the federation of Dutch contractors) and Bouwend Nederland (the association of construction and infrastructure companies), have joined the 'Green Deal initiative for the promotion of sustainable forestry'<sup>100</sup>. It is estimated that in 2011 the construction sector used 2.9 million m<sup>3</sup> of wood, which equals about 50% of the total use of wood in the Netherlands (with the exception of paper and cardboard). Of this wood, 81% was certified. This high percentage is partially due to the large share of wood supplied to the sector by members of the Royal Netherlands Timber Trade Association (VVNH) – 90% of the softwood put on the market by VVNH members is used in construction. Below you will find an overview of the share of certified wood for each product category in the construction sector<sup>101</sup>:

- 96% softwood
- 42% hardwood
- 76% wood panels

Points of attention are the limited amount of certified hardwood and wood not supplied by the VVNH members. Apart from the VVNH members, there are not many companies that import wood with a view to certifying it and monitoring this certification. For more information on the CSR risks linked to wood imports we refer to the chapter on the wood and paper sector.

## Overview of all material risks

Risks generally refer to the chance that an event will take place 'multiplied' by the 'consequence' of that event. In many cases, this allows for risks to be quantified. The SRA uses the term 'impact' to refer to the estimated chance (that a situation will take place, an estimate of the number of people involved, the scope of the environmental damage in the area in question, the emissions measured in tonnes etc.) and the consequences (the severity of the event for the environment, people and animals). Risks that affect people and animals' physical integrity and that cause irreversible damage are classified as severe.

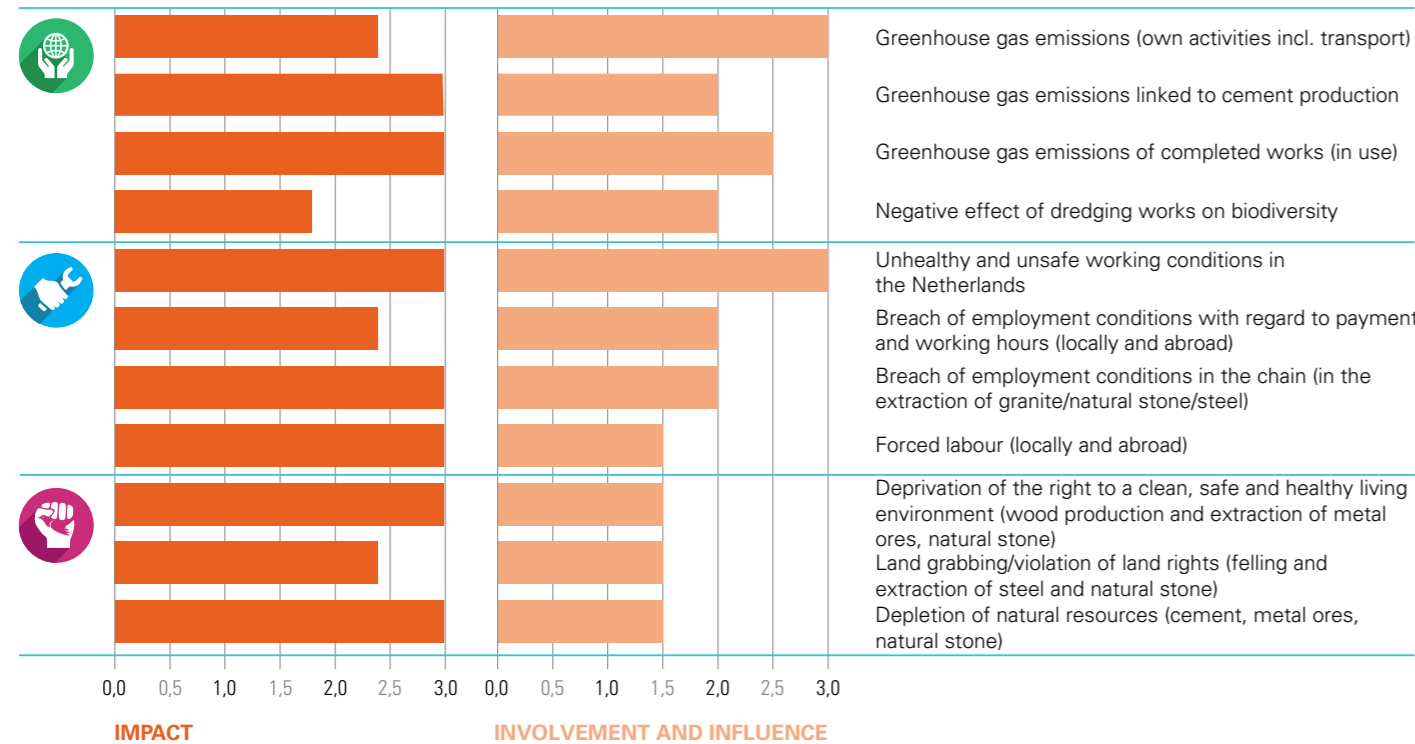
Figure 5.1 illustrates the impact (scope and severity of the risk) and the sector's involvement (indicated through its position in the chain and the share of companies involved) per risk, with a figure from 0 to 3. These findings are based on the literature review carried out by KPMG, supplemented with the input from the sectors and civil society organisations. The sources used in the assessment of the impact and involvement are listed in the separate SRA source book.

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Figure 5.1 / Findings for the construction sector



Corruption and taxation risks have not been included in the table, because they cannot really be assessed at sectoral level. For more information on Corruption and Taxation risks we refer to chapters 4.4 and 4.5.

### The main risks

For the approach to the 'responsibility to respect' principle, we also made four (sub)observations for the following dimensions: insight into the risks, results (actions launched), transparency and collaboration.

In the assessment of the 'responsibility to respect' of the construction sector we took into account the following:

- The findings are based on the CSR risks caused by the Dutch construction sector in the Netherlands and as part of the chain.
- Sectoral commitments like the 'Spring agreement' and the 'Green Deal initiative for more sustainability in the entire concrete chain' have resulted in a high score for the dimensions 'insights' and 'results' (actions have been launched) and 'collaboration' in this SRA. The idea is that these risks can be properly managed if the sector makes clear commitments and sticks to them.
- More efforts are needed in terms of the transparency on risks abroad and proof of concrete improvements by individual companies. In order to achieve this, better insights are needed into the supply chains of individual companies (due diligence).

A number of risks in the construction sector have a high impact and involvement, and a relatively low score for the 'responsibility to respect', i.e.:

- Breach of the regulations on working conditions in the chain linked to the extraction of granite/natural stone/metal ores (child labour/forced labour);
- Forced labour (e.g. in construction projects in the Middle East). There is not enough information available on this topic to establish whether Dutch companies have taken measures to ensure forced labour does not occur;
- Deprivation of the right to a clean, safe and healthy living environment in the vicinity of wood production sites and extraction sites of metal ores and natural stone;
- Land grabbing/non-respect of land rights (in the felling process and the extraction of metal ores and natural stone).

### Specific considerations for dialogue

In addition to and as an enhancement of the existing CSR initiatives, such as the 'Spring agreement' and the 'Green Deal initiative for more sustainability in the entire concrete chain', we recommend the following points be discussed further (in random order):

- Monitoring and assessment of CSR risks which already receive (a lot of) attention and/or for which covenants have been established, such as energy and greenhouse gas emissions, working conditions and labour market fraud.

- CO<sub>2</sub> emissions in the concrete chain, working conditions and labour market fraud are already high on the agenda, but there is currently no clear solution for the further management of these risks.
- Development of an approach for labour risks linked to construction projects abroad.
- Development of a cross-sectoral strategy to limit CSR risks in the chain. Risks in the metal and natural stone chains deserve a closer look. Dialogues would be most useful with participation of the supplying sectors, such as metal, wholesale and government (as a client).
- Increase the use of certified wood, particularly hardwood (incl. tropical wood) and wood that is not supplied by VVNH members. Dialogues would be most useful with participation of the wood sector. For more information we refer to the chapter on the wood and paper sector.
- The important role clients play in limiting CSR risks and the possibility to award tenders in such a way that the sector is encouraged to pay more attention to sustainability.

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# ENERGY



## Linked to 57% of greenhouse gas emissions in the Netherlands

The Dutch energy sector, with its annual turnover of 45 billion euro – more than 7% of the GDP – and 26,500 FTEs, contributes considerably to the Dutch economy<sup>143</sup>. The sector can be subdivided into market players that produce, supply and trade energy, and grid operators that manage the physical grid infrastructure for gas and electricity. The first group is represented by ‘Energie Nederland’, while grid operators are represented by the sectoral organisation ‘Netbeheer Nederland’. The energy sector produces large amounts of energy: every year, it sells 100 billion kWh of electricity, 36 billion m<sup>3</sup> of natural gas and 130 PJ of heat to its customers. The sector’s fuel mix mainly consists of natural gas (88%). Moreover, the sector uses coal (8%), sustainable energy (3%) and nuclear energy (<1%). Overall, the sector is responsible for about 57% of the total greenhouse gas emissions in the Netherlands, 24% of which are generated in the production of electricity<sup>144</sup>.

## CSR risks of all the main energy sources

The sector pays a lot of attention to CSR risks in the Netherlands, particularly environmental risks, such as greenhouse gas emissions and air pollution. With regard to greenhouse gas emissions, the entire sector complies with the EU Emissions Trading System (ETC). As such, this topic does not fall under the scope of CSR policies. The sector is actively involved in reducing labour risks<sup>145</sup>, and consequently the risk of accidents is relatively low<sup>146</sup>. Gas is the main energy source in the sector. The Netherlands produces more gas than it uses, which largely limits the CSR risks for the energy sector to natural gas extraction in the Netherlands<sup>147</sup>. However, local production is decreasing and the government

aims to make the Netherlands a natural gas hub for Europe. As a result, it is very likely that in the future the Dutch energy sector will be confronted with the CSR risks linked to gas extraction in countries like Russia<sup>148,149</sup>. The sector recognises the risks and dilemmas linked to gas extraction in the Netherlands, e.g. in Groningen (earthquakes). Currently, many dialogues are being held about gas extraction in the Netherlands. Therefore, in this SRA we decided to focus on the other CSR risks.

In order to limit the CSR risks linked to coal extraction, dialogues on the topic were held between 2010 and 2013 with a view to increasing transparency in the chain and giving more guarantees in terms of improved working conditions, human rights and environmental issues in the countries where coal is extracted<sup>150</sup>. This resulted in the launch of Bettercoal, an initiative by energy companies to gain a better insight into social and environmental issues in and around coal mines<sup>151</sup>. The sector offered to close five old coal-fired plants in 2016 and 2017 to comply with the stricter environmental legislation, but it cannot go ahead as this would not be in line with competition regulations.

The alternative proposed by the Ministry of Economic Affairs is to set legally binding efficiency requirements for coal-fired plants in the Netherlands. A minimum efficiency requirement for such plants would contribute to reducing their primary energy usage. This would also reduce the impact of the risks linked to the use of coal<sup>152,153</sup>. The sector uses biomass – in the form of wood pallets – to generate sustainable energy. Generally this biomass is used as an auxiliary fuel in coal-fired plants. The sector no longer uses biofuels, such as palm oil and soy<sup>154</sup>. In line with the energy agreement, the sector is holding dialogues with the government and civil society organisations to

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establish sustainability criteria for solid biomass. The existing NTA 8080 certification standard is used as a basis in the development of these criteria. This standard was developed as a response to the Cramer criteria and the EU Renewable Energy Directive<sup>155,156</sup>. The new criteria should be available by the end of 2014<sup>157</sup>. Of the biomass currently used, 64% consists of fresh wood and 36% of residual flows. 71% of the fresh wood is certified as sustainable, 15% comes from waste flows and 14% from non-sustainable sources<sup>158</sup>.

A few remarks on the sector's approach to the principle of 'responsibility to respect':

- The sector's CSR agenda traditionally focuses on risks in the Netherlands, rather than on international CSR risks;
- The sector believes greater sustainability in the electricity production process alone is not enough to achieve the national targets for the reduction of CO<sub>2</sub> emissions. The sector expects that energy usage, particularly natural gas usage, will need to be reduced too by encouraging end users to save energy. The sector can do the same, e.g. by making better use of residual heat and by facilitating this process for its customers. However, currently, the scope and consequences of these measures are not high on the agenda of the sector, the government and the civil society organisations<sup>159</sup>;

- From dialogues on coal it has clearly emerged that the sector intends to limit the CSR risks linked to coal extraction. About four energy companies have joined forces to draft reports on the 5 main mines supplying coal to the Dutch coal-fired plants<sup>160</sup>. Despite these efforts, the stakeholders believe there is still a lack of transparency on the origin and CSR risks of coal. They also state that it is unclear which concrete improvements have so far been implemented<sup>161</sup>.
- The sector is actively limiting the CSR risks linked to the use of biomass by purchasing certified biomass, but so far, there are no clear guidelines for the certification of biomass<sup>162</sup>. A directive on the subject should be ready by late 2014;
- The sector aims for a higher production of sustainable energy. However, rare metals are used in the production of windmills and solar panels, which pose a risk of raw materials scarcity (security of supply), environmental pollution and human rights breaches. The sector does not have a clear policy to deal with these CSR risks. This is a complex issue for the sector, also because the suppliers of these technologies have hardly any policies on the matter themselves<sup>163</sup>;

### Box 1: Examples of CSR risks and approach to the principle of 'responsibility to respect'

TYPE OF RISK	IMPACT	RESPONSIBILITY TO RESPECT
 <p><b>Environment</b> Air pollution linked to energy production (NOx, SOx, VOC, PM)</p>	<p>Overview of the emissions of harmful substances by the energy sector in 2012<sup>164,165</sup> (compared tot the total Dutch emissions):</p> <ul style="list-style-type: none"> <li>- <b>18.2</b> kton NOx (<b>7%</b>);</li> <li>- <b>7.9</b> kton SO2 (<b>23%</b>);</li> <li>- <b>2.8</b> kton NMVOS (<b>2%</b>);</li> <li>- <b>0.1</b> kton PM10 (<b>0.4%</b>).</li> </ul> <p>It is known that all these substances are harmful for health and/or the environment, but it is not clear to which extent<sup>166</sup>.</p>	<p>Between 1990 and 2008 the sector reduced its emissions of NOx and SOx, and particulate matter (PMx)<sup>167</sup>, by <b>62%</b>, <b>71%</b> and <b>75%</b> respectively. In 2008 new agreements were made with the energy sector to further combat acidification<sup>168,169</sup>. Since then, emissions of acidifying substances and particulate matter have been further reduced, and the emissions of VOCs have increased. This increase is mainly the result of a new monitoring and reporting method launched in 2005<sup>170</sup>. The reduction in the emissions of acidifying substances and particulate matter is the result of, among other things<sup>171</sup>:</p> <ul style="list-style-type: none"> <li>- flue gas cleaning</li> <li>- the use of coal with lower sulphur contents</li> <li>- lower electricity production.</li> </ul>
 <p><b>Human rights</b> The deprivation of the right to a clean, safe and healthy living environment (local residents) linked to coal extraction, e.g. in Colombia</p>	<p>Every year, <b>50 million</b> tonnes of coal are imported in the Netherlands, of which <b>9 million</b> tonnes are used by the Dutch energy companies. In 2012, this coal mainly originated from<sup>172</sup>:</p> <ul style="list-style-type: none"> <li>- Colombia (<b>47%</b>)</li> <li>- Russia (<b>28%</b>)</li> <li>- the United States (<b>19%</b>)</li> </ul> <p>Various exporting countries, such as Colombia and Russia, present a high risk of an unhealthy and unsafe living environment for people living in the vicinity of coal mines<sup>173,174,175</sup>. They are confronted with air and water pollution, among other things<sup>176,177,178</sup>, which result in a higher risk of lung conditions and other diseases<sup>179,180</sup>.</p>	<p>The Dutch Coal Dialogue (DCD) initiative was launched as a response to these breaches of labour and human rights<sup>181</sup>. The sector held further dialogues with the government, and it was decided that audits will be carried out in the mines. This will be done by Bettercoal, an organisation founded by Dutch and European energy companies to tackle malpractices in the coal chain<sup>182,183</sup>.</p>

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## Appreciation by civil society parties

The sector participates in various initiatives to reduce CSR risks that also involve civil society organisations, such as the energy agreement and dialogues on coal extraction (Bettercoal). Nevertheless, we noticed differences in the way civil society organisations assessed the risks and the sector's approach to the 'responsibility to respect' as part of this SRA. Stakeholders gave the latter a lower score than the sector itself.

This can be explained partly by the fact that the sector and the stakeholders each have their own perspective. 'Energie Nederland' completed the self-assessment together with eight Dutch energy companies (that jointly generate 80% of the turnover). 'Energie Nederland' prefers to refer to these companies as 'market players' rather than 'energy producers', because the sector does not only produce energy, it also supplies and trades energy. The main turnover (74%) of the Dutch sector is generated through the trade in and sale of (natural) gas<sup>184</sup>. The stakeholders mainly focus on problems linked to the extraction and production of coal, biofuels and uranium, such as trade union rights, land rights and environmental pollution. Investments in coal-fired plants and the associated risks in the chain seem to dominate their view. The sector is confronted with the dilemma on the use of coal - it must find the right balance in developing and implementing an all-encompassing CSR agenda. Stakeholders, on the other hand, focus more on the severity of the issues in the countries of origin, rather than on the share of specific fuels in the energy mix<sup>185</sup>.

### BOX 2: BEST PRACTICES

#### Risk:

Greenhouse gas emissions due to energy usage.

#### Parties involved:

Various parties, including the energy sector and the government.

#### Activities:

The energy agreement for sustainable growth. The aim of this agreement is to make the energy supply even more sustainable, e.g. through energy saving measures and the generation of sustainable energy.

#### Results:

The energy agreement has achieved the following concrete targets, among others:

- Yearly energy savings of **1.5%** (of the final energy usage);
- **14%** of renewable energy by 2020 and **16%** of renewable energy by 2023, partly through the use of biomass and wind energy;
- Preparation of energy transport networks for a more sustainable future;
- Closing of five old coal-fired plants in 2016 and 2017.

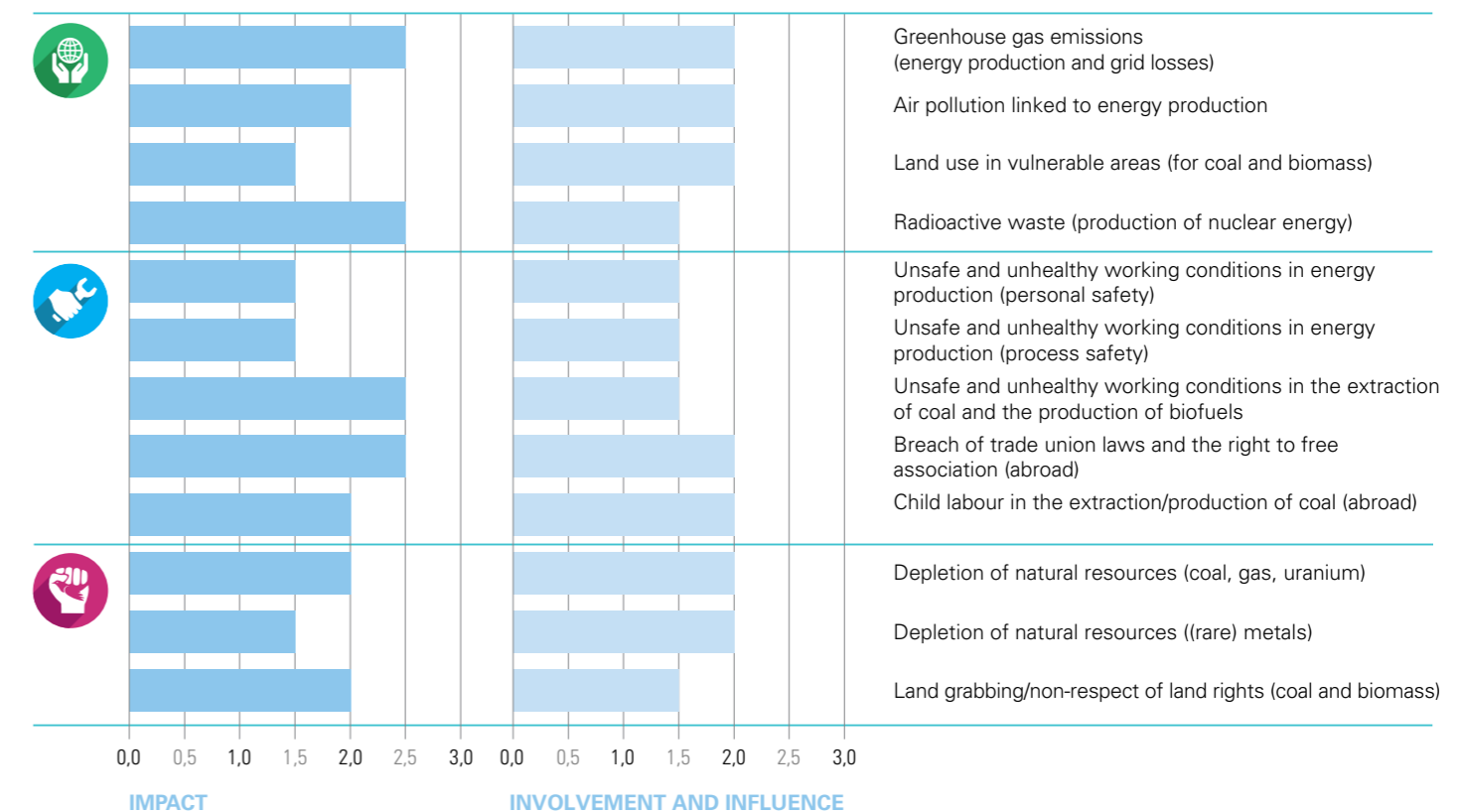
## Overview of all material risks

Risks generally refer to the chance that an event will take place 'multiplied' by the 'consequence' of that event. In many cases, this allows for risks to be quantified. The SRA uses the term 'impact' to refer to the estimated chance (that a situation will take place, an estimate of the number of people involved, the scope of the environmental damage in the area in question, the emissions measured in tonnes etc.) and the consequences (the severity of the event for the environment, people and animals) of each risk. Risks that affect people and animals' physical integrity and that cause irreversible damage are classified as severe.

The figure below illustrates the impact (scope and severity of the risk) and the sector's involvement (indicated through its position in the chain and the share of companies involved) per risk, with a figure between 0 and 3. These findings are based on the literature review carried out by KPMG, supplemented with the input from the sector and civil society organisations. The sources used in the assessment of the impact and involvement are listed in the separate SRA source book.

Corruption and taxation risks were not included in the table, because they cannot really be assessed at sectoral level. For more information on Corruption and Taxation risks we refer to chapters 4.4 and 4.5.

Figure 5.4 / Findings for the energy sector



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## Main risks

For the approach to the 'responsibility to respect', we also made four (sub)observations for the following dimensions: insight into the risks, results (actions launched), transparency and collaboration.

In the assessment of the 'responsibility to respect' of the energy sector we took into account the following:

- The findings are based on the CSR risks caused by the Dutch energy sector in the Netherlands and in the chain;
- Sectoral commitments, such as the intended audits as part of the Bettercoal initiative and the energy agreement, resulted in a high score for the dimensions 'insights', 'results' (actions have been launched) and 'collaboration'. The reasoning behind this is that, in the foreseeable future, the risks should be managed efficiently if the sector honours the clear commitments made;
- More efforts could be made to promote more transparency on the risks abroad. In addition to this, individual companies could illustrate their concrete improvements more thoroughly. In order to do so, a better insight is required into the risks in the supply chain of individual companies (due diligence).

In the energy sector, there is a risk with a relatively high impact/involvement and a relatively limited approach to the 'responsibility to respect', namely:

- The depletion of natural resources, such as (rare) metals for windmills, smart meters and cables (grids) in the country of origin (such as China). An example is neodymium, which is used in windmill magnets. It is expected that in the years to come, the demand for this element will increase by 700%, putting the extraction in China under grave pressure<sup>186</sup>. Moreover, the extraction of neodymium causes serious environmental pollution and poses major health risks for the local population<sup>187</sup>.

## Specific considerations for dialogue

In addition to (the strengthening of) the energy agreement, the pluriannual energy-efficiency agreements (MJA3 and MEE), the dialogues on coal and the Bettercoal initiative, we feel the following points should be further discussed:

- Monitoring of the efforts made by the sector to reduce CSR risks. The main points of attention in this respect are the extension of the current efforts and the provision of a better overview of the concrete improvements achieved in terms of Labour, the Environment and Human Rights in the extraction of coal, oil, gas and uranium, as well as the import of sustainable biomass;

- Gaining an insight into the origin and CSR risks of materials used in the production of sustainable energy technologies such as windmills (e.g. neodymium). In this respect, it would be useful to adopt a cross-sectoral approach involving sectors in the chains supplied, such as the metal and electronics sectors;
- Creating an overview of the steps that need to be taken to reduce energy usage in the Netherlands, and their consequences;
- Developing a strategy to reduce CSR risks the sector will be confronted with due to higher gas imports from abroad, e.g. from Russia.

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# FINANCIAL SECTOR



A small number of banks and pension funds put together hold more than a 70% share of the market

The Netherlands has a large and diverse financial sector, which includes a few large companies, also at international level. Two major Dutch banks rank in the top 30 of the largest banks worldwide. Together they represent 74% of the Dutch banking sector.

Two Dutch pension funds also rank in the top 20 worldwide. Together, these pension funds manage 461 billion euro and they represent 70% of the Dutch pension fund sector.

Although private funds make up more than half the credit volume of Dutch banks, the financial sector plays a central role in the Dutch economy, and as such, it is involved in various (international) CSR topics. In this SRA we specifically analysed major Dutch banks and pension funds. The other subsectors (insurers, asset managers and private equity) also carry CSR risks, but they were not further analysed as part of this SRA.

By nature there is a significant difference between the business model of a bank and that of a pension fund. For example, they offer different financial products and services (e.g. loans to private individuals and businesses versus investment and payment of pension contributions). They also target different client groups (e.g. multinational businesses versus pension beneficiaries) and operate in different geographical regions (e.g. international scope versus focus on the national market). Business models can also differ between banks, e.g. due to the products and services they offer (not all banks finance projects, for example), the scope of their activities abroad and the sectors they focus on. All these different ways

of doing business have a major impact on the risk profile of the individual financial institutions and of the sector as a whole. For example, they influence:

- the extent to which the financial institution is responsible for causing the CSR risks;
- the way in which the financial institution manages the CSR risks;
- the extent to which the financial institution is capable of influencing the behaviour of its clients or the businesses it invests in.

The risks identified in this SRA apply to an average representation of the pension and banking sector. Given the differences between both subsectors, the specific risks are listed separately for each subsector below.

## CSR risks for banks

Through the provision of loans to companies, the investment of clients' funds and the supply of many other financial products and services, banks are – just like the wholesale and retail sector – directly or indirectly involved in a wide variety of CSR risks (e.g. climate change, water scarcity and breach of human rights). Why? Simply because banks are involved and/or have clients in all sectors.

Banks generally feel they play an indirect role in these types of CSR risks, as they are involved in causing CSR risks via the clients they finance (or they provide other products/services to) and/or the companies they invest in. Banks generally feel they are directly involved in CSR risks if their own internal operations have an impact on these risks, e.g. through the environmental impact of their offices. This direct impact is usually managed via a programme for sustainable purchasing. The

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extent of the direct involvement of a bank is very limited compared to its indirect involvement. In order to manage the indirect impact of their business activities, Dutch banks have developed and implemented so-called 'Environmental and Social Risk policy frameworks', which include sectoral and issue policies and criteria, such as the procedures to be followed and the tools to be used when managing transactions and relationships with clients in sectors which have a significant impact on CSR risks. An example is their policy for the oil and gas sector, palm oil and forestry. These policy frameworks list the activities the bank 'cannot' finance in a given sector and the CSR practices the bank expects from its clients before entering into any agreements. Compared to their international competitors, it is safe to say that Dutch banks play a very active role in managing their indirect involvement in CSR risks. Their participation in various sectoral and multi-stakeholder initiatives illustrates this perfectly.

A few examples:

- Dutch banks play an active role in a number of round tables for sustainable agro commodities, and are members of the UNEP Finance Initiative and the Global Investor Statement on Climate Change;
- The Equator Principles (EP) are widely supported. This set of ten principles forms the benchmark for the financial sector for identifying, analysing and managing risks for people and the environment when financing projects worth over 10 million USD;
- Banks have been holding dialogues with clients about (possible) malpractices in the main raw materials trade chains for over a decade;
- The sector does its utmost to promote transparency. In fact, the major banks rank high in the Transparency Benchmark.

When implementing their 'Environmental and Social Risk policy frameworks' banks always look at the way they can influence the behaviour of the clients they are set to finance or the businesses they are set to invest in. Moreover, they analyse how best to use their influence. In order to do so, where possible, banks adopt a 'portfolio perspective'. From a CSR view, this leads to three key questions:

- How influential are we – and should we be – in the sector?
- What type of relationship do we have – and do we want – with clients in specific sectors?

- How can we manage the CSR risks in the envisaged relationship, possibly through involvement in the sectors/companies in question?

Based on the answers to these questions, the banks assess the impact of their actions on the CSR risks and they decide which approach to take towards the 'responsibility to respect'. Banks' positions vary according to the sector, because every client relationship is different and every type of financial product or service provided by a bank plays a key role in determining the way it can manage the CSR risks.

A few examples:

- A Dutch bank can have a greater impact on the behaviour of a client if it has financed an infrastructural project, for example, rather than when it has provided a one-time loan for general operational costs. The first example is a long-term relationship with a lot of contacts and dialogues, and a considerable loan;
- A Dutch bank that has a majority interest in a company via private equity investments has better access to the management of that company than a bank that has only invested through the purchase of shares;
- A Dutch bank with a dominant position in the financing of a given sector cannot adopt exclusion criteria as easily as a bank that has hardly any clients in that sector. Building a relationship with existing clients is generally a more effective and financially responsible influencing mechanism than the use of exclusion criteria.

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## BOX 1: BEST PRACTICES

### Risk:

Breach of human rights.

### Parties involved:

ING Group, in collaboration with Barclays, BBVA, Credit Suisse, RBS, UBS and UniCredit. Together these international banks form the Thun Group of Banks.

### Activities:

The Thun Group is an informal working group that researches how the UN Guiding Principles on Business and Human Rights can best be interpreted and applied to banking activities.

### Results:

At the end of last year, the Thun Group published a dialogue paper titled 'The Guiding Principles; an interpretation for banks', with a view to encouraging constructive dialogue between banks and other stakeholders. The document takes a closer look at the meaning of human rights issues for banks and contains initial guidelines for banks on how to address human rights in their core activities.

### Risk:

Deforestation and loss of biodiversity.

### Parties involved:

Dutch banks like Rabobank and ABN AMRO Bank are members of the Roundtable on Sustainable Palm Oil (RSPO) which also includes other international banks/ investors, NGOs, retailers, producers of consumer goods, palm oil cultivators, and palm oil producers and traders.

### Activities

RSPO was founded in 2004 to promote the production, financing and use of sustainable palm oil for people, nature and the economy, among other things.

### Results:

Below you will find a few examples of the results achieved by individual banks:

- Integration of RSPO-certified sustainable palm oil and/or RSPO certification in the bank's policy for the palm oil sector;
- Dialogues with clients in the palm oil sector on progress in the application of RSPO programmes;
- Dialogues with other banks on the broader application of RSPO standards by the banking sector.

## CSR risks for pension funds

As mentioned at the beginning of this chapter, pension funds are confronted with CSR risks in a somewhat different manner than banks. CSR risks for pension funds are mainly the result of the investment of pension beneficiaries' pension contributions rather than the financing of specific companies or projects, which is the case for banks.

However, just like banks, pension fund managers believe they have mainly an indirect involvement in CSR risks. The companies, projects etc. they invest in are usually the ones that are directly involved. Nevertheless, certain pension fund investments are considered direct investments; for example acquiring a majority share in a company via a private equity investment.

Dutch pension fund managers use various tools to manage the indirect impact of their investments: they exclude specific sectors or companies, they take account of CSR in their investment decisions, they hold dialogues with the companies they invest in, they adopt the principle of voting rights and they invest in sustainable solutions. The tools used by a specific pension fund manager depend, among other things, on the type of investment (the investment category an investment falls under, such as shares, real estate and infrastructure) and the investment strategy (e.g. active versus passive investment strategy). Moreover, the type of investment and the investment strategy also largely determine the influence the pension fund manager has on the company it invests in, and consequently, its role

in managing CSR risks. Generally, pension fund managers have greater influence in the case of actively managed share portfolios, compared to shares invested according to a specific index.

In order to manage the indirect impact of their investments, Dutch pension funds often also use CSR guidelines that are developed by the sector itself. Most Dutch pension funds endorse the United Nations Principles for Responsible Investment (UN PRI). This is an international guideline, drawn by institutional investors, concerning responsible investments. The aim of the UN PRI-initiative is to help institutional investors to integrate CSR factors in investment activities and decisions. Periodically, signatories of the UN PRI have to account for the progress made in implementing the guideline.

The management of CSR risks caused by investment activities is generally the responsibility of the asset managers who take care of the implementation of the investment policy on behalf of the pension fund manager.

Pension fund investments are usually more of a hot potato than bank financing and investments, because pension funds directly manage citizens' money. Consequently, pension funds investing in activities that have a negative environmental impact (such as investments in fossil fuels for the energy sector) tend to be questioned more easily. The same goes when there are major human rights risks, such as shipbreaking and sweatshops in the clothing sector. Pension fund managers are becoming more aware of the fact that they are investing on behalf

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of citizens/pension beneficiaries, and it is therefore important for them to explain their sustainability policy for each sector to this stakeholder group. This is an important reason for pension fund managers to make their sustainability policies more concrete and to showcase better performances.

### Appreciation by civil society parties

In the framework of this SRA, NGOs showed a particularly keen interest in the CSR risks for the financial sector, as evidenced by the fact that:

- in the first written questionnaire, 9 out of 20 NGOs identified the financial sector as a priority sector, more than any other sector;
- 18 out of 30 civil society organisations that completed detailed questionnaires provided input on the financial sector;
- the workshop for the financial sector was attended most by civil society organisations.

The assessment of mostly the NGOs of the impact on and involvement in a number of Environmental and Labour risks does not differ much from our own analysis and from that of the sector<sup>188</sup>. The main differences lie in the risks 'greenhouse gas emissions' (due to underinvestment in/underfinancing of the low-carbon economy and investments in/financing of companies with high emissions), 'investments in/supply of financial products/services to companies that contribute to a loss of eco-system services and biodiversity' and finally 'investments in/supply of financial products/services to companies that do not respect women's rights'. The differences are more significant in the

fields of Human Rights and Corruption. NGOs give the approach to the principle of 'responsibility to respect' a lower score for all risks<sup>189</sup>.

This is mainly due to the different perspective that NGOs chose to formulate their findings, compared to the sector (this emerged from the self-assessments of major banks and dialogues with representatives of the main pension funds). Below we will illustrate these different perspectives using two human rights examples, land grabbing and controversial weapon production<sup>190</sup>.

#### Land grabbing

The major Dutch banks recognise the severity of the risk 'supply of financial products and/or services to companies that are responsible for land grabbing', which is also high on NGOs' agendas. Major banks adopt a portfolio perspective and observe that this risk potentially only occurs in a very limited part of their portfolio. In sectors where this risk can occur, it primarily affects companies that receive corporate loans, ensuring its impact remains relatively limited. Moreover, for these products there is strong competition at international level. Therefore banks agree that their possibility to influence the client/project is relatively small. Combined with their policies, they concluded that their approach is 'Sufficient' for this topic. Civil society organisations, however, focus less on business and economic processes than banks and pension funds. Given their role in society, civil society organisations adopt a more prescriptive approach: certain financing projects/investments are good or bad, are allowed or not allowed etc. Moreover, civil society organisations have higher standards for CSR management than financial institutions<sup>191,192,193</sup>. Partly due to these differing approaches, the impact

and indirect involvement of financial institutions in land grabbing is assessed as 'high'. International NGOs are also not satisfied with the approach to the 'responsibility to respect' of banks and pension funds, including development banks and insurers<sup>194</sup>.

#### Controversial weapons

The risks related to controversial weapons are also assessed differently. NGOs recognise that since the documentary on investments in cluster munitions and land mines (Zembla, 2007), financial institutions have taken steps in the right direction. Major banks and the main pension funds in the Netherlands have very clear policies on this issue<sup>195</sup>. The sector therefore concludes it is 'Sufficient' when it comes to this particular risk. What's more, on 1 January 2013 a ban came into force on direct and demonstrable investments in cluster munitions. We can conclude things have come a long way.


Nevertheless, NGOs pointed out that<sup>196</sup>:


- Not all banks, insurers and pension funds have a policy concerning this topic. Moreover, a policy does not necessarily equal a good policy, nor an acceptable investment strategy. The financial sector has a differing view on the matter – and to a certain degree also on each controversial type of weapon;
- There is often a discrepancy between policy and practice, or policies contains exceptions that in practice do allow certain investments. It occurs that financial institutions say they do not want to invest in manufacturers of a controversial weapon (e.g. nuclear weapons), but draft exceptions in their policy that actually do allow such investment. Also NGOs expect more transparency, e.g. through insights in excluded companies.

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**Box 2: Examples of CSR risks and approach to the principle of 'responsibility to respect'**

TYPE OF RISK	IMPACT	RESPONSIBILITY TO RESPECT <sup>197</sup>
 <p><b>Environment</b> Greenhouse gas emissions (due to underinvestment in the low-carbon economy and investments in companies with high emissions)</p>	<p>Major banks and pension funds make quite a few investments in companies with a large carbon footprint, whereas investments in the low-carbon economy are much more limited.</p> <p><b>A few key figures<sup>198</sup>:</b></p> <ul style="list-style-type: none"> <li>- <b>14.2%</b> of ING Bank's credit portfolio is made up of 'natural resources' (e.g. agriculture and mining).</li> <li>- <b>20%</b> of Rabobank's credit portfolio is made up of loans to the food and agricultural sectors.</li> <li>- <b>3.6%</b> of ABP's portfolio is made up of raw materials, most of which are linked to the energy sector (e.g. oil and gas).</li> <li>- <b>67</b> companies in the ABP portfolio contribute to mitigating climate change (2% of the total portfolio).</li> <li>- <b>0.3-0.5%</b> of the ABP portfolio consists of sustainable energy.</li> </ul> <p>The sector's exact impact in terms of carbon footprint is unknown.</p>	<p>The major Dutch banks have identified climate change as a material risk.</p> <p>The large pension funds have included climate change in their responsible investment policy, which is applied to the entire investment portfolio. ESG integration for corporate bonds amounts to 100%. According to VBDO, the Dutch Association of Investors for Sustainable Development, it is unclear whether this process has a systematic and verifiable influence on interests in individual companies.</p> <p>Currently, the large pension funds have not applied ESG integration to government bonds. Moreover, there is no positive selection process in which emission-free investments are preferred.</p> <p>In 2013, banks and pension funds signed the energy agreement and thus committed to financing of and investments in sustainable projects.</p>

TYPE OF RISK	IMPACT	RESPONSIBILITY TO RESPECT
 <p><b>Labour</b> Investments in companies that do not comply with international standards on labour rights (right to collective bargaining and right to free association)</p>	<p>In many upcoming economies and developing countries there is a risk of breaching the trade union rights of workers<sup>199</sup>.</p> <p>According to the ILO, the right to free association is one of the fundamental human rights, which has a major impact on working and living conditions<sup>200</sup>. A breach of the right to free association does not directly affect the right to live in dignity, but indirectly it can have a major impact. Moreover, trade union members risk losing their jobs, being threatened or murdered. Needless to say, this risk can have serious consequences<sup>201</sup>.</p> <p>The Dutch financial sector has direct business links (pension funds) and indirect business links (banks) with many different sectors (incl. mining, oil and gas, the automotive industry and the electronics sector) that are active in high-risk countries.</p>	<p>Human rights policies explicitly focus on the right to collective bargaining and the right to free association<sup>202</sup>. There are sectoral policies for the manufacturing industry which require additional due diligence for the financing of activities in this sector.</p> <p>Labour rights are included in the responsible investment policies of major pension funds and apply to all investments. ESG factors are taken into consideration when deciding whether or not to invest. This applies to <b>100%</b> of the investments in public listed equity and corporate bonds.</p> <p>VBDO says it is unclear whether this process has a systematic and verifiable influence on interests in individual companies.</p> <p>At the moment, ESG integration for government bonds is limited.</p>

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## Overview of all material risks

Figure 5.5 illustrates the impact (scope and severity of the risk) and the sector's involvement (indicated through its position in the chain and the share of companies involved) per risk, with a figure between 0 and 3. These findings are based on the literature review carried out by KPMG with regard to banks and pension funds, supplemented with self-assessments completed by major banks and civil society organisations.

The sources used in the assessment of the impact and involvement are listed in the separate SRA source book.

Corruption and taxation risks were not included in the table, because they cannot really be assessed at sectoral level. For more information on Corruption and Taxation risks we refer to chapters 4.4 and 4.5.

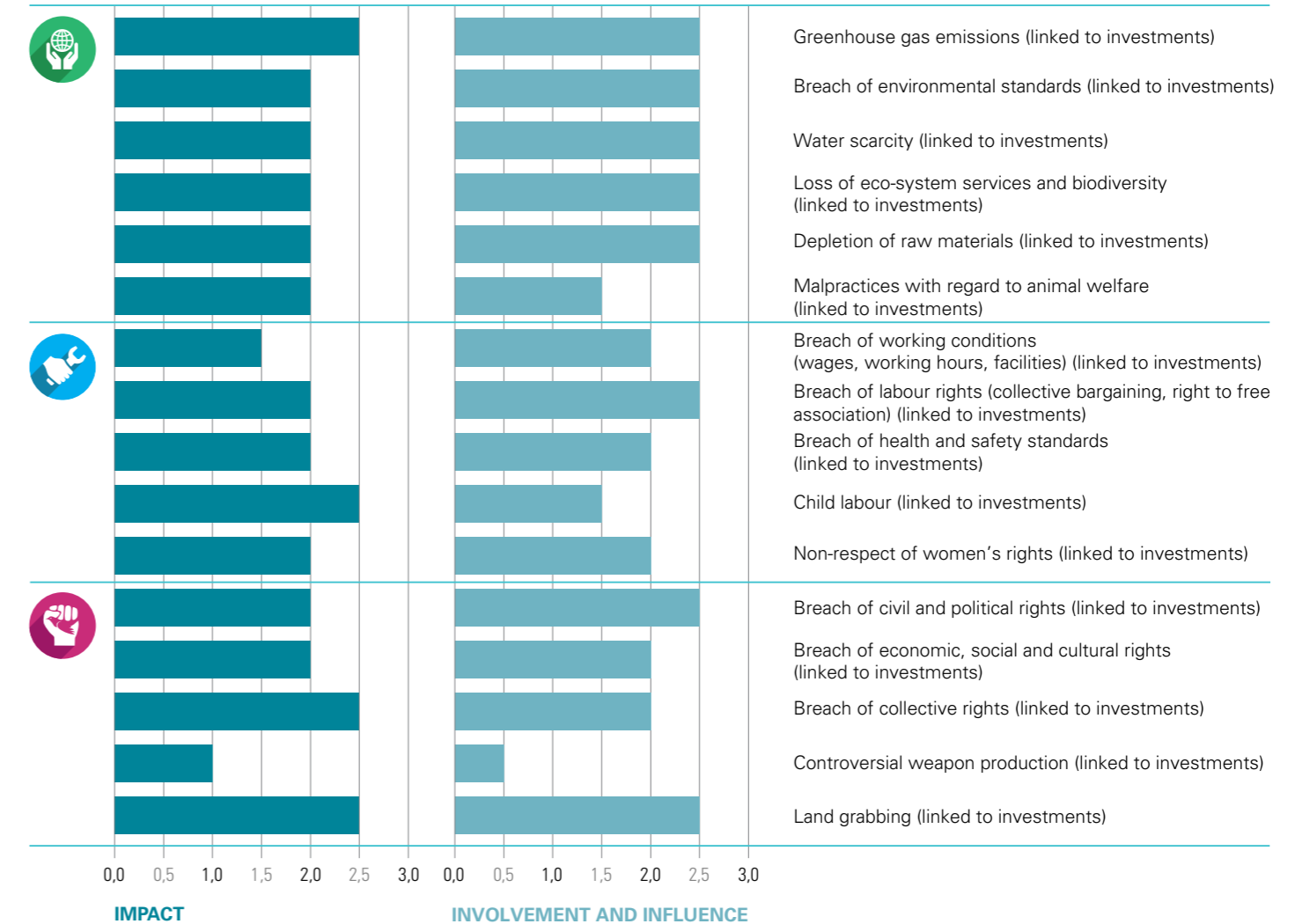
## Main risks

For the approach to the 'responsibility to respect', we also made four (sub)observations for the following dimensions: insight into the risks, results (actions launched), transparency and collaboration.

In the assessment of the 'responsibility to respect' of the financial sector we took into account the following:

- The findings are expressed from a portfolio perspective at sectoral level, i.e. from the perspective of minimum 70% of banking subsectors and asset managers.
- In many cases, when public sources are used, it is difficult to establish whether the CSR policy and its associated processes per portfolio have a systematic and verifiable influence on interests in individual companies.

Figure 5.5 / Findings for the financial sector



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In the financial sector, there are several risks with a high impact/involvement and a relatively limited approach to 'responsibility to respect', namely:

- Investments in/provision of services to companies that contribute to the depletion of raw materials. There is no strategy in place to reduce involvement in sectors such as mining, oil and gas, which contribute to the depletion of raw materials<sup>203</sup>;
- Investments in companies that are responsible for land grabbing: although the general human rights policy of banks and pension funds suffices, there are still some points that require further attention, specifically in relation to land rights<sup>204</sup>. Major banks require consultation with land users in cases of land acquisitions, but they do not always apply to everyone. Moreover, there is a lack of transparency on the activities launched to prevent land grabbing. When accused by NGOs of land grabbing in Mozambique, one of the main pension funds launched an investigation and started dialogues. However, pension funds still lack a systematic approach for the problem and transparency on its impact<sup>205</sup>;

- Risks linked to Corruption: in the past two years, the sector was confronted with several issues related to investments in companies accused of corruption and price setting (anti-competitive behaviour) abroad. The 'Dutch Fair Bank Guide' ('Eerlijke Bankwijzer') is critical of major banks and corruption, while there are also banks whose anti-corruption statement also applies to business partners. Internal regulations with regard to corruption are often stricter than the national legislation in countries at risk of corruption<sup>206</sup>. Not all pension funds have included corruption in their responsible investment policy, and transparency also varies from one case to the next<sup>207</sup>.

### Specific considerations for dialogue

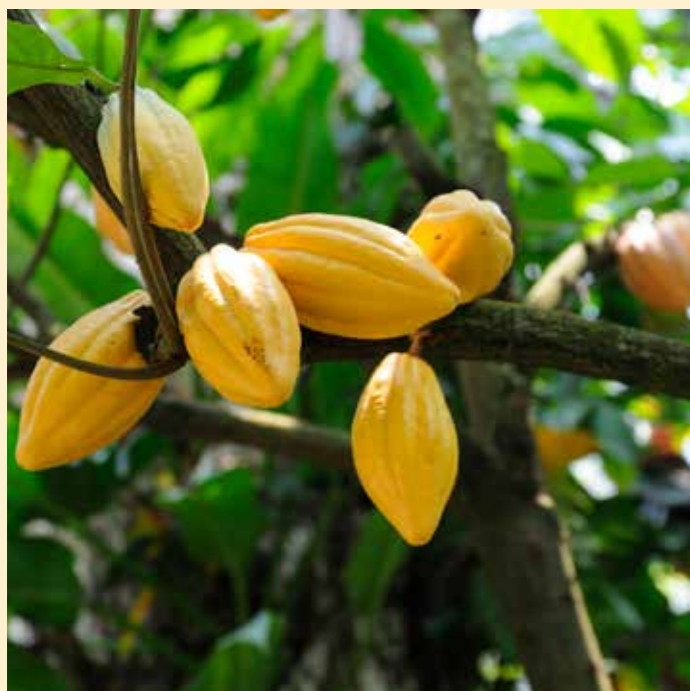
In addition to the four risks mentioned above, based on our analysis we identified the following considerations for further dialogue:

- To what extent are financial institutions responsible for preventing and mitigating CSR risks for clients and in their investments? And which tools can they use to assist affected stakeholders?

- To what extent are the CSR policies of major banks and pension funds, and specialised sustainable banks, useful to other financial institutions, to create a level playing field at national level to deal with CSR risks?
- How can banks and pension funds make better use of the upside potential of CSR risks and which role can the government play to facilitate this? Banks and pension funds can definitely leverage their influence by tapping into additional financing requirements and investment options among clients linked to the shift to a more sustainable economy. Governments could develop and establish the necessary frameworks for this purpose;
- In order to develop an efficient long-term policy for more complex CSR risks (linked to, among other things, climate change, raw materials shortage and biodiversity) the 'know-your-value-chain' approach is a must in addition to the current 'know-your-client' approach;
- Although the general human rights policies of banks and pension funds suffice, NGOs are concerned that explicit policies to protect women's rights are not sufficiently integrated in financing and investment activities, and that there is not enough transparency on the manner in and extent to which these policies are included;
- Banks and pension funds could take steps to quantify – in financial terms – CSR risks in their financing and investment activities. Currently, CSR risks are mostly defined in qualitative terms.

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# FOOD AND BEVERAGE INDUSTRY



## The main cocoa processor worldwide

The Dutch food sector employs 133,000 people and has a turnover of 67.8 billion euro (2012)<sup>373</sup>. The sector can be subdivided into three clusters: processing of meat and fish, processing of agricultural raw materials, and production of food and beverage. The sector makes extensive use of various agricultural raw materials. An example: the Netherlands is the main cocoa processor worldwide and every year, more than 3 million tonnes of soy are processed in the Netherlands, of which 1.8 million tonnes are for local use<sup>374,375,376</sup>. This makes the food and beverage industry sector an important link between the (international) agricultural sector, (international) export companies and Dutch sectors, such as wholesale, retail and hotels & catering, where foods are sold to consumers. FNLI (the Dutch Food and Beverage Industry) is the umbrella organisation of companies and industry organisations for the food and beverage cluster. This organisation provided us with information for this SRA.

## Certification of agricultural raw materials

The CSR risks in this sector are primarily linked to the production of soy in South-America, cocoa in Western Africa and palm oil in Indonesia and Malaysia. Currently, an important method for the sector to limit various (types of) risks is the certification of raw material chains. There are sectoral agreements for various raw materials, which promote more sustainable purchasing. As such, at international level, the sector is showcasing leadership in the prioritisation and reduction of CSR risks in the chain that affect the entire sector. This strategy includes collaboration with the 'Sustainable Trade Initiative' (IDH) and

participation in various round tables with a view to promoting sustainability in the raw materials chain.

A few remarks on the sector's approach to the principle of 'responsibility to respect':

- For a number of raw materials, such as palm oil, soy and cocoa, there are sectoral targets in place for sustainable purchasing, or large individual players have joined initiatives for sustainable purchasing, such as the 'sustainable soy transition' programme. For other raw materials these steps still need to be taken (see boxes 2 and 3 for more information);
- The concrete reduction of international CSR risks strongly depends on the quality of the criteria and audits used in the various certification programmes, and on the individual companies' compliance with the obligations arising from the targets set<sup>377</sup>. The efficiency of these efforts also depends on other international parties' commitment to promote sustainability;
- The certification criteria set few requirements for CSR topics that are not identified as key issues. An example: there are not many requirements on the use of pesticides. As a result, the management of this risk is also limited for certified raw materials. Consequently, some buyers have set their own additional requirements for their suppliers;
- The exact approach adopted to meet the targets and the sector's concrete progress is not always clear (see box 2 for more information). In 2013, CBS (Statistics Netherlands) was asked by the Ministry of Economic Affairs to make an annual inventory of the progress made;

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- The sector is still looking for a way to tackle international CSR risks linked to the production of agricultural raw materials, which, however, occur outside the direct scope of the production site. The sector is becoming more and more aware of the fact that certification of raw materials is not enough to solve complex, related issues linked to land degradation, biodiversity, land rights, food security and women's rights. A local approach, focused on a specific area, seems necessary in this respect, but it is still unclear how the average Dutch Food and beverage industry producer can contribute to it. Some large companies have, however, started developing their own approach for this issue<sup>378</sup>;
- The financial side of CSR is an issue for the sector: the additional costs for labels can be partly passed on to consumers who are willing to pay extra for this, but for other CSR efforts there are no such labels, making it difficult to make a return on investment. Companies are looking at ways to

- recover these expenses in the chain, e.g. through risk reduction, stable relationships with suppliers and the use of raw materials of better quality;
- The sector's international CSR agenda traditionally focuses on environmental risks for several specific chains. So far, the sector has not paid much attention to social risks. Labour risks and Human Rights risks in particular could be tackled further. Women's rights, for example, are not explicitly mentioned in the policies of many companies in the sector<sup>379</sup>. Some chains, e.g. that of coffee, have put social risks on top of their agenda for years<sup>380</sup>;
  - Another major social problem is food wastage. The sector believes this risk can be properly managed as far as its own production goes. The greatest challenge in this respect is the further optimisation of the complex supply chains and raising awareness among consumers.

**Box 1: Examples of CSR risks and approach to the principle of 'responsibility to respect'**

TYPE OF RISK	IMPACT	RESPONSIBILITY TO RESPECT
 <p><b>Environment</b> Food wastage (in the entire chain, up to the consumer)</p>	<p><b>Global food wastage:</b></p> <ul style="list-style-type: none"> <li>- <b>1.3</b> billion tonnes per year<sup>381</sup>;</li> <li>- The percentage of food wastage compared to the total volume produced per chain segment<sup>382</sup>:</li> <li>- <b>9%</b> in the agricultural sector;</li> <li>- <b>5%</b> in the food sector;</li> <li>- <b>4%</b> in retail/trade;</li> <li>- <b>17%</b> by households;</li> <li>- Food wastage in the Netherlands: <b>1.4 to 2.5 million</b> tonnes (2009)<sup>383</sup>.</li> </ul>	<p>The food industry promotes the reduction of food wastage, e.g. through the following initiatives:</p> <ul style="list-style-type: none"> <li>- In 2012 the sector joined forces with other partners from the production chain as part of the 'Optimisation of residual flows and food wastage' group of the 'Alliance for sustainable food';</li> <li>- Participation in research into possibilities to reduce food wastage via the Top Institute Food &amp; Nutrition<sup>384</sup>.</li> </ul> <p>It is unclear which concrete results these initiatives have so far brought about.</p>
 <p><b>Labour</b> Child labour in the production of agricultural products/ raw materials (e.g. coffee, cocoa and palm oil)</p>	<p><b>A few key figures:</b></p> <ul style="list-style-type: none"> <li>- <b>59%</b> of all child labour occurs in the international agricultural sector<sup>385</sup>;</li> <li>- Globally, this translates into more than <b>98 million</b> children being affected<sup>386</sup>;</li> <li>- It is estimated that <b>72,000 to 200,000</b> stateless children work on palm oil plantations in Malaysia<sup>387</sup>;</li> <li>- Link with the Netherlands:</li> <li>- The Netherlands imports agricultural raw materials from all over the world;</li> <li>- In 2012 the Dutch food industry processed <b>407,000 tonnes</b> of palm oil<sup>388</sup>.</li> </ul>	<p>The sector has developed a set of concrete targets for sustainable purchasing of several agricultural raw materials, such as palm oil. This also reduces the risk of child labour. The current situation is illustrated below<sup>389,390</sup>:</p> <ul style="list-style-type: none"> <li>- Target: <b>100%</b> sustainable palm oil by 2015;</li> <li>- In 2013, the food industry used <b>61%</b> of sustainable palm oil, i.e. <b>182,607</b> of the <b>298,668 tonnes</b> of certified palm oil (2013);</li> <li>- <b>53</b> FNLI members have joined RSPO (2012);</li> <li>- <b>21</b> companies have joined Green Palm (2012);</li> <li>- <b>21</b> companies are supply-chain certified (2012);</li> <li>- Participation in the 'Alliance for sustainable food' and RSPO. When applying for RSPO certification, companies are monitored for the use of child labour, among other things<sup>391</sup>.</li> </ul>

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## Appreciation by civil society parties

Although the sector tries to limit international CSR risks in various ways, e.g. through targets for the purchase of sustainably produced raw materials, we noticed differences between the ways the stakeholders and the sector assessed the approach to the 'responsibility to respect' as part of this SRA. Stakeholders gave the latter a structurally lower score than the sector itself did. This different assessment seems to arise from the sector's and the stakeholders' different views on whether or not the 'responsibility to respect' has been sufficiently met. The sector believes that a solid 'responsibility to respect' is the result of a clear policy and leading companies in the sector taking measures. FNLI defines 'leading companies' as those participating in the initiative 'In de Versnelling' ('Full speed ahead'), i.e. companies that, in their own way, explicitly integrate sustainability in their corporate policy. Moreover, they make their targets and results public. One eighth of the FNLI members are 'leading' companies, and they account for more than half of the sector's turnover. The stakeholders, on the other hand, tend to look at concrete risks in the chain, e.g. in the production of cocoa and palm oil. The stakeholders feel Environmental, Labour and Human Rights risks are not given enough attention, considering problems in these fields still occur on a daily basis. NGOs and trade unions are mainly concerned with child labour, forced labour and land degradation, combined with biodiversity, land rights, food security and women's rights. NGOs focus specifically on these risks, and subsequently they 'zoom in' on specific areas or raw materials. The sector, however, takes the opposite approach: for each raw material it analyses which risks occur in the chain.

## Overview of all material risks

Risks generally refer to the chance that an event will take place 'multiplied' by the 'consequence' of that event. In many cases, this allows for risks to be quantified. The SRA uses the term 'impact' to refer to the estimated chance (that a situation will take place, an estimate of the number of people involved, the scope of the environmental damage in the area in question, the emissions measured in tonnes etc.) and the consequences (the severity of the event for the environment, people and animals) of each risk. Risks that affect people and animals' physical integrity and that cause irreversible damage are classified as severe.

The figure on page 110 the impact (scope and severity of the risk) and the sector's involvement (indicated through its position in the chain and the share of companies involved) per risk, with a figure between 0 and 3. These findings are based on the literature review carried out by KPMG, supplemented with the input from the sector and civil society organisations. The sources used in the assessment of the impact and involvement are listed in the separate SRA source book. Corruption and taxation risks were not included in the table, because they cannot really be assessed at sectoral level. For more information on Corruption and Taxation risks we refer to chapters 4.4 and 4.5.

## BOX 2: BEST PRACTICES

**Risk:** Various Environmental, Labour and Human Rights risks.

**Parties involved:** Members of FNLI, various industry organisations and NGOs. The 'Sustainable Trade Initiative' (IDH) acts as the facilitating party.

**Activities:** Promoting sustainability in international raw materials chains. The target is for food companies to gain a better insight into – and pay more attention to – CSR risks in their chain, e.g. through partnerships in the chain, specific purchasing conditions and certification. This is done in collaboration with the 'Sustainable Trade Initiative' (IDH).

**Results:** The parties' joint efforts have resulted in concrete targets for the purchase of various sustainable agricultural raw materials, among other things. The agricultural raw materials in question are listed below.

Raw material	CSR target for the sector	Remarks
<b>Cacao</b>	50% sustainable cocoa by 2015 100% sustainable cocoa by 2025	In 2012, 77,109 tonnes of sustainable, certified cocoa were purchased, i.e. 50% of the Dutch cocoa imports <sup>392</sup> .
<b>Fruit and vegetables</b>	30% sustainable imports by 2014 50% sustainable imports by 2015 100% sustainable imports by 2020	The sector has joined the Sustainability Initiative Fruits and Vegetables (SIFAV) for tropical fruits and vegetables. At the moment, it is not known whether the target for 2014 was achieved <sup>393</sup> .
<b>Coffee</b>	75% sustainable coffee by 2015	In 2012, 40% of the coffee consumed in the Netherlands was produced sustainably <sup>394</sup> . By 2013 this percentage had increased to 50% <sup>395</sup> .
<b>Soy</b>	100% sustainable soy by 2015	In 2013, 545,250 tonnes of certified soy were purchased, i.e. 30% of the total soy consumption in the Netherlands. 23% was RTRS-certified and 7% was awaiting RTRS certification <sup>396</sup> .
<b>Palm oil</b>	100% sustainable palm oil by 2015	In 2014, the Dutch food industry processed 407,000 tonnes of palm oil, 165,000 tonnes of which were certified <sup>397</sup> .

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Figure 5.12 / Findings for the food sector



### Main risks

For the approach to the 'responsibility to respect', we also made four (sub)observations for the following dimensions: insight into the risks, results (actions launched), transparency and collaboration.

In the assessment of the 'responsibility to respect' of the food sector we took into account the following:

- The findings are mainly based on the CSR risks that apply to the Dutch food and beverage sector, both to its own production and the chain;
  - In this SRA, sectoral targets for the purchase of a number of sustainable raw materials resulted in a high score for the dimensions 'insights', 'results' (actions have been launched) and 'participation'. The reasoning behind this is that, in the foreseeable future, the risks should be managed efficiently if the sector honours the clear commitments made;
  - More efforts could be made to promote more transparency on the risks. In addition to this, individual companies could illustrate their concrete improvements more thoroughly. In order to do so, a better insight is required into the risks in the supply chain of individual companies (due diligence);
  - Since dialogues between the sector and the government (Ministry of Infrastructure and the Environment) on (sustainable) packaging have been largely institutionalised in the Netherlands, and 'producer responsibility' takes centre stage in these dialogues, we decided not to further focus on the associated CSR risks linked to the import of paper and pulp, among other things;
- Thanks to the extensive quality systems for food safety, the risks for people's health linked to the consumption of foods from the Dutch food and beverage industry are very limited;
  - The sector considers food fraud a major risk, but sees it as a criminal activity, not a CSR risk. The topic of health (e.g. in relation to the use of salt and fats) is also high on the agenda.
- In the food and beverage sector, there are a number of risks with a high impact/ involvement and a relatively limited approach to the 'responsibility to respect', namely:
- Water pollution due to the use of pesticides and crop protection products by suppliers (in the production of raw materials);
  - Soil pollution due to agricultural production (e.g. due to the use of pesticides, the disruption of the nutrient cycle and eutrophication) in the supply chain;
  - Unhealthy and unsafe working conditions among suppliers in the production and processing of raw materials (e.g. due to the use of pesticides).
- This low assessment of the approach to the 'responsibility to respect' is due to the perception that only few requirements have been set for the use of pesticides for certified, sustainable raw materials. The other risks are explicitly addressed in the major certification programmes. The extent to which certification actually contributes to the reduction of the various risks is a hot topic in broad international debates.

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## Specific considerations for dialogue

In addition to (the strengthening of) the concrete targets for sustainable purchasing, we note the following considerations for dialogue:

With regard to certification:

- Extend the scope of sectoral and individual corporate initiatives for other raw materials (commodities), such as meat, fish, wheat, rapeseed<sup>398</sup>, maize<sup>399</sup> and rice;
- Monitoring: what is the state of affairs for each raw material and what are the obstacles to increasing the share of sustainably produced products?
- Assessment: how can the certification system be strengthened and what role does the sector play in this?
- Strengthening: how can the certification system be enhanced and what is the role of the sector herein?
- Pesticides: check how the risks related to pesticides and labour rights can be limited for issues where certification does not offer enough guarantees.

### BOX 3: POINTS OF ATTENTION IN THE EXTENSION OF THE SCOPE OF SECTORAL COMMITMENTS

Issuing clear commitments for sustainable raw materials is a clear strategy. In this respect, the selection of raw materials is essential. The following factors could be taken into account.

#### Impact on the environment, labour and human rights

A study by the World Wide Fund for Nature (WWF) shows that the use of ten raw materials has a major impact on biodiversity and eco-system services (water availability and climate change, among others) and that the extraction of raw materials goes hand in hand with Labour and Human Rights risks. Seven of the ten raw materials identified are important ingredients in the food and beverage industry, i.e. wild fish, farmed fish, beef, dairy, palm oil, soy and (cane) sugar. The authors of the report consider pork, rice and maize the 'next three' relevant raw materials<sup>400</sup>. Research by the Netherlands Environmental Assessment Agency (PBL) confirms that dairy, meat and fish imported in the Netherlands have the largest footprint in terms of land use and biodiversity<sup>401</sup>. During the SRA consultations, NGOs expressed their concern not only on the raw materials mentioned above, but also on the extraction of tropical agricultural raw materials, such as cocoa, fruit and vegetables, due to the risk of child labour and women's rights risks.

#### Import value

In terms of import value, the following raw materials are the most important for the Netherlands (in descending order): cocoa beans, soybean meal, palm oil, soy beans, wheat, maize, grapes, tobacco, rapeseed and oranges<sup>402</sup>.

Therefore, dialogues could focus on extending the targets for sustainable purchasing to the following (agricultural) raw materials:

- meat, fish, dairy;
- rapeseed, maize, wheat;
- (cane) sugar;
- rice.

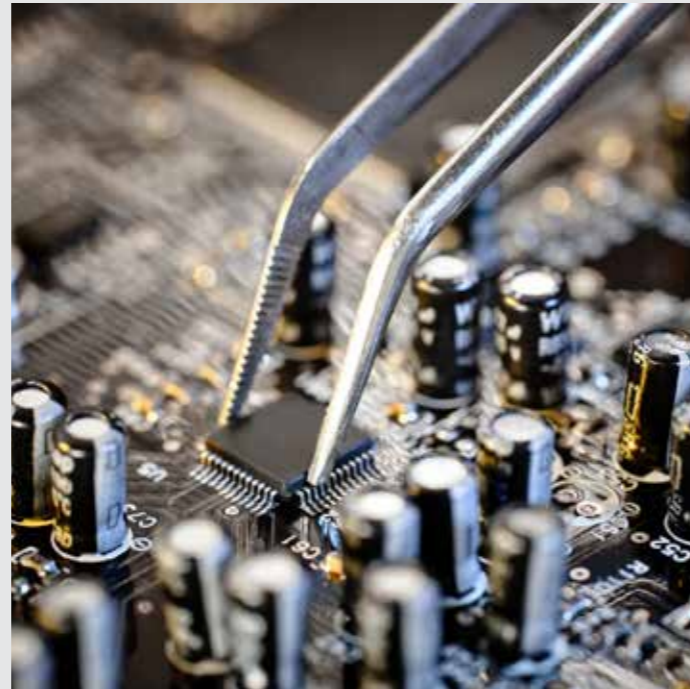
These raw materials are relevant not only for the food and beverage sector, but also for other sectors in terms of CSR risk management, i.e. agriculture, wholesale, retail (food), the financial sector and sectors linked to the production of biofuels.

With regard to risks that go beyond specific raw materials and apply to several dilemmas at the same time:

- Tap into the sector's role in the development and use of alternative raw materials and/or reduce the total demand for raw materials that carry increased CSR risks.
- How can we achieve full transparency on the origin of products and the activities in the chain ('radical transparency')?
- How can Dutch food producers limit CSR risks that occur outside the direct scope of the production site, but are directly or indirectly linked to raw materials production? Examples of these risks are land degradation, loss of biodiversity, food security, land rights and women's rights;
- Linked to the point mentioned above, how can the sector contribute positively to a sustainable local and regional infrastructure that facilitates social and economic development?
- What is the sector's role in further reducing food wastage outside its own production process?

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# METAL AND ELECTRONICS



## Link between sectors

The Dutch metal and electronics sector is characterised by CSR risks that partially overlap (see box 1). Consequently, we described both sectors together in this factsheet.

The metal sector is a highly diversified sector that is mainly made up of metal-processing SMEs. It has a turnover of 29 billion euro and employs 100,000 people<sup>328</sup>. The sector consists of 12,245 companies, some of which are members of FME, the association of businesses operating in the technological industry, and others of Metaalunie, the association of companies in the metal industry.

The Dutch electronics sector is highly diversified too. It has a turnover of 20 billion euro and employs

more than 45,000 people<sup>329</sup>. The sector is made up of 2,500 businesses (including SMEs), many of which are members of FME. The electronics sector is characterised by high production rates of high-tech products sold to businesses, rather than directly to consumers. Therefore, many of the internationally recognised risks for consumer electronics do not apply to the Dutch electronics sector.

FME provided valuable information for this SRA on behalf of the metal and electronics sectors. However, FME does not represent all companies in these sectors, as some businesses are members of other sectoral organisations, such as Metaalunie, and others have decided not to join any organisation at all. Moreover, several associated sectors also make extensive use of (consumer) electronics and metals (see box 1).

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## BOX 1: OVERLAP BETWEEN THE METAL AND ELECTRONICS SECTORS

In this SRA the delineation of the Dutch metal and electronics sectors is the result of the combination of the following sectors from the SBI, as used by CBS (Statistics Netherlands):

### Metal:

- Production of metals in their primary forms;
- Production of metal products (with the exception of machines and devices);
- Production of machines and devices.

### Electronics:

- Production of computers, and electronic and optical devices;
- Production of electric devices

It is very difficult to clearly delineate the metal and electronics sectors. In practice, the two sectors often overlap, which may cause CSR risks to also overlap.

It is mainly the production of machines and devices that causes the sectors to overlap, as it may require the use of both metals and electronic and electric devices. Inversely, in the production of electric and electronic devices, metals, machines and other devices are also often used.

From the perspective of this SRA, the identified CSR risks overlap to such an extent that we joined both sectors together for this analysis.

What's more, metal is also used extensively in other sectors, such as construction (including infrastructure), logistics (e.g. storage and transshipment in ports), the automotive and energy sectors. As for (consumer) electronics, the telecom, electronics wholesale and part of the retail sector are heavily dependent on consumer electronics.

## Raw materials and working conditions abroad

Both the metal and the consumer electronics sectors focus strongly on the CSR risks in the Netherlands. This has resulted, among other things, in a covenant between the government and the metal industry with the aim of reducing energy usage by 50% in 2030 compared to 2005<sup>330</sup>, the initiative '5x Better', in which the sectoral organisations FME and Metaalunie join forces with employers and employees to improve working conditions<sup>331,332</sup>, as well as an extensive materiality analysis which looks at the CSR risks per sector, in a broad sense and with a focus on the entire chain, particularly risks linked to the extraction of various metals. The main CSR risks for both sectors are currently linked to the import of raw materials and electronics from abroad, more specifically CSR risks linked to the extraction of metals and labour risks in the production of electronics (components and products) abroad, in countries like China<sup>333</sup>. The available literature mainly focuses on CSR risks in the production of consumer electronics and provides little information on the risks in the production of separate components for high-tech business-to-business applications.

As for the sectors' approach to the 'responsibility to respect', it is striking that:

- The sectors' agenda traditionally focuses on risks in the Netherlands. International CSR risks are included in a materiality analysis and the collaborating business organisations in the metal and electronics sector want to use that as a basis to raise awareness of due diligence among SMEs;

- For most directly imported metal flows, it is known from which countries they originate. Some of these come from high-risk countries (see chapter 4.2), such as Brazil, China and Russia<sup>334</sup>. However, in the import of metals it is not always clear what the countries of origin are, because some metals are sold through brokers and the extraction and processing do not always take place in the same country. Some major Dutch companies have better or even full transparency on the origin of their imported metals, because they have an insight into the entire chain of the metals they require or they purchase them directly from the mining companies<sup>335,336,337</sup>;
- In many cases it is unknown which part of specific metal flows is used by the various (sub)sectors;
- It is unclear which due diligence processes the companies carry out in the various steps of the chain for the raw materials used (mining, export, trade, raw materials use in the Netherlands);
- As far as FME is aware, the Dutch metal and electronics sector does not have any significant links with risks related to the production of consumer electronics. However, the sectors do have links with risks that may occur in the production of electronic components abroad for and/or by Dutch companies. These risks are related to working conditions in the production of simple electronic components (see box 2). The size of this components flow is unclear.

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## BOX 2: SECTORS LINKED TO LABOUR RISKS IN THE PRODUCTION OF ELECTRONICS

Roughly, the electronics sector can be subdivided into the production of electronic components and end products for other companies, and the production of consumer electronics.

The Dutch electronics sector is mainly involved in the production of high-tech components and end products for other companies. This poses relatively few labour risks in the production in the Netherlands or in the foreign branches of Dutch companies.

Via the import of components used in items produced by the Dutch metal and electronics sectors, these sectors may also become involved in the production of electronics with an increased risk of bad working conditions in countries like China. Presumably this

is mainly the case for relatively simple components whose suppliers compete with each other primarily in terms of pricing and delivery times. This production environment is comparable to that of consumer electronics. This situation is less likely in the case of high-tech components, because of the strict quality requirements for the workers who produce them and the production environment.

The production of consumer electronics is characterised by an increased risk for bad working conditions. However, the Dutch metal and electronics sector is not affected – or very little. The wholesale, retail and telecom sector may be affected through the import of electronics.

## Box 3: Examples of CSR risks and approach to the principle of 'responsibility to respect'

TYPE OF RISK	IMPACT	RESPONSIBILITY TO RESPECT
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### Environment

Greenhouse gas emissions (CO<sub>2</sub> eq) due to energy usage in metal production

In the Dutch production of steel most CO<sub>2</sub> emissions are the result of the chemical process required to make steel (not of energy generation). Data from CBS (Statistics Netherlands) about the CO<sub>2</sub> emissions of the metal sector show that the iron and steel industry is responsible for a significant share of these emissions:

- CO<sub>2</sub> emissions of the metal sector: 7.2 million tonnes (basic metals, metal products and machine industry)<sup>338</sup> – this equals 4% of the national CO<sub>2</sub> emissions<sup>339</sup>;
- 85% of these emissions are generated by the iron and steel industry<sup>340</sup>.

The metal sector is actively trying to save energy, which has resulted in:

- a covenant between the government and the metal industry: 50% energy savings in 2030 compared to 2005<sup>341</sup>;
- a partnership between Metaalunie and SAM (the foundation for advice on the metal industry) for the sharing of knowledge on energy-saving measures<sup>342,343</sup>;
- more than 60% of the SMEs in the metal sector states energy savings are on their agenda<sup>344</sup>;
- Tata Steel, the largest Dutch company specialising in basic metals, has very low CO<sub>2</sub> emissions per tonne produced, and has therefore secured a top spot in the global benchmark ranking<sup>345,346</sup>.



### Labour

Excessively long working hours (in the production of electronics abroad)

In the Philippines, Thailand and China a workweek can be up to 84 hours long, without days off, exceeding the maximum of 60 hours per week established by EICC and various civil society organisations<sup>347,348</sup>. Moreover, there is a significant correlation between overtime and low wages. If the minimum wages are likely to keep workers in poverty, they will be more willing to work excessively long hours<sup>349</sup>. In-house audits by an electronics producer show that 50 to 75% of suppliers in Asian countries were responsible for breaching working time regulations<sup>350</sup>.

Various major Dutch electronics producers signed the EEIC Code, which provides guidelines on the maximum number of working hours<sup>351</sup>. Moreover, a large Dutch company takes part in the Electronics programme of 'Sustainable Trade Initiative' (IDH). Its target is to improve working conditions among Chinese electronics producers, and the programme also includes a stipulation that limits excessively long working hours<sup>352</sup>. There are no sectoral standards for management, monitoring and reporting on this issue. FME, one of the sectoral organisations, provides its members with information on material risks, but long working hours are not explicitly mentioned<sup>353</sup>.

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## Appreciation by civil society parties

Civil society organisations are critical about the CSR risks and the approach to the 'responsibility to respect' in the metal and electronics sectors.

This may be due to the fact that stakeholders and sectors adopt differing perspectives on the risks.

### Metal

The stakeholders answered the questions on the metal sector with a focus on the international extraction of metals (mining) and the related risks. They focused less on the actions of companies in the Dutch sector, which is mainly made up of SMEs. The sector, however, did take the SME perspective into account in its assessment of the risks and its quest for an action framework.

### Electronics

The sector mainly adopts a first-tier perspective, putting Dutch electronics companies and their direct suppliers centre stage. Mining is usually not taken into account. Stakeholders, however, go way back in the chain and focus more on international consumer electronics giants and mining. Therefore, the findings we received from stakeholders did often not apply to the Dutch electronics sector as we had defined it, but rather to consumer electronics on the Dutch market. The Dutch sector is characterised by a relatively high number of companies specialising in high-quality production and business-to-business activities.

## BOX 4: BEST PRACTICES

### Risk:

Financing of conflicts and bad working conditions in tin extraction.

### Parties involved:

The Dutch government and a number of large steel and electronic producers.

### Activities:

The Conflict-Free Tin Initiative (CFTI) aims to allow companies like Philips and Tata Steel to use conflict-free tin from Congo. The Dodd-Frank Act resulted in a 90% reduction in the extraction of minerals in Congo. As such, this initiative also poses opportunities for the local economy, because an embargo of raw materials leads to social problems linked to the unemployment that arises<sup>354,355</sup>.

### Results:

CFTI has produced the following results, among others<sup>356,357</sup>:

- Monitoring of safety in the mines that fall under the CFTI initiative.
- Hundreds of jobs for miners.
- Purchasing of conflict-free tin by two major Dutch companies.

Since this is a pilot project, the quantity of purchased tin is still very limited at the moment compared to all the tin used by the companies involved<sup>358</sup>.

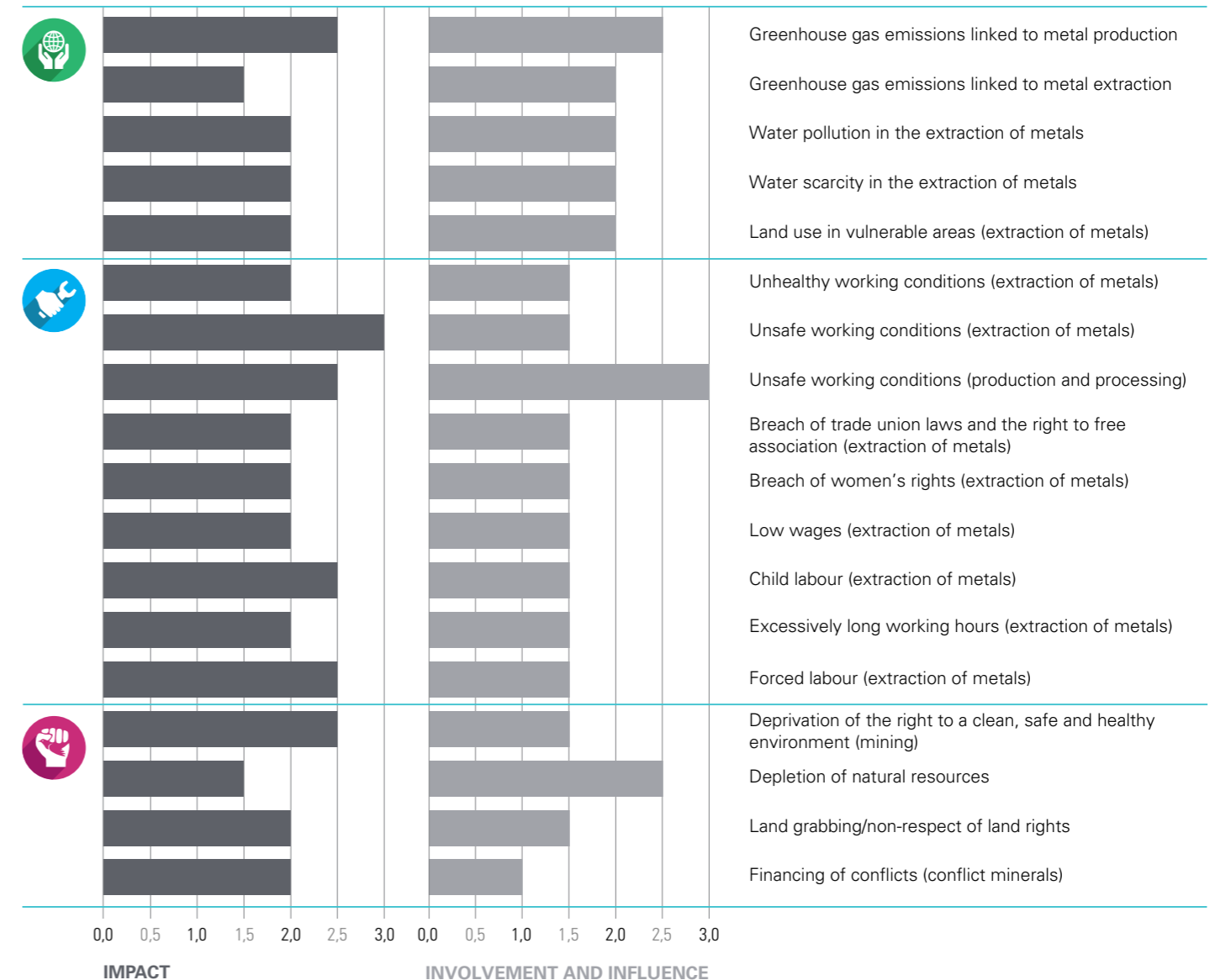
## Overview of all material risks

Risks generally refer to the chance that an event will take place 'multiplied' by the 'consequence' of that event. In many cases, this allows for risks to be quantified. The SRA uses the term 'impact' to refer to the estimated chance (that a situation will take place, an estimate of the number of people involved, the scope of the environmental damage in the area in

question, the emissions measured in tonnes etc.) and the consequences (the severity of the event for the environment, people and animals) of each risk. Risks that affect people and animals' physical integrity and that cause irreversible damage are classified as severe.

The figures 5.9 and 5.10 illustrate the impact (scope and severity of the risk) and the sectors' involvement

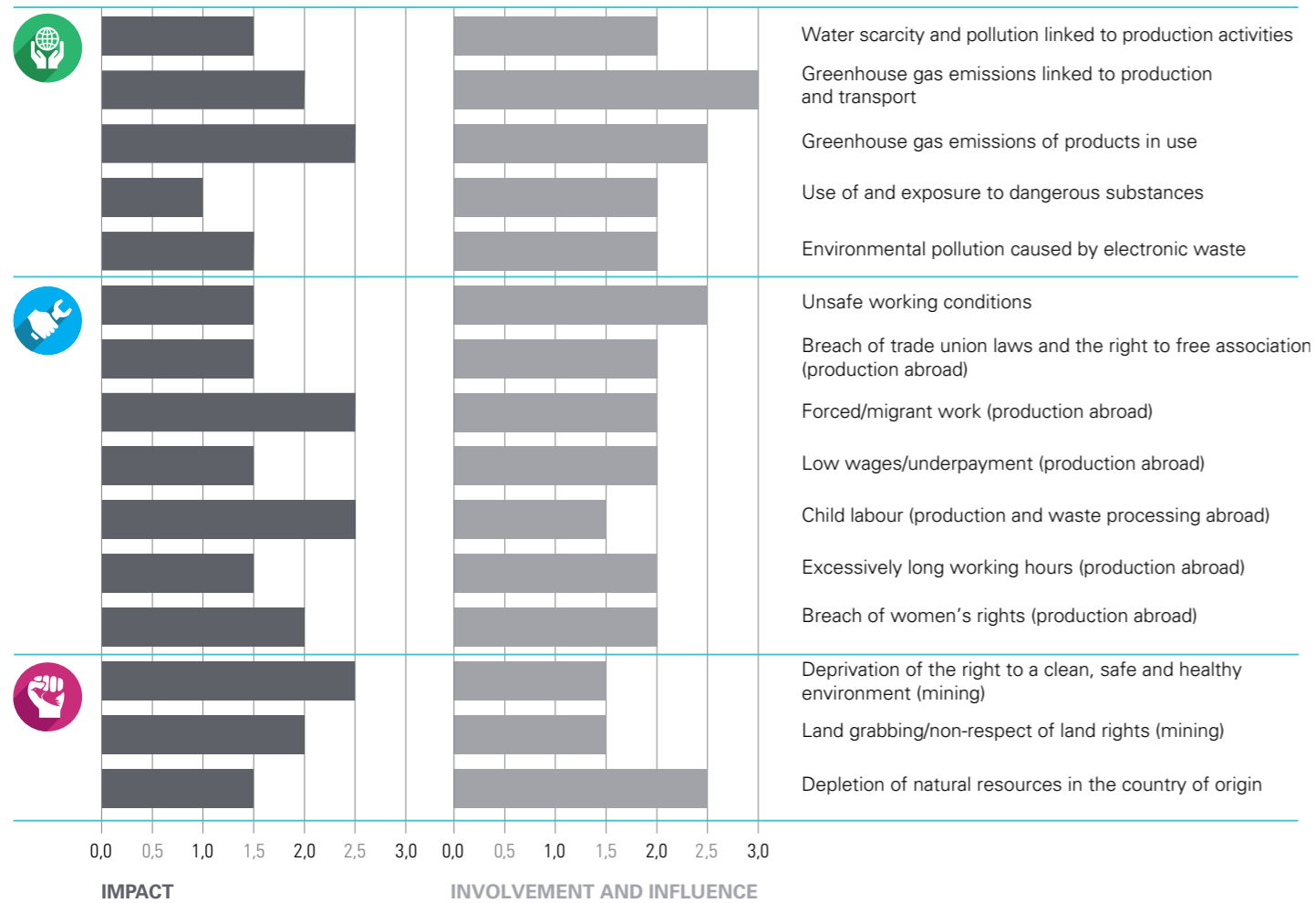
Figure 5.9 / Findings for the metal sector



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Figure 5.10 / Findings for the electronics sector



(indicated through its position in the chain and the share of companies involved) per risk, both with a figure between 0 and 3. The characteristics of the Dutch sectors - with many business-to-business electronics companies and metal-processing SMEs – were taken into account. These findings are based on the literature review carried out by KPMG, supplemented with the input from civil society organisations. The sources used in the assessment of the impact and involvement are listed in the separate SRA source book. The sector recognises the identified risks, but made it clear in the process that they could not give a quantitative assessment of these risks using this method. Corruption and taxation risks were not included in the table, because they cannot really be assessed at sectoral level. For more information on Corruption and Taxation risks we refer to chapters 4.4 and 4.5.

### Specific considerations for dialogue

In addition to the (strengthening of) the existing CSR initiatives, we identified the following points for further dialogue:

Metal and electronics:

- Map out which raw materials and (intermediate) products end up where in the supplying chain: raw materials (metals such as iron and aluminium, tin, tungsten and tantalum, gold and other rare metals), electronic components (for the high-tech industry) and consumer electronics (e.g. smartphones, tablets, computers, hi-fi and televisions).

- Actively communicate with Dutch SMEs on the risks related to raw materials for the metal and electronics sectors.

Metal:

- Carry out due diligence processes for raw materials and, where applicable, make existing due diligence approaches for raw materials more transparent. With the exception of a few companies, it is currently unclear how this is being implemented;

- Simple guides for SMEs to improve their due diligence.

Electronics:

- Make companies aware of ongoing issues and due diligence, particularly for the purchase of simple (low-tech) components from abroad;

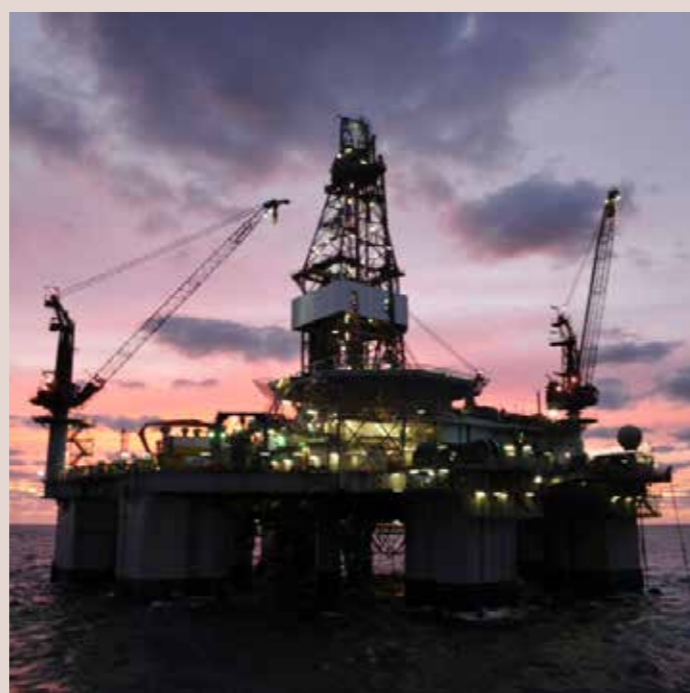
- Simple guides for SMEs to improve their due diligence.

With other sectors:

- Contribute to a cross-sectoral approach for limiting CSR risks in the extraction of metals, as well as labour risks in the production of electronics abroad.

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# OIL AND GAS



## One of the main importers and exporters of oil (products) worldwide

The Netherlands is one of the main importers and exporters of oil (products) worldwide<sup>359</sup> and plays a significant role in the oil supply in Europe due to its extensive refining capacity and vast network of ports, storage facilities and pipelines<sup>360</sup>.

Moreover, the Netherlands (together with the United Kingdom) hosts one of the largest oil companies worldwide (Royal Dutch Shell), as well as a number of important service providers to the oil and gas sector. Finally, the Netherlands is an important player in the financing of oil companies. Many international companies tap into the Dutch taxation system.

On an international level, many companies have joined the Global Oil and Gas Industry Association for Environmental and Social Issues (IPIECA) to map out CSR risks for the sector, formulate recommendations for dealing with specific risks and present best practices<sup>361</sup>.

The oil and gas sector in the Netherlands consists of a number of subsectors:

1. Oil processing;
2. Oil and natural gas extraction;
3. Services for oil and natural gas extraction (e.g. storage);
4. Oil trading.

## Oil processing

Companies in this first subsector have joined forces as part of VNPI, the Dutch Petroleum Industry Association<sup>362</sup>. This subsector is represented by four foreign multinationals (ExxonMobil, BP, Kuwait and Total) – which do not have their headquarters in the Netherlands, but only a refinery – and Royal Dutch Shell. Chevron, Tamoil and Delek, too, are members of VNPI, but they do not process crude oil themselves. The risks related to climate change and air pollution (environment), as well as process safety, personal safety and healthy working conditions (labour) are important to this subsector, and are high on its agenda. The prevention and mitigation of these risks is mostly laid down in European and national legislation, for example in the EU Emissions Trading System (ETC). Which crude oil and products are processed is a commercial choice – in line with the existing legal framework – that is generally made in consultation with the parent company (which is often based abroad) and the various production sites across the Netherlands.

## Oil and natural gas extraction

Only a very limited amount of oil is extracted in the Netherlands – 1 million tonnes in 2011, versus 53 million tonnes that were imported<sup>363</sup>. Royal Dutch Shell is the only major Dutch player that has oil and natural gas extraction operations abroad. Shell is also the main player in the extraction of natural gas, as it holds 50% of the shares of NAM (Nederlandse Aardolie Maatschappij). In 2011 the Netherlands produced 81 billion m<sup>3</sup> of natural gas, of which 32 billion m<sup>3</sup> were exported. The main CSR risks of the global oil and gas sector are linked to the extraction process. Examples of relevant risks are water

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scarcity, greenhouse gas emissions, use of land in vulnerable areas, depletion of natural resources and the deprivation of the right to a clean, safe and healthy living environment. Civil society organisations agree that the main CSR risks of the Dutch sector lie in the extraction of oil and natural gas in vulnerable areas outside the Netherlands<sup>364,365</sup>. The subsector 'oil and natural gas extraction' is dominated by one single company in the Netherlands. This SRA focuses on the Dutch sectors, which are made up of several companies sharing a number of CSR risks. This SRA is not intended to provide input for dialogue with(in) a specific company. Consequently, this SRA does not include any corporate case studies.

## Services

The third subsector comprises various Dutch service providers in the oil and natural gas sector. 430 companies in this subsector are represented by IRO (the Association of Dutch Suppliers in the Oil and Gas Industry)<sup>366</sup>. The IRO members operate both on- and offshore in the field of consultancy, engineering, development of new sites for the extraction of oil and natural gas, installation of pipelines, maintenance, production and supply of materials and devices. This subsector is a varied one and its clients are generally

international (IOCs) and national (NOCs) oil and gas companies. The risks are largely comparable to those linked to the extraction and processing of oil and natural gas. Since operations are spread across the globe, dealing with country-specific risks linked to labour (such as a breach of trade union rights) and human rights is a permanent point for attention.

## Trading and storage of oil and gas (other than natural gas)

Finally, there are the oil traders, who are represented by NOVE (the Dutch organisation for the energy sector)<sup>367</sup>, and oil storage companies, represented by VOTOB (the association of independent tank storage companies)<sup>368</sup>. NOVE has 185 members, VOTOB 15+. Both associations have a couple of very large companies with global operations among their members. The oil traders and storage companies work together closely, and in many cases, the companies are both active in oil trading and storage. The risks for this subsector are mainly those linked to the storage of oil and natural gas (leaks and safety issues) and the possible impact on the surrounding communities. In the case of international operations, country-specific labour risks (including respect for trade rights) and human rights are a point of attention.

## Specific considerations for dialogue

Developing a centralised, national dialogue seems to be a complex task in this sector, which has very diverse subsectors, each with its own influence and involvement in specific CSR risks. The key question is "How can dialogues be held with subsectors that are based in the Netherlands, but have international operations?". The following key points deserve a closer look:

- Which role can the various sectoral organisations play (VNPI, IRO, VOTOB and NOVE) for each subsector?
- How can large individual foreign parties operating in the Netherlands be involved actively in the dialogue?
- Which risks can be part of a dialogue in the Netherlands and which risks are already effectively covered by international platforms such as the Social Responsibility Working Group (SRWG) of the Global Oil and Gas Industry Association for Environmental and Social Issues (IPIECA)?

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# RETAIL



## The largest employer in the Netherlands

Retail is a highly diverse sector and contributes considerably to the Dutch economy. The sector is made up of 110,000 retailers, is the main employer in the Netherlands (650,000 employees) and has a turnover of 81 billion euro a year (2012). Moreover, the sector has a strategic position when it comes to promoting sustainability in consumer goods and purchase behaviour. After all, retailers are the main link between producers and wholesalers, and between producers and consumers. More and more retailers are also acting as producers/importers, and have their own house brands. As such, their role differs from that of a traditional shopkeeper, who only buys goods and sells them to consumers at a profit. Traditional retailers are a dying breed. What is more, the boundaries between traditional retail sectors are becoming increasingly blurred, and non-food, food and hospitality are more often than not integrated into one and the same retail set-up. Consequently, CSR risks apply, to a greater or lesser extent, to the entire sector. As a result of the diversity described above, the purchasing processes in retail differ tremendously according to the product, sector and company in question.

The main risks from an international perspective are linked to the various products sold, rather than to the business process (transport, packaging, storing, cooling and displaying on the shelves). The responsibility for these risks does not lie solely with the sector, but also with producers and wholesalers.

## Energy and packaging, the main CSR topics in the Netherlands

Many joint CSR efforts in the sector focus on making the retail chain more sustainable by reducing CO<sub>2</sub> emissions and transport movements, using less packaging material etc. It mainly concerns environmental issues (confined within the Netherlands).

As for labour risks, some sectors and companies are at higher risk of shop crime, putting their employees' safety in jeopardy. This issue is a major priority in the retail sector, but does not fall under its CSR efforts, just like other topics, which are more linked to efficient business management.

The dialogue between the government and the retail sector is heavily 'institutionalised' for environmental topics – energy for lighting, heating, shop entrances, air-conditioning and cooling (e.g. through environmental regulations) and packaging (through various covenants based on producer responsibility). For these risks, civil society organisations give the approach to the 'responsibility to respect' a much lower score than the sector. Nevertheless, in the rest of this sector factsheet we will focus on the 'responsibility to respect' in relation to products.

## Six non-food clusters with specific international risks

For this SRA we analysed six retail clusters, because risks are strongly linked to specific raw materials and products, making a global approach unfeasible. The six analysed clusters are resellers of toys, cosmetics, non-food consumer goods (electronics, textiles/clothing), stock lots, DIY retailers, and jewellers. The risks related to food are discussed in the factsheet for the food sector. This selection is based on an analysis

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of all SBI retail codes. The clusters were selected based on one or more of the following criteria:

- Sale of products that carry CSR risks featured in international literature on the worldwide sector;
- Sale of products which carry CSR risks that are not explicitly included in one of the ten 'production sectors';
- Sale of products that are explicitly included in one of the ten 'production sectors', but for which we could not gather sufficient information through these 'production sectors' due to the nature of the sectoral organisations and/or ongoing CSR dialogues;
- Recognisable, substantial clusters with their own sectoral organisations and/or several major Dutch players on the market.
- The risks list is not complete, but it does illustrate the CSR risks in the retail sector. Annex C provides an overview of all material risks for the sector.

### Lack of a common CSR agenda

The non-food retail sector does not have a common CSR agenda following on the ongoing efforts and dialogues on energy, the environment and packaging.

The only exception is the textiles and clothing sector, where retail plays a very active role in the drafting, development and implementation of the 'Plan van Aanpak Verduurzaming Nederlandse Textiel- en Kledingsector 1.0' ('Action plan for a more sustainable Dutch textiles and clothing sector 1.0'). VGT, the association of textile wholesalers, which is a member of RND (the Dutch Retail Council), represents the textiles and clothing retail sector together with MODINT and INretail.

More and more international/European retail chains are opening shops in the Netherlands. They are mainly driven by the social expectations in terms of CSR in their home countries. These expectations do not necessarily match ours. Sometimes they are lower, sometimes higher.

At the same time, public annual reports provide relatively little information about CSR in retail. The most recent Transparency benchmark assessed 44 companies in the sector, giving 27 of them a score of zero. The remaining 17 retailers earned an average score of 86 (in 2012 the average score was 67). The average score of all companies assessed in the Netherlands was 104. Compared to other sectors, retail does not score well in terms of reliability (independent verification), relevance and clarity<sup>130</sup>.

Consequently, it is not easy to assess the entire Dutch retail sector's approach to the principle of 'responsibility to respect'. The same goes for the individual clusters. Based on the literature review, and input from the sector and stakeholders, we arrived at the following findings:

- Insights: the sector is faced with the major challenge of gaining better insights into the origin of products and the risks they carry. These insights form the basis of a targeted approach to combat the main risks. 'Track-and-trace' systems are already in place for certain product categories, allowing consumers to garner information about the origin of products. However, such information is scant across the entire sector;
- Country risks: products from certain countries, regardless of which category they fall under, carry a higher risk (e.g. products from China and India). Note that 75% of all toys and most of the natural stone and electronics sold in the Netherlands originate from China;

- Materiality: given the tremendous diversity of products on the market, the sector is responsible for making an inventory of potential risks. This responsibility is greater if the company is also a producer, importer or brand owner. However, many shops have a changing portfolio of products/collections (i.e. they are only available for a short timeframe) and a shop can easily sell dozens to thousands of different products. It would be unfeasible for individual retailers to make an inventory of the risks for all these products. Therefore it is important for the sector to identify the raw materials and products that are relevant for a specific subsector and to establish what their contribution is to the accompanying risks. That determines which reaction is suitable and which partners can be approached for collaboration.

### Appreciation by civil society parties

Both the sector and NGOs see the following risks as important based on impact and involvement:



- DIY retailers: deforestation due to the sale of non-certified wood products;
- Cosmetics: deforestation due to palm oil production (e.g. in Indonesia and Malaysia);
- Electronics: working conditions in the production of electronics abroad, such as low wages and forced labour (e.g. in China);
- Toys: environmental issues in the production of toys, e.g. in China (use of fossil fuels, water and soil pollution);
- Cosmetics: water pollution due to the use of cosmetics by consumers (in the Netherlands and abroad).


At the moment, there is no common approach for these CSR risks. In many cases, shopkeepers have not yet joined forces, neither with importers, nor with producers and suppliers. Stakeholders feel that across the board not enough attention is paid to the various CSR risks, or at least not explicitly.

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**Box 1: Examples of CSR risks and approach to 'responsibility to respect'**

CLUSTER/TYPE OF RISK	IMPACT	RESPONSIBILITY TO RESPECT
  <p><b>Cluster: Jewellers</b> Breach of labour and human rights laws in the extraction and processing of precious metals and diamonds in conflict areas</p>	<p><b>A few key figures for gold<sup>131</sup>:</b></p> <ul style="list-style-type: none"> <li>- <b>300 tonnes</b> of new gold/year worldwide;</li> <li>- <b>80%</b> is extracted through large-scale mining operations using poisonous cyanide;</li> <li>- <b>20%</b> is extracted by small miners using mercury;</li> <li>- <b>10 million</b> miners, mostly women, are exposed to the dangers of mercury on a daily basis (damage to the nervous system, skin and kidneys, sometimes with deadly consequences). Mercury also poses risks for unborn and young children (via breastfeeding)<sup>132</sup>;</li> <li>- <b>1 million</b> children work in gold mines.</li> </ul> <p>The Dutch jewellers' contribution to the risks in the gold chain is limited. Most of the gold processed in the Netherlands is recycled (old gold). As for new gold, part of it comes from mines that conduct their operations responsibly, and the other sectors combined probably also use more new gold (e.g. financial sector, dentists and electronics)<sup>133</sup>.</p> <p>Other precious materials, such as platinum, also carry major risks<sup>134</sup>.</p>	<p><b>Main findings:</b></p> <ul style="list-style-type: none"> <li>- Jewellers generally are not aware of the origin of one gramme of gold<sup>135</sup>;</li> <li>- There is no joint approach for the purchase of new gold;</li> <li>- Some jewellers have joined the initiative 'Goed goud' (Good gold) by Solidaridad<sup>136</sup> (see box 2).</li> </ul>

CLUSTER/TYPE OF RISK	IMPACT	RESPONSIBILITY TO RESPECT
 <p><b>Cluster: Toys</b> Working conditions (overtime and child labour) in the production of toys</p>	<p><b>A few key facts:</b></p> <ul style="list-style-type: none"> <li>- <b>75%</b> of toys sold in the Netherlands come from China<sup>137</sup>;</li> <li>- In 2011, thousands of people produced toys for several famous brands in one Chinese factory where labour rights were breached, working hours were too long, suppliers' obligations were not respected and child labour was used<sup>138</sup>;</li> <li>- <b>50%</b> of toys is sold in toyshops, <b>40%</b> by other retailers and <b>10%</b> by occasional importers (e.g. fairground operators).</li> </ul>	<p><b>Main findings:</b></p> <ul style="list-style-type: none"> <li>- Neither the sector nor Dutch toys suppliers have a common policy to limit this risk;</li> <li>- The Toy Safety Directive is respected, but that only applies to children who play with the toys, not to the working conditions in the production process<sup>139</sup>.</li> <li>- The sectoral organisations Ornes and GEBRA are helping in making the chain more sustainable<sup>140</sup>.</li> </ul>

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RND informed us there is no common agenda with regard to water pollution due to cosmetics use, but it is a hot topic. RND joined Vewin, the association of Dutch water companies, for dialogues on the pollution of surface water by cosmetics and fire retardants, among other things. The agricultural and pharmaceutical sectors are Vewin's main dialogue partners when it comes to the pollution of drinking water sources. The (non-)food retail sector plays an indirect role, which does not directly require it to take action.

Moreover, civil society organisations give the approach to 'responsibility to respect' a lower score than the sector itself. This mainly applies to the risk of unsafe and unhealthy working conditions in the extraction of natural stone (e.g. in China and India), which is sold by construction retailers, and labour risks in the production of goods that are sold by stock lot retailers in the Netherlands.

## BOX 2: BEST PRACTICES

### Risk:

Breach of Labour and Human Rights regulations (including women's rights) in the extraction and processing of precious metals and diamonds in conflict areas.

### Parties involved:

Fairtrade/Fairmined programme by Solidaridad, with the collaboration of the Gold and Silver Federation (FGZ).

### Activities:

Influencing large mining companies, training small miners and developing an international standard for sustainable gold.

### Results:

A Fairtrade/Fairmined (FT/FM) standard was developed and FT/FM gold is already available. This standard does not only focus on Environmental, Labour and Human Rights issues, but also on specific gender issues. The Netherlands also uses gold from Oro Verde, an organisation of miners in Colombia that has been extracting gold sustainably for years. Dozens of Dutch jewellers sell 'good' gold, and more are set to follow suit. As far as we know, no retailers using gold in other applications (such as electronics)<sup>141</sup> have joined the initiative.

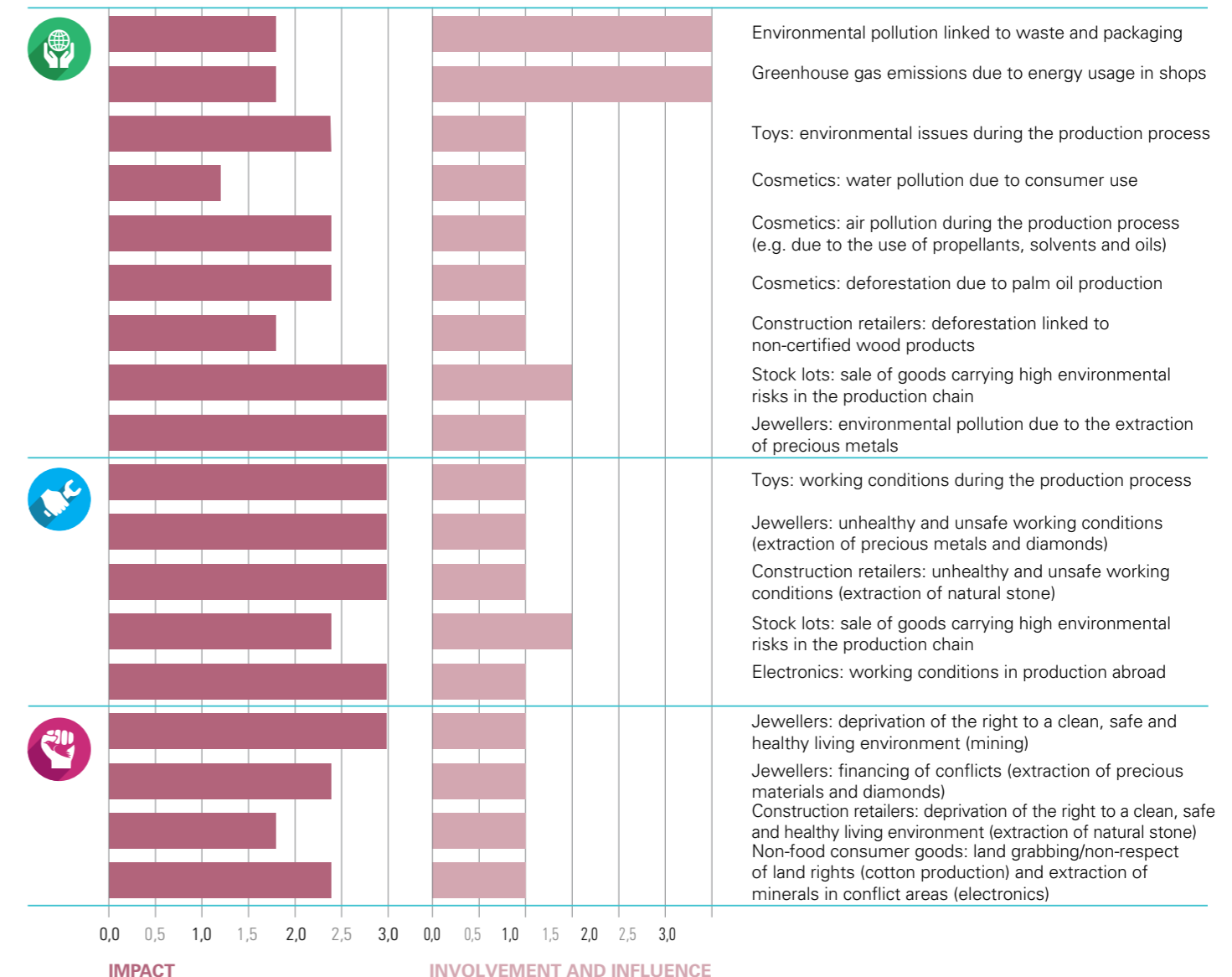
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question, the emissions measured in tonnes etc.) and the consequences (the severity of the event for the environment, people and animals) of each risk. Risks that affect people and animals' physical integrity and that cause irreversible damage are classified as severe.

The figure below illustrates the impact (scope and severity of the risk) and the sector's involvement

Figure 5.3 / Findings for the retail sector



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(indicated through its position in the chain and the share of companies involved) per risk, with a figure between 0 and 3. These findings are based on the literature review carried out by KPMG, supplemented with the input from the sector and civil society organisations. The sources used in the assessment of the impact and involvement are listed in the separate SRA source book. Corruption and taxation risks were not included in the table, because they cannot really be assessed at sectoral level. For more information on Corruption and Taxation risks we refer to chapters 4.4 and 4.5.

## Main risks

For the approach to 'responsibility to respect', we also made four (sub)observations for the following dimensions: insight into the risks, results (actions launched), transparency and collaboration.

In the assessment of the 'responsibility to respect' of the retail sector we took into account the following:

- We looked for joint initiatives as a reaction to international CSR risks, but found hardly any to none;
- For the purpose of this SRA we only took into account the following clusters: resellers of toys, cosmetics, non-food consumer goods (electronics, textiles/clothing) and stock lots, DIY retailers, and jewellers.

All the CSR risks identified as part of this SRA were acknowledged by both the stakeholders and the sector. Due to the lack of a common CSR agenda for the entire sector based on a thorough materiality analysis, it is currently difficult to further prioritise the risks.

The sector has already launched initiatives for risks related to textiles and clothing ('Plan van Aanpak Verduurzaming Nederlandse Textiel- en Kledingsector 1.0' or 'Action plan for a more sustainable Dutch textiles and clothing sector 1.0') and some raw materials, such as natural stone sold by construction retailers (Natural stone programme and IDH, the 'Sustainable Trade Initiative'), tropical hardwood sold by construction retailers (sectoral commitment for the purchase of certified wood) and gold (Fairtrade/Fairmined standard). Moreover, IDH is working with the main electronics suppliers to make the chain more sustainable. However, with the exception of tropical hardwood, there is a lack of solid commitments by the Dutch sector(s) involved. It is also worth noting that several individual companies are actually using supplier codes. However, there is a lack of transparency on the characteristics of the standards used and monitoring is limited.

## Specific considerations for dialogue

In addition to the joint focus on packaging and energy, we identified the following considerations for further dialogue on the CSR risks in retail. For the identification of the main clusters and risks:

- The various sectoral organisations should – internally – agree on the material risks in their sector and explicitly inform their members and other stakeholders;

- Import flows from high-risk countries should be mapped out to draw up country-specific agendas in collaboration with other sectors;
- Joining and/or supporting of initiatives by suppliers, other sectors and other partners in the chain, as is partly the case with palm oil<sup>142</sup>.

To illustrate this last point: in their efforts to purchase 'good' gold, jewellers could join forces with dentists, the financial sector (concerning the strategic supply of gold) and the electronics sector. For the sector's approach to the principle of 'responsibility to respect':

- The development of a joint vision for the use of 'codes of conduct', i.e. creating standards in terms of Environmental, Labour and Human Rights risks that go beyond compliance with the national legal framework. Several large retailers have already joined the Business Social Compliance Initiative (BSCI). The challenge is to encourage other and smaller companies to also use such codes, even if they do not have the capacity to arrange this themselves;
- More transparency (also towards consumers directly): provide an insight into the CSR risks of non-food products and responsible alternatives, not only in annual reports, but also in direct communication to consumers. An example: recently supermarkets have started putting sustainable products in the spotlight and an energy label was launched for white and brown goods.

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# TEXTILES AND CLOTHING



## 1 % of the global market and 25 million tonnes of cotton per year

The Dutch textiles and clothing sector is made up of production companies whose share in the sector is decreasing, i.e. 4,500 wholesalers and retailers. The share of the Dutch sector in the global market is 1%. The sector can be subdivided into three clusters, namely fashion, bathroom and household textiles, and technical textiles, and has organised itself into various sectoral organisations, such as MODINT (suppliers), INretail (retailers) and VGT (the association of textile wholesalers). The total turnover of the various clusters is subdivided as follows: fashion accounts for 50%, bathroom and household textiles for 25% and technical textiles for the remaining 25%<sup>369</sup>. Although the share of synthetic textiles increases every year, particularly due to the strong increase in the use of synthetic fibres, the absolute quantity of cotton in textiles has remained stable (+/- 25 million tonnes a year). It is important to note that many international classifications also integrate shoes and leather goods into the sector, so it is not easy to delineate the sector.

## 'Action plan for a more sustainable Dutch textiles and clothing sector 1.0'

The CSR risks in the sector are mainly related to cotton cultivation and textiles production abroad. The sector has been tackling the risks related to textiles production for years. MODINT and INretail co-founded the Fair Wear Foundation (FWF) and VGT was involved in the launch and further development of BSCI (the Business Social Compliance Initiative). Since 2012, the sector has been working on a joint CSR action plan. This initiative got an extra boost following the collapse of the clothing factory in Rana Plaza, Bangladesh, in 24 April 2013. In June 2013, the 'Action plan for a more sustainable Dutch textiles and clothing sector 1.0' was presented, which illustrates

the sector's commitment to tackling malpractices in the clothing production chain<sup>370</sup>. Through this initiative, the sector is showcasing leadership in the prioritisation and joint tackling of CSR risks.

Following consultation with stakeholders, the sector identified ten topics in the action plan that urgently need to be tackled, i.e.:

- 1. General:** purchasing practices/due diligence, and communication;
- 2. Social topics:** bonded labour (India), safe and healthy workplaces. (Bangladesh), child labour (Turkey, India, China and Uzbekistan), living wage (Bangladesh, China, Vietnam and Cambodia) and the right to free association (Turkey);
- 3. Environmental issues:** circular economy/recycling, water (Bangladesh)/chemicals (Asia) and raw materials for cotton production (Africa, India and China).

Meanwhile, ten working groups have joined forces with companies, civil society organisations and the government to make further agreements on these topics. Moreover, four times a year the sector holds consultations with a diverse group of stakeholders to discuss CSR-related topics in the textiles sector.

The sector does, however, still need to launch concrete common initiatives as part of this action plan. Key remarks on the contents of the action plan, and consequently the sector's approach to 'responsibility to respect' are:

- The CSR agenda of the textiles and clothing sector traditionally focuses strongly on labour rights (child labour, living wage, safety etc.);

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- Although the action plan also focuses on environmental issues, such as water, chemicals and raw materials, the implementation of environmental actions across the sector remains limited. Given the sector's risk pattern, a more balanced approach should be adopted, because excessive use of water and pesticides in cotton cultivation and the use of paint, glue and other chemicals in textiles production and processing can lead to extensive soil and water pollution. This can, in turn, affect the local biodiversity, eco-system services and finally the quality of the living environment of various communities;
- The existing initiatives and CSR efforts are mainly aimed at the fashion subsector. The sector pays little to no attention to CSR risks in bathroom and household textiles, and technical textiles. However, these subsectors also present a number of inherent CSR risks – some of which are linked to cotton – that would justify the launch of additional measures. This does not apply to the textile businesses that are still based in the Netherlands, as they fall under the Dutch regulations and monitoring for environmental and labour issues;
- A number of material risks identified as part of this SRA are not – or less explicitly – mentioned in the action plan, namely women's rights, animal welfare, land grabbing and corruption. These topics were not

highlighted by the civil society organisations during the stakeholder dialogues that were held in the development of the action plan (see box 2). The sector is open to input from the civil society organisations on how to further tackle this. Moreover, the sector is holding dialogues with the government on the issue of animal welfare linked to the production of angora wool and fur<sup>371</sup>;

- In the leather subsector MVO Nederland has launched a separate programme<sup>372</sup>, which is ongoing. Leather goods do not fall under the action plan and call for the involvement of different sectoral organisations;
- The sector focuses mainly on first-tier suppliers and is gaining an increasingly better view of the relevant risks, their nature and scope. Targeted programmes and targets have also been launched to counter these risks;
- Nevertheless, the sector has a more limited insight into the world and risks that lie behind agents and brokers, the so-called second- and third-tier suppliers (including the agricultural supply chain). Given the complexity and layered nature of the chain, such insights are important in order to tackle CSR problems at source (e.g. health risks for workers in cotton cultivation and in the extraction of seeds from raw cotton).

**Box 1: Examples of CSR risks and approach to the principle of 'responsibility to respect'**

TYPE OF RISK	IMPACT	RESPONSIBILITY TO RESPECT
 <p><b>Environment</b> Water and soil pollution in cotton production (e.g. pesticides)</p>	<p>The global footprint of cotton:</p> <ul style="list-style-type: none"> <li>- <b>35 million</b> hectares (2.5% of the total agricultural land).</li> <li>- <b>50%</b> of all pesticides used in developing countries.</li> </ul> <p>In Sudan, India, Brazil and Pakistan chemicals are used that have been identified as extremely dangerous to man and nature by the World Health Organisation.</p>	<p>Dutch companies are making efforts to increase their share of sustainable cotton, they are implementing Oeko-tex guidelines for chemicals and have joined the 'Zero Discharge of Hazardous Chemicals' initiative.</p>
 <p><b>Labour</b> Unsafe working conditions in textiles production (fire safety, emergency exits and construction quality)</p>	<p>Number of workers in the formal 'Textile, Clothing and Footwear' (TCF) sector:</p> <ul style="list-style-type: none"> <li>- worldwide: <b>47 to 60 million</b></li> <li>- in the Dutch sector: <b>50,000</b></li> </ul> <p>In 2013 more than <b>1,100</b> textile workers died in the collapse of a clothing factory in Bangladesh.</p>	<p>The international Bangladesh agreement:</p> <ul style="list-style-type: none"> <li>- aims at improving the construction and fire safety of clothing factories in Bangladesh.</li> <li>- <b>60 to 70%</b> of all fashion for the Dutch market is covered by this agreement</li> <li>- The agreement was signed by <b>17</b> Dutch companies and a number of large foreign players.</li> </ul>

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## Appreciation by civil society parties

Although a common action plan was developed for the sector in consultation with several NGOs, there are differences in the way civil society organisations assessed the risks and the sector's approach to the 'responsibility to respect' as part of this SRA. Across the board, stakeholders gave the latter a lower score than the sector itself did.

This is due to the fact that the sector focuses mainly on the first tier and the NGOs have higher expectations of the approach to the 'responsibility to respect' in the entire (agricultural) supply chain, e.g. in cotton production, which presents not only labour risks, but also several environmental risks. The sector uses the OECD guidelines (2011) as the foundation for its responsibility and the position of the Dutch textiles sector in the chain implies shared responsibility. During the intensive consultations for the drafting of the action plan, entrepreneurs, civil society organisations and the government mainly felt the

need to work on concrete topics that can be easily influenced. Moreover, stakeholders feel that the efforts currently focused on Bangladesh are also required in other producing countries, and in the production and processing of leather.

Various stakeholders feel that in the leather subsector little attention is paid to animal welfare, environmental risks linked to livestock farming and working conditions in the tanning sector. The literature review – in addition to the research carried out in the framework of the leather programme launched by MVO Nederland – revealed that there is very little information about Dutch companies' approach to the 'responsibility to respect' in this context. Representatives of the leather sector were not asked for specific feedback on this particular topic as part of this SRA.

## BOX 2: BEST PRACTICES

### Risk:

Various Environmental, Labour and Human Rights risks.

### Parties involved:

MODINT, INretail and VGT members.

### Activities:

Action plan drawn up by the three sectoral organisations in collaboration with the government and civil society organisations. The target of the action plan is for companies in the textiles and clothing sector to gain better insights into their own production chain and to promote transparency. Moreover, the action plan calls for the launch of a pilot programme for purchasing practices in each separate chain with a view to positively influencing working conditions.

### Results:

The action plan includes concrete goals through which the sector aims for more sustainability in close collaboration with international NGOs, trade unions and governments. A due diligence process was launched in the chain to get an idea of the actual CSR risks. Concrete results have yet to be published.

## Overview of all material risks

Risks generally refer to the chance that an event will take place 'multiplied' by the 'consequence' of that event. In many cases, this allows for risks to be quantified. The SRA uses the term 'impact' to refer to the estimated chance (that a situation will take place, an estimate of the number of people involved, the scope of the environmental damage in the area in question, the emissions measured in tonnes etc.) and the consequences (the severity of the event for the environment, people and animals) of each risk. Risks that affect people and animals' physical integrity and that cause irreversible damage are classified as severe.





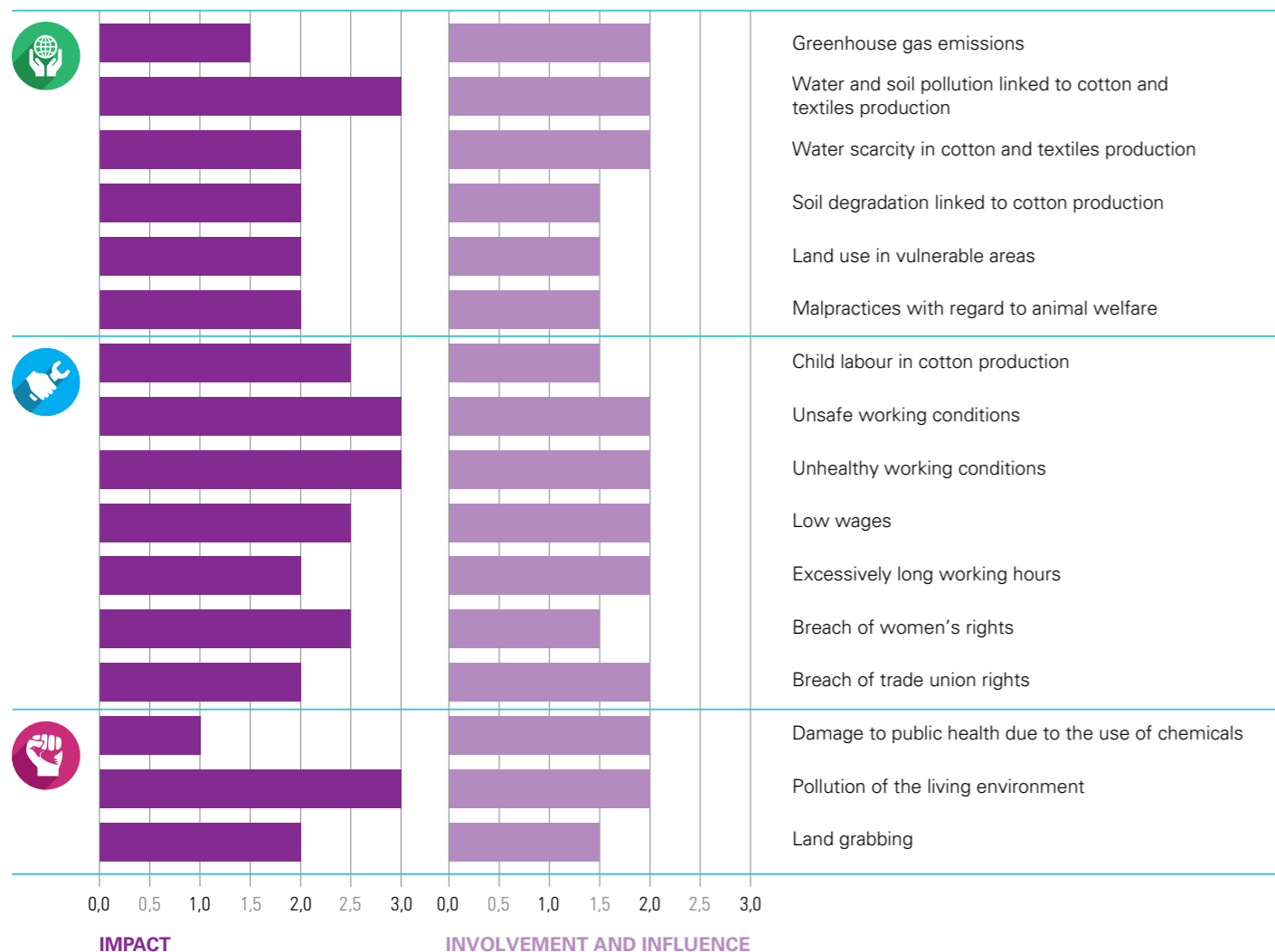
The figure below illustrates the impact (scope and severity of the risk) and the sector's involvement (indicated through its position in the chain and the share of companies involved) per risk, with a figure between 0 and 3. These findings are based on the literature review carried out by KPMG, supplemented with the input from the sector and civil society organisations. The sources used in the assessment of the impact and involvement are listed in the separate SRA source book. Corruption and taxation risks were not included in the table, because they cannot really

be assessed at sectoral level. For more information on Corruption and Taxation risks we refer to chapters 4.4 and 4.5.

### Main risks

For the approach to the 'responsibility to respect', we also made four (sub)observations for the following dimensions: insight into the risks, results (actions launched), transparency and collaboration.

Figure 5.11 / Findings for the textiles and clothing sector



In the assessment of the 'responsibility to respect' of the textiles and clothing sector we took into account the following:

- The findings are based on the fashion subsector;
- The approach to the 'responsibility to respect' for cotton production is still rather limited;
- The sectoral commitments and the participatory nature of the 'Action plan for a more sustainable Dutch textiles and clothing sector 1.0' resulted in a high score for the dimensions 'insights', 'results' (actions have been launched) and 'collaboration'. The reasoning behind this is that, in the foreseeable future, the risks should be managed efficiently if the sector honours the clear commitments made;
- More efforts could be made to promote more transparency. In addition to this, individual companies could illustrate their concrete improvements more thoroughly. In order to do so, a better insight is required into the risks in the supply chain of individual companies (due diligence). In reality, structural, joint due diligence efforts have only just been launched. The sector claims that many companies have been making efforts to actively reduce CSR risks for a while. However, these efforts are not always publicly shared.

In the textiles and clothing sector, there are a number of risks with a relatively high impact/ involvement and a relatively limited approach to the 'responsibility to respect', namely:

- Various risks related to working conditions, such as unsafe and unhealthy working conditions, low wages, excessively long working hours and the breach of trade union rights and the right to free association;

- Water scarcity, water and soil pollution in cotton and textiles production (e.g. due to the use of chemicals in cotton cultivation and in colouring and bleaching processes);
- Bribes in textiles and clothing production: obtaining of permits for textiles factories (e.g. in Bangladesh) by unlawful means, as well as falsified documents related to labour statistics (working hours and wages, China).

### Specific considerations for dialogue

In addition to the (strengthening of) the 'Action plan for a more sustainable Dutch textiles and clothing sector 1.0', we identified the following considerations for further dialogue:

- Check whether there are any points of attention in the current action plan that apply to individual countries, such as safe and healthy workplaces in Bangladesh, that could be extended to other countries;
- Approach to the 'responsibility to respect' for bathroom and household textiles, and technical textiles;
- Explicitly mention risks related to women's rights, animal welfare, land grabbing and corruption in the action plan;
- Sectoral initiatives to increase the share of sustainable cotton for the Dutch market;
- Study the possibilities – given the sector's 1% share in the global market – for the sector to play a more active role in the reduction of risks among second- and third-tier suppliers, including in the agricultural supply chain. This should be done in line with the applicable OECD guidelines (2011).

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# WHOLESALE



## A key player in the distribution chain

Wholesale is a highly diversified sector that has a considerable influence on the Dutch economy. As the main importer and exporter, the wholesale sector is responsible for almost 40% of all imports and exports of goods. Its turnover is 418 billion euro (28% of the total market income in the Netherlands) and it employs 520,000 people over more than 73,000 companies, making it an important employer. The wholesale sector plays an important linking and buffering role in the distribution chain from suppliers to customers. NVG, the Netherlands Wholesale and International Trade Federation, counts about 40 subsector associations among its members.

Since wholesalers operate in different parts of various chains, deal with a wide variety of products and are generally active across country borders, the sector is confronted with a wide range of CSR risks. These risks usually originate deeper in the chain and can – to a greater or lesser extent – be managed through a responsible purchasing policy and chain management, among other things. However, this is no mean feat. On average, wholesalers have 100 to 1,500 suppliers and 1,500 to 10,000 supply points.

Moreover, due to its many transport movements (some of which are outsourced), logistics and distribution activities, the sector has a direct impact on the environment. Optimal stock management is key to prevent climate change (also see box 1).

## Six clusters with specific international CSR risks

In this SRA we focused specifically on CSR risks in six clusters: wholesalers specialised in jewellery, agro commodities, graphics products, non-food consumer goods (electronics, textiles and clothing),

construction materials and pharmaceutical products. This selection is based on an analysis of all SBI wholesale codes. The clusters were selected based on one or more of the following criteria:

- Trade in products that carry CSR risks featured in international literature on the worldwide sector;
- Trade in products which carry CSR risks that are not explicitly included in one of the ten 'production sectors' (e.g. risks linked to new wood used to produce paper for stationery items, books and magazines);
- Trade in products that are explicitly included in one of the ten 'production sectors', but for which we could not gather sufficient information through these 'production sectors' due to the nature of the sectoral organisations and/or ongoing CSR dialogues (e.g. CSR risks linked to the production of consumer electronics);
- Recognisable, substantial clusters with their own sectoral organisations and/or several major Dutch players on the international market.

The last point mainly applies to agro commodities, in which the Netherlands plays an important international role through the ports of Rotterdam and Amsterdam.

## Opportunities and obstacles for a cross-sectoral CSR agenda

Many companies have only just launched their efforts to manage CSR risks and the sector does not have an overall CSR agenda.

A positive exception is the 'sustainable soy transition' programme, in which animal feed

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producers – together with the agricultural and the food sector – are actively involved (see box 2).

It is important to note that more and more wholesalers are being acquired by foreign companies. In these cases, it is usually the parent company that sets the CSR agenda.

Consequently, at the moment, it is not easy to determine the approach to the ‘responsibility to respect’ for the entire Dutch wholesale sector, or even for one of the clusters identified.

Based on the literature review, and input from the sector and stakeholders, we have made the following findings:

- Due diligence: the sector is faced with the major challenge of gaining better insights into the origin of products and the risks they carry. These insights form the basis of a targeted approach to combat risks. ‘Track-and-trace’ systems are already in place for certain product categories (such as pharmaceutical products), allowing consumers to garner information about the origin of products. However, such information is scant across the entire sector.
- Country risks: products from certain countries, regardless of which category they fall under, carry a higher risk. An example: ‘high-risk’ countries in terms of Labour, Human Rights and Corruption (assessment based on various indexes) accounted for 10 to 46% of Dutch imports of products in the following categories<sup>208</sup>:
  - Argentina (animal feed, vegetable oils and fats)
  - Brazil (meat, animal feed, vegetable oils and fats, tobacco and leather)


- China (leather, cork and wood, yarns, metalware, electronics, office automation applications, prefabricated construction materials, furniture, clothing, bags, shoes and other products)
- Russia (e.g. coal, non-ferrous metals and coins that are not in circulation)

- Materiality: given the wide range of products that are traded, the sector carries great responsibility for making an inventory of potential risks. To assess the importance of these risks and further prioritise them, it would be useful to assess the importance of these products for the sector, as well as the sector’s contribution to these risks.

The sector is willing to gain a better insight into the risks, but at the moment there are factors slowing down this transition:

- The number of available market incentives is still limited;
- Affordability and financing of this transition.
- The sector does, however, see the potential of a gradual approach with a focus on product categories in which the wholesale sector has a strong share and where CSR issues are considerable. The key question is “What are the main issues and which partners in the chain would be willing to cooperate?”. A first step has already been taken through this analysis in collaboration with the ‘Sustainable Trade Initiative’ (IDH), but it must be developed further.

**Box 1: Examples of CSR risks and approach to the principle of ‘responsibility to respect’**

TYPE OF RISK	IMPACT AND INVOLVEMENT	RESPONSIBILITY TO RESPECT
 <p><b>Environment</b> Greenhouse gas emissions (CO<sub>2</sub> eq) due to energy usage (e.g. logistics and stock management)</p>	<p>In 2012, the CO<sub>2</sub> emissions of the wholesale sector amounted to approx. <b>2.6</b> Mt.</p> <p>The main source of CO<sub>2</sub> emissions is not transport, but suboptimal stock management resulting in product wastage.</p> <p>This risk can be largely managed by the sector itself.</p>	<p>The CO<sub>2</sub> emissions of the wholesale sector have been reduced by <b>2%</b> per year since 2009. The NVG booklet on stock management helps staff in the wholesale sector improve their stock management activities. Some wholesalers in the Netherlands have joined forces for purchasing and logistics.</p>



**TYPE OF RISK    IMPACT AND INVOLVEMENT    RESPONSIBILITY TO RESPECT**



**Agro commodities traders**

Human rights risks in the production of agro commodities (e.g. land grabbing/non-respect of land rights due to the extension of agricultural land)

**A few key figures:**

**SOY**

- Every year, **269** million tonnes of soy are produced across the globe on a surface of more than one million square kilometres (106 million hectares)<sup>210</sup>;
- **3 to 3%** of this soy is certified<sup>211</sup>;
- In the past decade the agricultural land used for soy cultivation has increased by one third<sup>212</sup>;
- The extension of agricultural land leads to conflicts, e.g. in Argentina there were **153** conflicts on land ownership between 2007 and 2010, involving **98,000** people<sup>213</sup>.

**PALM OIL**

- In 2011, **55 million** tonnes of palm oil were produced<sup>214</sup>.
- **15%** of this palm oil was RSPO certified<sup>215,216</sup>.
- In the past 40 years, the cultivation of palm oil grew eightfold to more than **12** million hectares<sup>217</sup>.
- In 2008, in Indonesia there were **513** active conflicts between local communities and palm oil plantations, and probably the actual number was even higher<sup>218</sup>.

**DUTCH MARKET**

- Every year, more than **8 million** tonnes of soy equivalent are imported<sup>219,220</sup>.
- The Netherlands is the second soy importer worldwide<sup>221,222</sup>.
- The Netherlands imported **2 million** tonnes of palm oil (measured in 2011)<sup>223,224</sup>, making the Netherlands the main palm oil importer in Europe<sup>225,226</sup>.

Various initiatives have been launched to reduce the CSR risks of agro commodities, such as covenants or declarations of intent, e.g. for cocoa, palm oil, soy, farmed fish, fruit and vegetables, wood and cut flowers. The covenants and declarations of intent include milestones to reach a 100% sustainability rate<sup>227</sup>. Several parties are responsible for monitoring whether these targets are effectively reached, such as CBS (Statistics Netherlands)<sup>228</sup>. Individual wholesalers have also launched initiatives to reduce the CSR risks of agro commodities in the chain<sup>229,230</sup>. The sector, however, does not have a common action plan.

**Appreciation by civil society parties**

Based on the sector's impact and involvement, the civil society organisations are mainly concerned about the following:

- environmental issues (e.g. greenhouse gas emissions, water scarcity and water pollution) linked to the production of non-food consumer goods (incl. consumer electronics, textiles and clothing);
- Wholesale of jewellery: environmental pollution due to the use of chemicals in the extraction of precious metals (incl. gold);
- Wholesale of agro commodities: environmental issues (such as land use in vulnerable areas) linked to the production of agro commodities (incl. palm oil and soy);
- Wholesale of agro commodities: labour risks (such as child labour and breach of women's rights) in the production of agro commodities (incl. palm oil, soy, cocoa and flowers);
- Wholesale of non-food consumer goods: labour risks (such as exposure to dangerous chemicals, excessively long working hours, child labour and breach of women's rights) linked to the production of non-food consumer goods (incl. consumer electronics, textiles and clothing).

Across the board, stakeholders agree that wholesalers do not pay enough attention to CSR risks, and that there is a lack of transparency in the sector. The stakeholders also expressed this concern about wholesalers while discussing the CSR risks in various other sectors.

Moreover, one particular NGO highlighted a very specific risk linked to imports from Israel. Large Dutch distributors and importers purchasing products and raw materials from Israel can demand that these do not come from the Israeli settlements. However, in practice these products and raw materials are mixed<sup>231</sup>.

The overview given above is based on the written input we received from 16 organisations. In many cases, this input included highly detailed argumentation with references to sources used, particularly regarding the risks for women and children in the extraction of gold<sup>232</sup>, agro commodities (such as cocoa<sup>233</sup>), cotton and clothing<sup>234</sup>, leather (shoes)<sup>235</sup> and electronics<sup>236</sup>.

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## BOX 2. BEST PRACTICES

### Risk:

Environmental issues (e.g. land use in vulnerable areas) linked to the production of agro commodities (soy).

### Initiative:

Transition of the chain to responsibly cultivated soy.

### Parties involved:

Nevedi (the Dutch Feed Industry Association), the 'Sustainable Trade Initiative' (IDH), MVO (the chain organisation for oils and fats), NZO (the Dutch dairy association), supermarkets and NGOs<sup>237</sup>.

### Activities:

Set-up of a fund for the chain of responsibly cultivated soy and increase of the availability of responsibly cultivated soy (Roundtable on Responsible Soy or RTRS), the target being 1,800,000 Mt of mainstream responsible soy by 2015.

### Results:

In 2013, 300,000 Mt Mass Balance was available and 128,000 Mt is due to be certified. The challenges lie mainly in the additional expenses per tonne, which must be borne by the customers of animal feed companies, and the commitment for major traders.

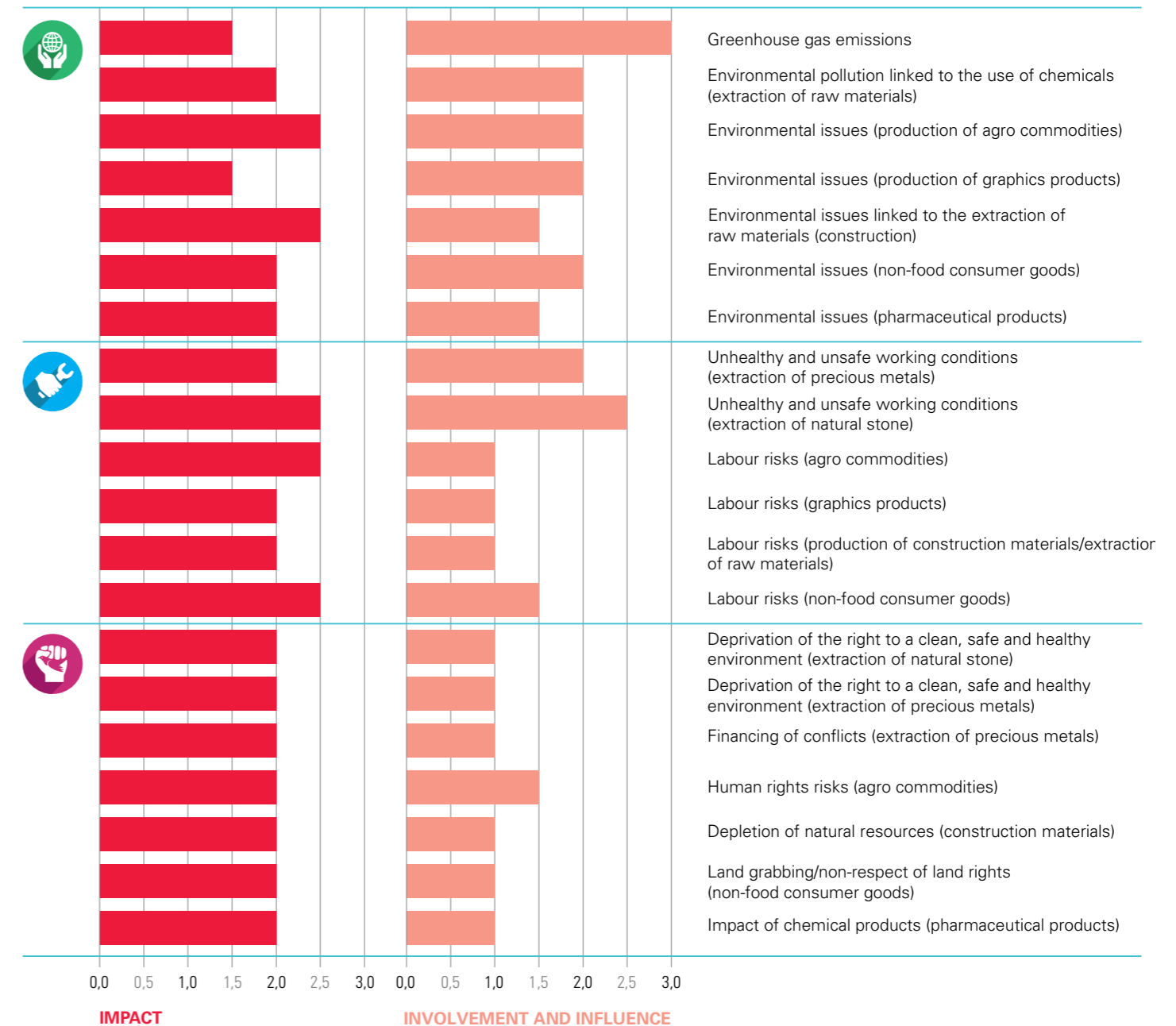
## Overview of all material risks

Risks generally refer to the chance that an event will take place 'multiplied' by the 'consequence' of that event. In many cases, this allows for risks to be quantified. The SRA uses the term 'impact' to refer to the estimated chance (that a situation will take place, an estimate of the number of people involved, the scope of the environmental damage in the area in question, the emissions measured in tonnes etc.) and the consequences (the severity of the event for the environment, people and animals) of each risk. Risks that affect people and animals' physical integrity and that cause irreversible damage are classified as severe.

Figure 5.6 illustrates the impact (scope and severity of the risk) and the sector's involvement (indicated through its position in the chain and the share of companies involved) per risk, with a figure between 0 and 3. These findings are based on the literature review carried out by KPMG, supplemented with the input from the sector and civil society organisations. The sources used in the assessment of the impact and involvement are listed in the separate SRA source book.

Corruption and taxation risks were not included in the table, because they cannot really be assessed at sectoral level. For more information on Corruption and Taxation risks we refer to chapters 4.4 and 4.5.

Figure 5.6 / Findings for the wholesale sector



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## Main risks

For the approach to the 'responsibility to respect', we made four (sub)observations for the following dimensions: insight into the risks, results (actions launched), transparency and collaboration. It is striking that:

- All CSR risks selected by KPMG were acknowledged by both the stakeholders and the sector.

For a number of specific raw materials, the sector has joined (international) initiatives. Below you will find a few examples<sup>238,239</sup>:

- The Gold and Silver Federation (FGZ) has become a member of the Responsible Jewellery Council (RJC) and intends to use this membership to obtain the necessary information and figures on gold and diamonds;
- As far as we know, the private sector has launched seven initiatives for which covenants or declarations of intent were signed: for cocoa, palm oil, soy, farmed fish, fruit and vegetables, wood and cut flowers. The covenants and declarations of intent include milestones to reach a 100% sustainability rate. A number of parties are responsible for monitoring whether these targets are effectively reached, such as CBS (Statistics Netherlands). However, not the entire sector is represented in these initiatives. There are also initiatives like the 'MVO concrete network' and the 'natural stone programme' by the 'Sustainable Trade Initiative' (IDH), in which the Dutch natural stone sector (ABN) has assumed a leading role;

- IPK (the Paper and Cardboard Information Centre) has joined forces with the sector with a view to making the paper and cardboard chain more sustainable.

It is also worth noting that several individual companies are actually using supplier codes. However, there is a lack of transparency on the characteristics of the standards used and monitoring is limited.

In addition the risks listed in the subchapter 'Appreciation by civil society parties', the risks linked to the product categories 'metal' and 'electronics' seem to receive little attention from the sector.

## Specific considerations for dialogue

In addition to further extending the ongoing initiatives, an integral vision should be developed on the sector's role in managing CSR risks, accompanied by a gradual implementation plan. In this strategy, the following points deserve a closer look:

### A. Identification of priorities

A better insight is required for the sector to play a more active role in managing CSR risks linked to the raw materials and products traded. This can be achieved as follows:

- An analysis of the material risks within the sector by the various sectoral organisations, and where possible they should be brought in line with one another.;
- Further mapping of the large import flows from high-risk countries to contribute to joint, country-specific CSR agendas in collaboration with other sectors;

- Further analysis of the main product categories (including the category 'other specialised wholesale', which accounted for 29% of the total turnover in 2011).

### B. Risk reduction and communication on the matter

At the moment there is a lack of transparency on the way wholesalers manage CSR risks. The following aspects could be further improved:

- Formulating clear principles for the approach – taking into consideration the specific characteristics of the international market for the sector in question – requirements can be established in terms of environmental issues, labour and human rights for raw materials and products that currently do not fall under regular company policies;
- Increase transparency on the volumes, countries of origin and CSR risks of the main products traded;
- Seek participation in and/or support initiatives launched by suppliers, clients, other sectors and partners in the chain.

An example of the last point: to better manage the risks linked to the extraction of raw materials for the metal and electronics sector, active participation can be sought with the metal, electronics, retail and financial sectors

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# WOOD AND PAPER



## Import of wood and fresh fibres

The Dutch wood and paper sector can be subdivided into timber dealers, many of which are represented by VVNH (the Royal Netherlands Timber Trade Association), and paper and cardboard producers, who are all members of VNP (the Royal Association of Dutch Cardboard and Paper Producers).

In 2012, Dutch companies imported about 4.5 million m<sup>3</sup> of wood, 57% of which was softwood, 11% hardwood and 32% wood panels. That same year and the following year, the VVNH members – who employ about 3,500 people<sup>241,242,243</sup> – imported approx. 2.1 and 1.9 million m<sup>3</sup> of wood respectively.

Paper and wood producers employ almost 4,000 people and have a turnover of 1.8 billion euro<sup>244</sup>. They use 18% of fresh wood fibres (cellulose) in their operations, and 82% of these fibres are extracted from used paper<sup>245</sup>. In 2013, the total use of fresh fibres for the production of paper and cardboard amounted to approx. 386 kt<sup>246</sup>. We will focus on the certification of these fibres below. The risks linked to paper and cardboard production due to the relatively high energy and water usage have been strongly reduced in the past few years. Cost reductions played an important role in this process. In the past decade, this has resulted in energy savings of 23%<sup>247</sup> (see boxes 1 and 2). Other risks, such as drought due to temporary water scarcity, emissions into water and pressure on surface water in paper production have almost entirely been managed<sup>248</sup>. Therefore, we did not focus on these risks in this SRA.

## Certification of wood and fresh fibres

The main CSR risks in the sector are linked to the import of wood and fresh wood fibres (for paper production) from abroad. Examples of such risks are a possible loss of biodiversity and destruction of primary forests, bad working conditions and land grabbing.

An easy way for the sector to manage these risks is to purchase wood and fresh wood fibres that have been certified as sustainable by the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC). In the past few years, VVNH and VNP members have made great efforts to achieve their targets for the purchase of certified sustainable wood. This has resulted in 99.8% of all the fresh wood fibres purchased by VNP members for paper production being sustainable (see box 1). VVNH joined forces with NBvT (the Dutch carpenters' federation) to develop the 'Bewust met hout' action plan ('Wood awareness'). This resulted in the 'Green Deal initiative for the promotion of sustainable forestry', in which 27 parties – including governments, sectoral associations and civil society organisations – jointly encourage the use of sustainable wood<sup>249,250</sup>. All participating parties have formulated their own targets to achieve this target. In 2013, the VVNH targets resulted in the purchase of 96% sustainable softwood, 83% sustainable wood panels and 55% sustainable hardwood (see box 1).

The targets for the purchase of sustainable wood of other companies, for example those specialising in packaging, furnishings and interior architecture, are less concrete, and there is also less monitoring in these companies. As a result, we cannot say with certainty how much sustainable wood is imported. Based on data from 2011, an estimated 73% of the total wood imports used in the Netherlands in

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2013 – with the exception of paper – (4.5 million m<sup>3</sup>) were certified as sustainable, and the same goes for 45% of the tropical hardwood<sup>251,252</sup>.

Given the relatively low percentage of certified hardwood compared to other wood flows, and the high likeliness that hardwood is imported from high-risk countries, the import of tropical hardwood poses the most severe CSR risks in the sector. Therefore, this SRA focuses strongly on the CSR risks for tropical hardwood and the related considerations for dialogue. These risks do not affect paper and cardboard producers, as they do not require any hardwood.

The Dutch wood sector is a pioneer in the purchase of certified hardwood. Although on an international level there are major differences, the average share of certified tropical wood worldwide is 10 to 15%<sup>253</sup>. The Dutch wood sector would benefit from increasing this worldwide share, as it would guarantee the future supply of hardwood and create a level playing field in which Dutch wood dealers can compete fairly with foreign traders that are often still supplying uncertified wood. A problem in this respect is the limited consumer demand for certified wood due to the higher costs this certification carries. In the 'Green Deal initiative for the promotion of sustainable forestry' mentioned above, 27 parties have joined forces to increase the share of and the demand for sustainable wood, among other things.

Increasing the worldwide demand for and the supply of certified hardwood is the main challenge, but the Dutch wood sector has very little say in this. Nevertheless, the Netherlands is doing its utmost to increase this worldwide demand: the government

has joined forces with the business sector, and has launched the 'Sustainable Trade Initiative' (IDH), which includes a special programme to promote sustainable forestry all over the world. In addition, businesses and governments collaborate as part of the European Sustainable Tropical Timber Coalition (STTC) to promote the use of sustainable tropical wood<sup>254,255,256,257</sup>. The Dutch government also gives a helping hand through the European Forest Institute (EFI), which is responsible for the implementation of the EU Forest Law Enforcement, Governance and Trade Facility action plan (FLEGT), as part of which partnerships are closed between the EU and third countries exporting wood. Legally harvested timber is labelled with the FLEGT certificate in the country of origin. Requirements for companies that sell wood on the market go hand in hand with activities to strengthen the local government and promote compliance with local laws and regulations.

In addition to the efforts to increase the share of certified wood, the European Timber Regulation came into force in 2013. This regulation prevents European companies from importing illegal wood<sup>258,259</sup>. VVNH was involved in drafting this legislation and is very actively involved in its implementation. To facilitate this it has set up the Timber Checker Foundation, which supports members with practical information and tools for due diligence to comply with this new legislation<sup>260</sup>.

Internationally, increasing the share of sustainable wood is a priority, but the sector could focus on the reliability of the certification system next. In order to manage all CSR risks, the sector depends on the quality of the criteria and audits by FSC

and PEFC, private companies that work on the continuous improvement of the certification system in a multi-stakeholder setting. Nevertheless, the question arises whether the checks within the certification programmes are sufficiently strict to prevent malpractices, particularly in countries with high corruption rates and only limited monitoring of compliance with national regulations. Several reports of fraud in the certification of wood<sup>261,262,263</sup> give us reason to believe that certification does not cover all risks.

Apart from the wood imported by VVNH and VNP members, it is unclear how much wood is imported in the form of paper, which wood flows enter the Netherlands via which (sub)sectors, and which part of these imports are certified. Moreover, it is unclear which parties import and export wood that is not used/consumed in the Netherlands, but does change hands in the Netherlands, and which percentage of this wood is sustainable. The wood flow not used in the country is even larger than the import of wood that is used in the Netherlands itself<sup>264,265</sup>. It is important to improve these figures and gain a better insight into the unidentified wood flows to develop an efficient policy for the purchase of sustainable wood. To achieve this, previous research by CBS (Statistics Netherlands) into the monitoring of wood flows could be used<sup>266</sup>.

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**Box 1: Examples of CSR risks and approach to the principle of 'responsibility to respect'**

**TYPE OF RISK      IMPACT      RESPONSIBILITY TO RESPECT**



**Environmental risk**

Greenhouse gas emissions (CO<sub>2</sub> eq) linked to paper and cardboard production

**A few key figures:**

- Total paper and cardboard production in 2012: 2,762 kt.;
- Paper and cardboard composition: **82%** of old paper and **18%** of fresh wood fibres<sup>267</sup>.

The total Dutch CO<sub>2</sub> emissions of the sector in 2012: **1.1 million tonnes**<sup>268</sup> (**0.55%** of the total Dutch emissions).

The paper and cardboard sector is working on the reduction of energy usage and CO<sub>2</sub> emissions.

**Resultaten:**

- A **23%** increase in energy efficiency in the past 10 years<sup>269</sup>;
- A **40%** reduction in CO<sub>2</sub> emissions per production unit compared to 1990<sup>270</sup>.

**Current target:**

Halve the energy usage per end product in the chain by 2020 compared to 2004<sup>271</sup>.

**TYPE OF RISK      IMPACT      RESPONSIBILITY TO RESPECT**



**Human rights**

Land grabbing/non-respect of land rights (due to logging)

**A few key figures:**

- Every year, the earth loses approx. **13 million** hectares of its primary forests<sup>272</sup>;
- The World Bank estimates that more than **1 billion** people are, in one way or another, dependent on these forests<sup>273</sup>;
- The UN estimates that **20%** to **40%** of the worldwide industrial wood production is illegal<sup>274</sup>.

The sector adopts its 'responsibility to respect' through the purchase of certified (FSC/PEFC) wood.

Targets for certified sustainable wood imported by VVNH by 2015<sup>275,276</sup>:

- hardwood: **50%**
- wood panels: **85%**
- softwood: **100%**

Results (2013)<sup>277</sup>:

- hardwood: **55%**
- wood panels: **83%**
- softwood: **96%**

The targets listed above only apply to the VVNH members (**1.9 million m<sup>3</sup>**).

Based on data extrapolation from 2011 it is estimated that **73%** of all imports of wood used in the Netherlands, with the exception of paper, (**4.5 million m<sup>3</sup>**) are certified as sustainable<sup>278,279,280</sup>.

**VNP target:**

- Fresh fibres (cellulose): 100% sustainable;
- Shift to the use of alternative raw materials.

**Results:**

- fresh fibres (cellulose): 99.8% sustainable and 0.2% not certified, but legally harvested<sup>281</sup>;
- research into alternative fibres<sup>282</sup>.

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## Appreciation by civil society parties

The sector adopts different methods to limiting international CSR risks, e.g. through the purchase of sustainable wood, and the approach to the 'responsibility to respect' is assessed differently by the sector and by stakeholders as part of this SRA. Stakeholders give the approach to the 'responsibility to respect' a lower score than the sector itself. In this respect, it is worth noting that the stakeholders who provided input for this SRA were mostly not involved in permanent dialogues with the sector.

These different assessments seem to be the result of the sector and the stakeholders' differing perspectives on the approach to the 'responsibility to respect'. The sector believes that the purchase of certified wood suffices in this respect, whereas the stakeholders seem to focus more on concrete risks in the chain, particularly in the logging of tropical hardwood abroad. The stakeholders cannot properly assess the actual impact and involvement of the Dutch sector. Moreover, the stakeholders express concern on the quality of the certification system and the risk of fraudulent certificates. It must be noted, however, that these views are based on a very limited number of findings, often without a clear explanation<sup>283</sup>.

### BOX 2: BEST PRACTICES

#### Risk:

Extensive energy usage and high greenhouse gas emissions.

#### Parties involved:

VNP, KCPK (Paper and Cardboard Knowledge Centre), the Ministry of Infrastructure and the Environment, and RVO (the Netherlands Enterprise Agency).

#### Activities:

In 2004, VNP launched the 'Energy Transition Paper Chain' initiative in collaboration with KCPK, the Ministry of Infrastructure and the Environment, 'Agentschap NL', now known as RVO (the Netherlands Enterprise Agency), and the 'Chain Efficiency Platform'.

#### Results:

The parties' joint efforts have resulted in concrete targets to halve the energy usage per end product in the chain by 2020. This is to be achieved through the introduction of process and product improvements, recycling of residual flows, a more efficient use of (sustainable) energy sources and the optimisation of logistics processes in the chain<sup>284</sup>.

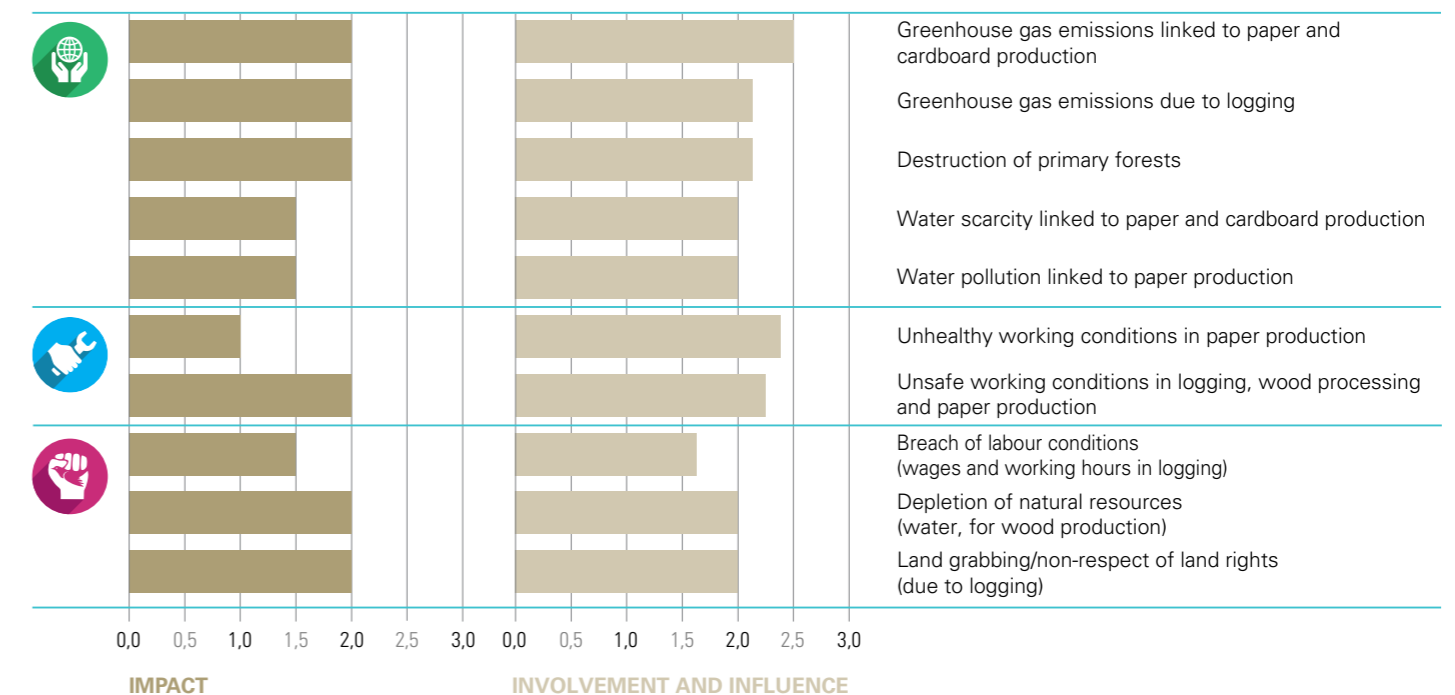
## Overview of all material risks

Risks generally refer to the chance that an event will take place 'multiplied' by the 'consequence' of that event. In many cases, this allows for risks to be quantified. The SRA uses the term 'impact' to refer to the estimated chance (that a situation will take place, an estimate of the number of people involved, the scope of the environmental damage in the area in question, the emissions measured in tonnes etc.) and the consequences (the severity of the event for the environment, people and animals) of each risk. Risks that affect people and animals' physical integrity and that cause irreversible damage are classified as severe.

The figure below illustrates the impact (scope and severity of the risk) and the sector's involvement (indicated through its position in the chain and the share of companies involved) per risk, with a figure between 0 and 3. These findings are based on the literature review carried out by KPMG, supplemented with the input from the sector and civil society organisations. The sources used in the assessment of the impact and involvement are listed in the separate SRA source book.

Corruption and taxation risks were not included in the table, because they cannot really be assessed at sectoral level. For more information on Corruption and Taxation risks we refer to chapters 4.4 and 4.5.

Figure 5.7 / Findings for the wood and paper sector



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## Main risks

For the approach to 'responsibility to respect', we also made four (sub)observations for the following dimensions: insight into the risks, results (actions launched), transparency and collaboration. In the assessment of the 'responsibility to respect' of the wood and paper sector we took into account the following:

- The findings are mainly based on the CSR risks that apply to the Dutch wood and paper sector, both in its own production and in the chain. As such, illegal logging in Indonesia for the Asian market is not included unless Dutch companies are involved;
- In the SRA methodology, sectoral efforts for the purchase of sustainable wood resulted in a high score for the dimensions 'insights', 'results' (actions have been launched) and 'collaboration'. The reasoning behind this is that, in the foreseeable future, the risks should be managed efficiently if the sector honours the clear commitments made.

The sector shows that CSR targets are being achieved. The sector is virtually fully 'in control' when it comes to traditional, local environmental risks, is doing its utmost to reduce energy usage, and has set and largely met its own targets for the purchase of sustainable wood.

The largest profits can be achieved by obtaining better results for total wood imports, by setting more ambitious targets for sustainable tropical hardwood and by encouraging non-VVNH members to also work towards meeting these targets.

## Specific considerations for dialogue

In addition to achieving the current targets for the purchase of sustainable wood, we identified the following considerations for further dialogue:

- Work on an overview of reliable figures on (sustainable) wood flows in collaboration with CBS (Statistics Netherlands) and Probos. Possible points of focus could be:
  - How much wood is imported in the form of paper and how much of it is certified?
  - Which wood flows arrive in the Netherlands and via which sectors, in addition to the imports by VVNH and VNP members, and how much of this wood is certified?
  - Which parties import and export wood that is not used in the Netherlands, but does change hands in the country? How much of it is certified?
  - Currently, the amount of imported (sustainable) wood by parties that do not provide information (lack of response) is estimated by industry experts. How can these estimates be improved?

- Set more ambitious targets for the import of sustainable wood in collaboration with other parties, specifically for the import of tropical hardwood.
- Increase the scope of the targets for sustainable wood:
  - Involve more subsectors and companies that are not VVNH members in actively making the wood chain more sustainable;
  - Extend the targets to other wood flows (e.g. total imports).
- Analyse how the certification system can be strengthened and which role the Dutch wood and paper sector can play in this respect;
- Analyse how the Dutch sector can contribute to increasing the share of certified sustainable wood all over the world. Which partnerships are needed for this purpose, in addition to, or for the strengthening of, the ongoing initiatives by the 'Sustainable Trade Initiative' (IDH), EFI and STTC.

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A man in a dark suit, white shirt, and dark tie is shown from the chest up. He is looking directly at the camera with a neutral expression. His right hand is raised, with his index finger pointing towards a white circular graphic that contains the number '07'. The background is dark and out of focus.

**07**

**CONCLUSIONS AND  
RECOMMENDATIONS**

## Considerations for dialogue in all priority sectors

Based on all analyses for the selection of priority sectors and the more detailed analyses for the priority sectors (agriculture and horticulture, chemicals, construction, electronics, energy, finance, food and beverage industry, metal, oil and gas, retail, textiles and clothing, wholesale, and wood and paper), we made the following findings:

- Material risks occur in all sectors;
- There are major differences between and within sectors;
- There is a lack of available information for a number of risks;
- Cross-sectoral risks play a central role in appreciation by civil society parties.

We formulated considerations for dialogue for all priority sectors because minimum one of the following circumstances applies:

- The sectors state that, despite all the ongoing initiatives, further action is required;
- There is a severe risk and the sector's approach to the 'responsibility to respect' is assessed as 'Insufficient' or 'Defensive' in terms of insights, results, transparency and collaboration in the entire sector.
- There is a lack of available information, which prevents us from getting a good insight into a specific risk;

- Risks garner a lot of (media) attention and/or appreciation by civil society parties for the sector's initiatives is limited.

## The relevance of the SRA differs from one company to the next

The extent to which the considerations for dialogue per sector are relevant for individual companies varies from one case to the next, because in all sectors there are leading companies that have gone a long way in preventing and reducing the risks described in this SRA. For each risk there are individual companies and entire sectors that could clearly still make improvements or in any case, communicate more transparently on the risks in question.

## Further analysis and elaboration of the considerations for dialogue

A sectoral approach is not enough to tackle cross-sectoral or country-specific risks. Based on the findings in this SRA we identified four relevant levels for further analysis and for the development of specific considerations for dialogue in the sectors:

- Companies: in order to tackle all CSR risks at corporate level, companies need to know where their products originate from and who produces them. Not all companies are aware of this. They should take a closer look at the due diligence processes used when joining forces with suppliers and purchasing specific raw materials and products. For small companies it is difficult to develop the necessary degree of expertise and to prevent high costs linked to the severity of the risks;

- Sectors: most CSR risks cannot be tackled at corporate level alone, but require a sectoral approach to create the necessary leverage to manage the risks. An example are the issues in the textiles and clothing sector. Companies in this sector have joined forces to tackle a number of problems related to working conditions and safety. Many other sectors also have ongoing sectoral initiatives whose scope can be extended;
- Cross-sectoral risks: these risks cannot be solved within the individual sectors. Governments in the countries of origin and in the importing countries play a key role. An international approach increases the chance of success, especially where the influence of the Dutch sectors is limited (due to its limited market share). Approaches geared to specific countries can fall under this item;
- Chains: some of the CSR risks are not linked to specific sectors or companies, but to the raw materials used in many sectors. The Dutch government and business sector have clearly mapped out several of these product chains. Through the 'Sustainable Trade Initiative' (IDH) and other projects they contribute to making the product chains for cocoa, soy, palm oil, wood, electronics and textiles more sustainable.

## Blind spots

There are still a few 'blind spots' in the systematic analyses and approaches of various chains, such as biofuels, some agricultural raw materials for animal feed and foods, and particularly various metals. It is becoming more and more important for a number of priority sectors (energy, oil and gas, wholesale and the food and beverage industry) to have a good insight into the risks related to the use of biofuels. The same goes for the transport and logistics sectors,

which were not further analysed in this report. The impact of biofuels on the environment and society has not been fully explored. Various reports contradict each other and there is no integrated, sustainable approach for the production and use of biofuels based on the analysis of the dilemmas, e.g. by the Corbey Committee. The same applies to metals, namely iron ores, rare metals used for electronics, precious metals and tin. Although we are fairly dependent on these metals it is not entirely clear where they originate from, which quantities the various players use, what their impact is on society in the countries of origin and which approach should be taken to tackle all these problems.

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**08**

**ANNEXES**

## DELINEATION OF THE 13 PRIORITY SECTORS

### Agriculture and horticulture

- The entire agricultural and horticultural sector (based in the Netherlands)
- Focus on livestock farming/horticulture/flower cultivation (incl. imports from abroad); the focus is less on arable farming

### Chemicals industry

- Chemicals and petrochemicals industry, incl. the rubber and plastics industry, producers of colourings and paints, chemicals, fertilisers, perfumes/cosmetics, soap and fibres
- The pharmaceutical industry does not fall under this sector

### Construction

- Land, water and road construction
- Producers of building materials (glass, asphalt, insulation materials etc.)
- Dredging companies
- Specialised construction works (demolition, finishings, building installations etc.)

### Energy

- Dutch energy companies (incl. nuclear power producers)
- Production and distribution of electricity/management and exploitation of transport grids

### Finance

- The entire financial sector, including insurers
- Focus on pension funds/institutional investors (the Netherlands is an important player due to the pension capital invested)

### Food and beverage industry

- Slaughter houses/meat processing/fish processing
- Processing industry (oils, fruit/vegetables, cocoa, coffee, tea, sugar, animal feed)
- Producers of food and beverage (incl. dairy and animal feed)

### Metal

- Producers of metal (half products) and metal products (end products)
- Steel producers and producers of (end) products for the construction sector, tools, packaging and steam boilers

### Electronics

- Electric devices/electrotechnical industry
- Production of electric devices, incl. computer and communication equipment
- Consumer electronics (white goods, lamps)
- Industrial electronics (electric motors, cables, optical instruments, communication equipment, measurement and control technology)

### Oil and gas

- Extraction of oil and gas/oil industry (production of coke oven products, oil processing)/production of biofuels
- Services for oil and gas extraction

### Retail

- Retail in the broad sense; both food and non-food
- The automotive industry does not fall under this sector

### Textiles and clothing

- Production of textiles and clothing
- Risks linked to the production of leather and shoes are included as a chain risks (this sector is limited in size in the Netherlands)

### Wholesale

- Wholesale in a broad sense, incl. commission trade (food and beverage, agricultural products, pharmaceutical products, building materials, furniture, fuel etc.)
- The automotive industry does not fall under this sector

### Wood and paper

- Wood production and processing
- Paper and cardboard production.

## EXPLANATION ON THE SECTORS EXCLUDED FROM THIS STUDY

**The following sectors were excluded in stage 2 (from 51 to 20 sectors, but through clustering of SBI codes the number of sectors excluded is lower).**

### Forestry

Forestry in the Netherlands, to be precise. Considering this activity is mainly concentrated in the Netherlands, Labour, Corruption and Human Rights risks in the chain are limited. Given its relatively small size, forestry has limited economic importance in the Netherlands. Issues linked to forestry and logging in crucial areas for safeguarding of biodiversity are, however, still tackled through the furniture, construction, retail, agricultural and horticultural industries (e.g. through the link between logging and soy/palm oil).

### Waste processing

The score for the chain risks is relatively low as is its economic importance.

### Leather and shoes

Despite there being CSR risks for this sector in general, its economic importance in the Netherlands is very limited. The risks linked to tanning were taken into account in the analysis of the textiles and clothing sector (since the activities of the leather and shoes industry fall under this sector's chain).

### Mining and quarrying

This sector is faced with many CSR risks with regard to Labour and Human Rights, particularly for activities outside of Western Europe. However, this sector is of relatively limited economic importance in the Netherlands. The mining risks for building materials, metals, minerals etc. are still highlighted via the sectors that make intensive use of and/or trade these raw materials.

### Machinery

Machinery in the Netherlands scores relatively low when it comes to chain risks. Moreover, this industry is made up of a very wide range of smaller industries, making it difficult to analyse it as a clear-cut entity.

### Other industries

This Dutch sector scores relatively low when it comes to chain risks. Moreover, this industry is made up of a very wide range of smaller industries, making it difficult to analyse it as a clear-cut entity.

### Shipbuilding

Although this sector is typical of the Netherlands, it is relatively small in size compared to other sectors. The sector is confronted with specific CSR risks linked to ship towing, as the Netherlands is one of the top-10 EU countries whose shipping companies tow ships on Asian beaches. Asian countries do not have many regulations on ship towing and the processing of hazardous waste. Consequently, there is a risk of serious environmental damage and bad working conditions, sometimes with deadly consequences<sup>403,404,405</sup>. This is a very difficult issue to tackle, because shipping companies often sell the ships to be towed to 'cash buyers' even before the towing process has begun<sup>406</sup>.

### Water/utilities

This sector obtains a low score in terms of chain risks and its economic importance is very limited.

### Tobacco

Despite the obvious risks with regard to working conditions, the sector has a relatively low score for chain risks. Tobacco is a relatively important Dutch export product, but its economic importance in terms of turnover and employment is limited.

**The following sectors were excluded in stage 3 (from 20 to 13 sectors):**

### Automotive retail

This sector scores relatively low in terms of risks and it would not be a logical priority sector.

### Temporary work agencies

This sector scores relatively low in terms of risks. This sector was recently called into question for sham arrangements for the dispatching of underpaid workers, but receives sufficient attention within the sector and from the Ministry of Social Affairs and Employment.

### Fisheries

This sector is confronted with risks linked to overfishing and, to a lesser extent, labour/working hours in the Netherlands. Major issues occur in the food and beverage and retail sectors: peeling of shrimps in Morocco, issues with wild tuna etc. (mainly trawlers from China, Japan and Chile) and issues related to farmed fish (e.g. land grabbing). Upon closer analysis, the economic importance of the sector is relatively limited. The risks are highlighted in the food and beverage sector.

### Transport

Limited score in various risk categories. The environmental issues are tackled within the sector itself, which is sufficiently motivated to commit to lowering fuel usage. Labour risks linked with sham set-ups are currently being tackled.

### Furniture

Scores relatively low for risks in general. Existing raw materials risks are included in the wood/paper sector.

### Government

Government obtained an average score in all risk categories, because it is active across the entire economic spectrum. It does, however, exercise sufficient due diligence thanks to its programmes for sustainable purchasing and its energy-reducing measures in government buildings.



# Material risks per sector



## Environment

TEXTILES & CLOTHING	CONSTRUCTION	CHEMICALS INDUSTRY	AGRICULTURE & HORTICULTURE	ELECTRONICS	FOOD & BEVERAGE INDUSTRY	WOOD & PAPER	OIL & GAS	METAL	ENERGY	FINANCIAL SECTOR : BANKS	FINANCIAL SECTOR : PENSION FUNDS	RETAIL	WHOLESALE
Greenhouse gas emissions (CO <sub>2</sub> -eq) in cotton & textiles production	Greenhouse gas emissions (CO <sub>2</sub> -eq) linked to own activities (incl. transport)	Greenhouse gas emissions (CO <sub>2</sub> eq) linked to the production of chemicals and energy usage	Greenhouse gas emissions (CO <sub>2</sub> eq) linked to energy usage (horticulture)	Greenhouse gas emissions (CO <sub>2</sub> eq) linked to energy usage during production and transport	Greenhouse gas emissions (CO <sub>2</sub> eq) linked to the production of crude raw materials by suppliers	Greenhouse gas emissions (CO <sub>2</sub> eq) linked to paper and cardboard production	Greenhouse gas emissions (CO <sub>2</sub> eq) linked to oil refining	Greenhouse gas emissions (CO <sub>2</sub> eq) linked to energy usage in metal production	Greenhouse gas emissions (CO <sub>2</sub> eq) linked to energy production (and grid losses)	Greenhouse gas emissions (linked to underinvestments in the low-carbon economy and investments in companies with high emissions)	Greenhouse gas emissions (linked to underinvestments in the low-carbon economy and investments in companies with high emissions)	General: environmental pollution due to waste and packaging (plastic bags, PET bottles etc.)	General: greenhouse gas emissions (CO <sub>2</sub> eq) due to energy usage (e.g. logistics and stock management)
Water and soil pollution in the production of cotton (e.g. pesticides) and textiles (e.g. chemicals for painting and bleaching)	Greenhouse gas emissions (CO <sub>2</sub> -eq) linked to cement production	Air pollution linked to production processes (N, P, nmVOC, SOx, etc.)	Greenhouse gas emissions (CO <sub>2</sub> eq) linked to transport (e.g. flowers from/to the Netherlands)	Greenhouse gas emissions (CO <sub>2</sub> eq) of products in use	Water scarcity due to water usage in the production of agricultural raw materials	Greenhouse gas emissions (CO <sub>2</sub> eq) linked to logging	Greenhouse gas emissions (CO <sub>2</sub> eq) linked to the production (extraction) of oil and gas	Greenhouse gas emissions (CO <sub>2</sub> eq) linked to energy usage in the extraction of metals (e.g. iron ores)	Air pollution linked to energy production (Nox, Sox, VOC, PM)	Provision of financial products/services to companies that do not comply with international environmental standards (e.g. for agro commodities)	Investments in companies that do not comply with international environmental standards (e.g. for agro commodities)	General: greenhouse gas emissions (CO <sub>2</sub> eq) due to energy usage in shops (cooling, heating, lighting)	Jewellery wholesalers: environmental pollution due to the use of chemicals in the extraction of precious metals (e.g. gold)
Water scarcity due to water usage in the production of cotton and textiles	Greenhouse gas emissions (CO <sub>2</sub> eq) of completed works (e.g. buildings in use)	Soil pollution linked to production processes (e.g. metals, solvents etc.)	Greenhouse gas emissions (CO <sub>2</sub> , methane, etc.) linked to livestock farming (incl. the animal feed chain)	Environmental pollution linked to incorrect processing of electronic waste (e-waste)	Water scarcity due to water usage in the production of food and beverage (in the Netherlands and abroad)	Destruction of primary forests (e.g. loss of biodiversity and natural habitats, erosion)	Air pollution linked to oil refining, e.g. due to gas flaring (Nox, Sox, VOC, PM)	Water pollution due to the use of chemicals (e.g. cyanide, heavy metals) and acid drainage in metal extraction	Land use in vulnerable areas (in the production of coal and agro commodities for biomass)	Provision of financial products/services to companies that contribute to water scarcity	Investments in companies that contribute to water scarcity	Toys: environmental issues in the production process, e.g. in China (use of fossil fuels, water and soil pollution)	Agro commodity traders: environmental issues (e.g. Land use in vulnerable areas) due to the production of agro commodities (e.g. palm oil and soy)
Soil degradation (e.g. salinisation and depletion of minerals) due to cotton production	Loss of biodiversity due to dredging works (incl. disposal of sludge)	Water pollution due to production processes (e.g. heavy metals, nitrogen and CODs)	Water scarcity due to water usage in the production of food and beverage (e.g. soy for animal feed) and/or flowers (abroad)	Use of and (for consumers) exposure to hazardous substances	Water pollution due to the use of pesticides and crop protection products by suppliers (in the production of raw materials)	Water scarcity due to water usage in paper and cardboard production (e.g. cooking of wood fibres, old paper)	Air pollution linked to oil production, e.g. due to gas flaring (Nox, Sox, VOC, PM)	Water scarcity due to water usage in the extraction and processing of metals	Radioactive waste (production of nuclear power)	Provision of financial products/services to companies that contribute to a loss of eco-system services and biodiversity	Investments in companies that contribute to a loss of eco-system services and biodiversity	Cosmetics: water pollution linked to cosmetics use by consumers (the Netherlands and abroad)	Graphic equipment wholesalers: environmental issues (e.g. pollution and water usage) linked to the production of graphic equipment (e.g. paper and ink)
Land use in vulnerable areas with high biodiversity (e.g. deforestation due to cotton cultivation and livestock farming for leather production)		Water scarcity due to water usage in production processes	Water and soil pollution due to acidification and eutrophication (livestock farming)	Water scarcity and pollution due to water usage during production processes	Loss of biodiversity due to land use in vulnerable areas (e.g. due to deforestation for palm oil, soy, maize and sugar, among others)	Water pollution linked to paper production (e.g. heated water, hazardous substances)	Water scarcity due to water usage in production processes (e.g. fracking)	Land use in vulnerable areas and ecological decline (e.g. river sedimentation) due to the extraction of metals		Provision of financial products/services to companies that contribute to the depletion of raw materials	Investments in companies that contribute to the depletion of raw materials	Cosmetics: air pollution during the production process due to the use of propellants, solvents and oils as raw materials	Building material wholesalers: environmental issues due to the extraction of raw materials (e.g. minerals and wood) and the production of building materials (e.g. steel)
Malpractices with regard to animal welfare (down, leather, fur and wool)		Land use in vulnerable areas (e.g. in the extraction of raw materials, such as oil and agro commodities)	Water and soil pollution due to the use of crop protection products (horticulture)		Soil pollution due to agricultural production (e.g. due to the use of pesticides, the disruption of the nutrient cycle and eutrophication) in the supply chain.		Land use in vulnerable areas (e.g. in the production/extraction of oil and gas)			Provision of financial products/services to companies that are involved in malpractices with regard to animal welfare	Investments in companies that are involved in malpractices with regard to animal welfare	Cosmetics: deforestation due to palm oil production (e.g. in Indonesia and Malaysia)	Non-food consumer goods wholesalers: environmental issues (e.g. greenhouse gas emissions, water scarcity and pollution) due to the production of non-food consumer goods (e.g. consumer electronics, textiles and clothing)
		Incorrect processing of chemical waste (in the production of chemicals)	Malpractices with regard to animal welfare (transport, living environment, slaughtering, breeding/genetic testing)		Soil depletion due to agricultural production (e.g. palm oil, soy, sugar, cocoa, coffee)		Malpractices with regard to animal welfare (due to large oil spills)					DIY retailers: deforestation due to the sale of non-certified wood products	Pharmaceutical wholesalers: environmental issues (e.g. greenhouse gas emissions, water and soil pollution) due to the use of chemicals; malpractices with regard to animal welfare) linked to the production of pharmaceutical products, among others
		Malpractices with regard to animal welfare (e.g. product tests on animals)	Land use in vulnerable areas (e.g. deforestation due to soy production for animal feed)		Malpractices with regard to animal welfare (in the entire chain)							Resellers of stock lots: sale of goods that pose great environmental risks (e.g. deforestation, air and soil pollution) in the production chain	
		Environmental risks linked to the transport of hazardous goods (chemicals, solvents, etc.)	Loss of biodiversity (and increase of CO <sub>2</sub> emissions) due to peat excavation (in Baltic states).		Depletion of wild fish stocks							Jewellers: environmental pollution due to the use of chemicals in the extraction of precious metals (e.g. gold)	



Labour

TEXTILES & CLOTHING	CONSTRUCTION	CHEMICALS INDUSTRY	AGRICULTURE & HORTICULTURE	ELECTRONICS	FOOD & BEVERAGE INDUSTRY	WOOD & PAPER	OIL & GAS	METAL	ENERGY	FINANCIAL SECTOR : BANKS	FINANCIAL SECTOR : PENSION FUNDS	RETAIL	WHOLESALE
Unhealthy working conditions in cotton and textiles production (exposure to pesticides in cotton cultivation and chemicals/sand blasting in textiles production)	Unhealthy and unsafe working conditions during construction works (in the Netherlands)	Unhealthy working conditions in the production process (exposure to toxic chemicals, dust etc.)	Unhealthy (e.g. physical effort and consequences of the use of pesticides) and unsafe working conditions in agriculture/livestock farming (manure) and horticulture (working conditions)	Unsafe working conditions (personal safety, e.g. deadly accidents, bruising etc.) e.g. due to (the lack of) interventions or a lack of preventive measures	Unsafe and unhealthy working conditions among suppliers, in the production and processing of raw materials (e.g. due to pesticide use)	Unhealthy working conditions in paper production (e.g. due to exposure to chemicals, such as chlorine)	Unhealthy working conditions in the production/extraction and refining of oil (exposure to chemicals, dust etc.)	Unhealthy working conditions in the extraction of metals (e.g. respiratory conditions)	Unsafe working conditions in the production of energy (personal safety, e.g. working with low and high voltage), e.g. due to (the lack of) interventions or a lack of preventive measures	Provision of financial products/services to companies that do not comply with international standards on working conditions (wages, working hours and facilities)	Investments in companies that do not comply with international standards on working conditions (wages, working hours and facilities)	Toys: working conditions (overtime, child labour) in the production of toys.	Jewellery wholesalers: unhealthy and unsafe working conditions in the sourcing of precious metals (e.g. gold) and diamonds in South Africa
Unsafe working conditions in textiles production (fire safety, emergency exits and construction quality)	Breach of working conditions with regard to wages and working hours (e.g. employment of foreign workers, both in the Netherlands and abroad)	Unsafe working conditions (personal safety, e.g. deadly accidents, bruising etc.) e.g. due to (the lack of) interventions or a lack of preventive measures	Breach of trade union rights and the right to free association (e.g. in flower cultivation abroad, in Kenya and Ethiopia among others)	Breach of trade union rights and the right to free association (e.g. in the production of electronics abroad, in China among others)	Unsafe and unhealthy working conditions in the production of foods (abroad)	Unsafe working conditions in logging, and in paper processing and production (e.g. use of machinery for logging and production)	Unsafe working conditions (personal safety, e.g. deadly accidents, bruising etc.) e.g. due to (the lack of) interventions or a lack of preventive measures	Unsafe working conditions (personal safety, e.g. deadly accidents, bruising etc.) in the extraction of metals	Unsafe working conditions in energy production (process safety), e.g. due to (the lack of) interventions or a lack of preventive measures	Provision of financial products/services to companies that do not comply with international standards on trade union rights and the right to free association	Investments in companies that do not comply with international standards on trade union rights and the right to free association	Jewellers: unhealthy and unsafe working conditions in the sourcing of precious metals (e.g. gold) and diamonds in South Africa	Natural stone wholesalers: unhealthy and unsafe working conditions in the extraction of natural stone (e.g. in India and China)
Low wages in cotton and textiles production	Breach of working conditions in the chain due to the extraction of granite/natural stone/steel (child labour/forced labour)	Unsafe working conditions (process safety, linked to poor maintenance, incorrect storage of chemicals etc.), e.g. due to (the lack of) interventions or a lack of preventive measures	Breach of women's rights (e.g. right to equal pay and sexual intimidation at work in flower cultivation abroad, in Kenya and Ethiopia among others)	Forced labour/employment of migrants (in the production of electronics abroad, e.g. Indonesian workers in China)	Breach of trade union rights and the right to free association (in the entire production chain)	Breach of working conditions with regard to wages and working hours (logging)	Unsafe working conditions (process safety, linked to poor maintenance, incorrect storage of chemicals etc.), e.g. due to (the lack of) interventions or a lack of preventive measures	Unsafe working conditions (personal safety, e.g. deadly accidents, bruising etc.) in the production and processing of metal	Unsafe and unhealthy working conditions in the production of coal and biofuels (e.g. black lung disease, physically exhausting labour)	Provision of financial products/services to companies that do not comply with international health and safety standards	Investments in companies that do not comply with international health and safety standards	DIY retailers: unhealthy and unsafe working conditions in the extraction of natural stone (e.g. in India and China).	Agro commodity traders: labour risks (e.g. child labour, breach of women's rights) in the production of agro commodities (e.g. palm oil, soy, cocoa and flowers)
Excessively long working hours in textiles production (e.g. in China, Bangladesh, India and Pakistan)	Forced labour (e.g. in construction projects in the Middle East)	Breach of trade union rights and the right to free association (also among suppliers)	Underpayment (agriculture/horticulture and flower cultivation abroad)	Low wages/underpayment (in the production of electronics abroad, e.g. in China)	Breach of women's rights (e.g. right to equal pay and sexual intimidation at work) in the production and processing of raw materials (e.g. coffee, cocoa and palm oil)		Breach of trade union rights and the right to free association (e.g. in the extraction of oil abroad)	Breach of trade union rights and the right to free association (in the extraction of metals)	Breach of trade union rights and the right to free association (e.g. in the extraction/production of coal abroad, e.g. in Colombia)	Provision of financial products/services to companies that do not comply with international standards on child labour	Investments in companies that do not comply with international standards on child labour	Resellers of stock lots: sale of goods linked to labour risks in the chain (e.g. exposure to harmful chemicals, excessively long working hours, child labour and breach of women's rights)	Graphic equipment wholesalers: labour risks (e.g. unhealthy and unsafe working conditions) in the production of graphic equipment (e.g. paper and ink)
Breach of women's rights in textiles production (e.g. Sumangali/bonded labour)			Child labour in flower cultivation abroad (e.g. in Ecuador)	Child labour (e.g. in mining/processing of e-waste, in China for example)	Low wages in the production and processing of raw materials (e.g. coffee, cocoa and palm oil)			Breach of women's rights (e.g. the right to equal pay and working conditions) in the extraction of metals	Breach of women's rights in the production of biofuels (e.g. palm oil and soy)	Provision of financial products/services to companies that do not respect women's rights (equal pay and working conditions, unequal access to financial services for women)	Investments in companies that do not respect women's rights (equal pay and working conditions, unequal access to financial services for women)	Electronics: working conditions in the production of electronics abroad, e.g. low wages and forced labour (e.g. in China)	Building material wholesalers: labour risks (e.g. unhealthy and unsafe working conditions and breach of labour conditions) in the production of building materials (e.g. steel) and the extraction of raw materials (e.g. minerals and wood)
Breach of trade union laws and the right to free association in cotton and textiles production				Excessively long working hours (in the production of electronics abroad)	Child labour the production of agricultural raw materials (e.g. coffee, cocoa and palm oil)			Low wages in the extraction of metals (e.g. in mining in China, India and Brazil)	Child labour in the extraction/production of coal abroad, e.g. in Colombia)				Non-food consumer goods wholesalers: labour risks (e.g. exposure to harmful chemicals, excessively long working hours, child labour and breach of women's rights) in the production of non-food consumer goods (e.g. consumer electronics, textiles and clothing)
Child labour in cotton production (e.g. in Turkey), textiles and shoe production (e.g. in tanneries in Bangladesh)				Breach of women's rights (e.g. the right to equal pay and working conditions) in the production of electronics abroad	Excessively long working hours in the production of agricultural products/raw materials (e.g. coffee, cocoa and palm oil)			Child labour in the extraction of metals and coal (e.g. iron ores in China, India and Brazil; and coals in South Africa and Colombia)					
					Forced labour in the production of agricultural products/raw materials (e.g. soy and palm oil)			Excessively long working hours in the extraction of metals (e.g. mining in China, India and Brazil)					
								Forced labour in the extraction of metals (e.g. mining in China, India and Brazil)					



### Human Rights risks

TEXTILES & CLOTHING	CONSTRUCTION	CHEMICALS INDUSTRY	AGRICULTURE & HORTICULTURE	ELECTRONICS	FOOD & BEVERAGE INDUSTRY	WOOD & PAPER	OIL & GAS	METAL	ENERGY	FINANCIAL SECTOR : BANKS	FINANCIAL SECTOR : PENSION FUNDS	RETAIL	WHOLESALE
Damage to public health linked to the use of chemicals in clothing (product safety)	Deprivation of the right to a clean, safe and healthy living environment (due to the production of wood and extraction of metal ores and natural stone)	Deprivation of the right to a clean, safe and healthy living environment (near factories, both in the Netherlands and abroad)	Deprivation of the right to clean water and a healthy living environment (flower cultivation abroad)	Deprivation of the right to a clean, safe and healthy living environment (in the vicinity of mining activities)	Damage to public health linked to consumption, caused by production methods (antibiotics in meat)	Depletion of natural resources (water, for wood production)	Deprivation of (the right to) a clean, safe and healthy living environment (in the vicinity of production facilities) due to oil production	Deprivation of the right to a clean, safe and healthy living environment (in the vicinity of mining activities)	Depletion of natural resources (coal, gas, uranium) in their country of origin, e.g. Colombia and South Africa.	Provision of financial products/services to companies that breach civil and political rights	Investments in companies that breach civil and political rights	Jewellers: deprivation of the right to a clean, safe and healthy living environment (in the vicinity of mining activities, e.g. for gold)	Natural stone wholesalers: deprivation of the right to a clean, safe and healthy living environment due to the extraction of natural stone
Pollution of the living environment linked to cotton production (e.g. excessive use of water and pesticides) and textiles production (pollution of ground and surface water due to the use of chemicals)	Land grabbing/non-respect of land rights (in logging and the extraction of natural stone and the production of steel)	Depletion of natural resources (e.g. oil, gas and minerals) in their country of origin	Damage to public health linked to consumption (e.g. antibiotics in meat/pesticides in fruit and vegetables)	Land grabbing/non-respect of land rights (extraction of metals, e.g. in China)	Land grabbing/non-respect of land rights (in the extension of agricultural land for the production of agricultural raw materials)	Land grabbing/non-respect of land rights (logging)	Deprivation of (the right to) a clean, safe and healthy living environment due to gas production, e.g. earthquakes	Depletion of natural resources (metals, minerals) in their country of origin, e.g. tin, cobalt and platinum	Depletion of natural resources, such as (rare) metals for wind mills, smart meters and cables (grids) in their country of origin (such as China)	Provision of financial products/services to companies that breach economic, social and cultural rights	Investments in companies that breach economic, social and cultural rights	Jewellers: financing of conflicts through the sourcing of precious metals (e.g. gold in Uganda) and diamonds	Jewellery wholesalers: deprivation of the right to a clean, safe and healthy living environment (in the vicinity of mining activities for precious metals, e.g. gold)
Land grabbing/non-respect of land rights (due to cotton production)	Depletion of natural resources (cement, metal ores, natural stone) in their country of origin	Impact of chemicals and chemical products on human health (e.g. due to the use of nanotechnology)	Land grabbing/non-respect of land rights (e.g. due to soy production for animal feed)	Depletion of natural resources (plastics, fossil fuels, rare metals) in their country of origin			Depletion of natural resources (oil, gas) in their country of origin	Land grabbing/non-respect of land rights (due to mining activities, e.g. in the extraction of tin, cobalt and platinum)	Land grabbing/non-respect of land rights (due to land use for coal and biomass production)	Provision of financial products/services to companies that breach collective rights	Investments in companies that breach collective rights	DIY retailers: deprivation of the right to a clean, safe and healthy living environment due to the extraction of natural stone	Jewellery wholesalers: financing of conflicts through the sourcing of precious metals (e.g. gold in Uganda) and diamonds
		Land grabbing/non-respect of land rights (due to the extraction of raw materials and land use for factories)	Depletion of natural resources (phosphate) in their country of origin, e.g. China and Morocco	Financing of conflicts due to the extraction of conflict minerals (e.g. in Congo)			Land grabbing/non-respect of land rights (due to land use for production facilities)	Financing of conflicts due to the extraction of conflict minerals (e.g. in Congo)	Deprivation of the right to a clean, safe and healthy living environment (local residents) due to coal production, e.g. in Colombia	Provision of financial products/services to companies that invest in controversial weapon production	Investments in companies that invest in controversial weapon production	Non-food consumer goods: land grabbing/non-respect of land rights (due to cotton production (for textiles and clothing) and financing of conflicts due to the extraction of conflict minerals for consumer electronics)	Agro commodity traders: human rights risks linked to the production of agro commodities (e.g. land grabbing/non-respect of land rights in the extension of agricultural land)
										Provision of financial products/services to companies that are responsible for land grabbing	Investments in companies that are responsible for land grabbing		Building material wholesalers: depletion of natural resources (cement, metal ores, natural stone, water for wood production) in their country of origin
										Provision of financial products/services that are misleading or lack transparency to consumers			Non-food consumer goods wholesalers: land grabbing/non-respect of land rights due to cotton production (for textiles and clothing) and financing of conflicts due to the extraction of conflict minerals for consumer electronics
													Pharmaceutical wholesalers: impact of chemicals and chemical product on human health

### Corruption risks

TEXTILES & CLOTHING	CONSTRUCTION	CHEMICALS INDUSTRY	AGRICULTURE & HORTICULTURE	ELECTRONICS	FOOD & BEVERAGE INDUSTRY	WOOD & PAPER	OIL & GAS	METAL	ENERGY	FINANCIAL SECTOR : BANKS	FINANCIAL SECTOR : PENSION FUNDS	RETAIL	WHOLESALE
Bribes to obtain permits for textiles factories (e.g. in Bangladesh) by unlawful means, as well as falsified documents related to labour statistics (working hours and wages, China).	Corruption, bribery and anti-competitive behaviour (e.g. for larger contracts/tenders and to obtain permits, abroad)	Corruption and bribery (e.g. for larger bulk contracts), abroad	Sham arrangements in the deployment of foreign workers in the Netherlands (e.g. evading work permit)	Corruption and bribery (e.g. for large healthcare contracts), abroad	Corruption and bribery (including from officials for obtaining land rights) in the production of agricultural commodities	Corruption and bribery to obtain wood concessions abroad	Corruption and bribery (e.g. to obtain concessions for oil and gas extraction, and other contracts)	Corruption and bribery (e.g. in the extraction of metals)	Corruption and bribery (e.g. for larger contracts), abroad	Provision of financial products/services to corrupt companies	Investments in corrupt companies	DIY retailers: fraud and corruption with labels and in the purchase and sale of FSC-certified wood	Agro commodity traders: fraud and corruption with labels (e.g. UTZ, RTRS and RSPO)
						Fraud and corruption with regard to the integrity of certificates (FSC), abroad	Price setting (anti-competitive behaviour), abroad			Price setting (anti-competitive behaviour), abroad	Price setting (anti-competitive behaviour), abroad		Construction wholesalers: fraud and corruption with labels (e.g. FSC-certified wood)
													Graphic equipment wholesalers: fraud and corruption with labels (e.g. with paper)

### Taxation risks

TEXTILES & CLOTHING	CONSTRUCTION	CHEMICALS INDUSTRY	AGRICULTURE & HORTICULTURE	ELECTRONICS	FOOD & BEVERAGE INDUSTRY	WOOD & PAPER	OIL & GAS	METAL	ENERGY	FINANCIAL SECTOR : BANKS	FINANCIAL SECTOR : PENSION FUNDS	RETAIL	WHOLESALE
Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.	Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.	Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.	Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.	Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.	Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.	Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.	Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.	Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.	Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.	Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.	Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.	Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.	Tax evasion includes tax planning (the legal optimisation of the overall tax burden of a company which has branches in various countries). This results in the company paying less tax on both operating profits and capital income than what the taxation legislation (the letter and spirit of the law) of those (developing) countries envisages.

## CIVIL SOCIETY ORGANISATIONS THAT TOOK PART IN THE STUDY

- ActionAid
- Amnesty International
- Breed Mensenrechten Overleg
- Both ENDS
- CNV
- College voor de Rechten van de Mens
- Cordaid
- De Groene Zaak
- Dierenbescherming
- Fairwork
- FNV
- Greenpeace
- Hivos
- ICCO
- IKV Pax Christi
- IUCN
- Landelijke India Werkgroep
- Milieudefensie
- MVO Nederland
- OxfamNovib
- Saxion University
- Solidaridad
- SOMO
- Stop Kinderarbeid
- Tax Justice
- TU Delft
- Maastricht University
- VBDO
- WO=MEN
- WSPA

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12. References consulted: General: Rio Declaration on Environment and Development, Johannesburg Declaration on Sustainable Development, UN Global Compact, CERES Principles, ISO 26000, IFC Performance Standards, GRI G4 guidelines. Environment: UNECE Water Convention, Alliance for Water Stewardship (AWS) Standard, UN Convention on Biological Diversity, UN Framework Convention on Climate Change, UN Forest Principles, FAO - Voluntary Guidelines on Planted Forests, UN Convention on the Control of Transboundary Movements of Hazardous Wastes and their disposal. Labour: ILO Labour Standards, Ethical Trading Initiative - Base code, Amnesty Human Rights Principles for Companies, Business Social Compliance Initiative - Code of Conduct. Human Rights: International Bill of Human Rights (Universal Declaration of Human Rights and its main instruments: International Covenant on Civil and Political Rights and International Covenant on Economic, Social and Cultural Rights), UN guiding principles on business and human rights, UN Declaration on the Rights of Indigenous Peoples, UN Declaration on the Rights of Persons Belonging to National or Ethnic, Religious and Linguistic Minorities, UN Convention on the Elimination of All Forms of Discrimination against Women, UN Convention on the Rights of the Child, UN Convention on the Rights of Persons with Disabilities, UN Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, FAO - Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests. Corruption: OECD corruption prevention directive, OECD competition directive.
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