Executive Summary

The world faces a crisis of unprecedented scale: the climate emergency and other environmental issues present an existential threat to the future of our planet and the wellbeing of humankind. Environmental insecurity is closely interlinked with direct and indirect human rights violations, depriving people of food security, access to land, natural resources, clean air and water, and their source of livelihoods. Already at 1°C increase, global heating is a threat multiplier, compounding existing economic, political, social and ecological stresses and inflicting harsh penalties onto the poorest communities on our planet.

The European Union is a leader driving international cooperation for environmental and human rights protections, but EU consumption also continues to fuel the “Triple Emergency” of climate change, biodiversity loss, and poverty.

Europeans per capita consume 1.5 to 2.5 times more land, carbon, and water than the global average, and EU value chains are riddled with human rights and environmental abuses.

The Commission’s commitment to delivering an EU-level mandatory human rights and environmental due diligence (mHREDD) regulation is a critical and welcome opportunity to address the negative impacts of EU consumption and take a leading role in a global just transition towards a more equitable, sustainable future for all.

The Environmental Justice Foundation (EJF) congratulates the EU Parliament for addressing sustainable corporate governance, and the Legal Affairs Committee’s ambitious report on mandatory due diligence. EJF strongly encourages all members of the EU Parliament to vote in favour of 2020/2137(INI). This will send a strong signal that the Parliament will work with the Commission to deliver a robust and impactful mHREDD regulation towards the eradication of human rights and environmental abuses from EU business and consumer value chains.
To be effective, an EU mHREDD regulation must have at its core the following six requirements:

1. Apply to the entirety of the value chain in every industry - including the financial sector - covering all subsidiaries, suppliers, and contractors as well as all business purchasing practices, and require mandatory transparency at every level;

2. Empowered with the means to hold companies accountable when they fail to prevent environmental or human rights abuses, including a system of reasonable administrative, civil and criminal liability;

3. Expand the definition of corporate duty of care to all stakeholders affected by business operations. This includes shareholders, employees, suppliers, and the communities impacted along the value chain, including future rights holders who will be impacted tomorrow by the corporate behaviours of today;

4. Require company directors to define and integrate stakeholders’ interests and corporate sustainability risks, impacts and opportunities into corporate strategies with measurable and time-bound human rights and environmental targets based on the latest available science;

5. Work with non-EU ‘third countries’ to improve meaningful compliance with international obligations and instil long-term changes in policy and implementation to underpin sustainability goals; and

6. Support SMEs and small-scale producers with due diligence requirements.

Introduction

The Climate Crisis is fuelling profound social injustice: those who contribute the least to our heating planet - including Indigenous peoples and low-income communities - are suffering the worst impacts of a changing climate and a degraded environment. Meanwhile many of the world’s wealthy continue to consume irresponsibly and avoid the worst consequences of our ‘addiction to carbon’. With 450 million consumers, the EU is the largest single market in the world and has a disproportionately large environmental footprint\(^2\): EU per capita land, carbon, and water consumption are 1.5 to 2.5 times higher than the global average\(^3\). The EU is home to only 7% of the world’s population yet consumes almost 20% of the Earth’s biocapacity\(^4\). The European Green Deal sets out a powerful vision for a greener future that can address the EU’s global footprint; however, it is equally important to tackle Europe’s global environmental footprint in a way that promotes justice and protects human rights across the world.
We urgently need visionary, decisive political leadership to rein in human rights abuses and protect people and our shared planet. Voluntary measures and industry initiatives have failed to deliver the system-wide change needed to protect the health of ecosystems such as oceans and forests\(^5\). Our ‘blue planet’ depends on healthy oceans that produce more than 50% of the world’s oxygen\(^6\); provide habitats for between 500,000 and 10 million marine species; and sustain the livelihoods and food security of more than 3 billion people\(^7\). Over recent decades, international seafood companies have agreed to a range of voluntary measures, including sustainability certifications, yet global fish populations are plummeting,\(^8\) and reports of human rights abuses at sea continue unabated. Terrestrial ecosystems fare no better: despite industry initiatives such as the Roundtable on Sustainable Palm Oil (RSPO) certification, palm oil has been responsible for at least 39% of forest loss in Borneo since 2000\(^9\). Deforestation has repeatedly been shown to have devastating consequences for human rights. In addition to threatening the lives, livelihoods, and cultures of Indigenous peoples and forest-dependent communities, high rates of deforestation have been linked to negative health impacts. For example, haze from fires linked to land use change and deforestation in Indonesia in 2015 are estimated to have caused over 100,000 premature deaths in South East Asia\(^10\).

**Box 1: Abuses in EU soybean value chains**

Soy is a worrying example of a commodity value chain tainted by environmental destruction. A recent study calculated that roughly 20% of Brazilian soybeans grown in the Amazon and Cerrado biomes and bound for the EU market may be linked to potentially illegal deforestation\(^11\), and the anti-environmental policies of President Jair Bolsonaro are further encouraging the expansion of ecologically-harmful monocultures into other sensitive ecosystems such as the Pantanal (the world’s largest wetland).

Land use change for agriculture is the primary threat to biodiversity in the key terrestrial biomes that we must protect as part of a global climate change mitigation portfolio\(^12\). Conversion to agriculture that underpins exports threatens the human rights of marginalised communities including Indigenous Peoples. For example, the record-breaking 2020 fires in Brazil’s Pantanal wetlands were started illegally to clear land for agricultural expansion: over the course of the fire season, 30% of the wetlands were burnt\(^13\). Indigenous territories were particularly affected, with the Guató tribe seeing 90% of their territorial land burnt\(^14\). An EU-wide mandatory human rights and environmental due diligence regulation could help block soy grown on deforested land from entering the EU single market. In turn, the leverage exerted would help to reduce destructive agricultural practices and human rights violations across the world.
Lessons learned: what can the EU IUU Regulation teach us?

Legislation can and does radically transform production and value chains that have been associated with environmental damage and associated human rights abuses. New laws may be the only mechanism to build systemic change through mandatory requirements for transparency, traceability and far more stringent environmental governance. The successful EU Regulation to prevent, deter and eliminate illegal, unreported and unregulated fishing (EU IUU Regulation), which came into force in 2010, has shown how the EU’s leadership and leverage can secure positive change in governance of natural resources, in this instance the enhanced management and oversight of global fisheries.

The EU IUU Regulation introduces a requirement for verification of seafood supply chains to halt the flow of illegally-caught seafood products coming into the EU market. The approach is supported by a system of warnings (known as ‘yellow cards’) and trade sanctions (‘red cards’) that can be applied to ‘third countries’ that neither comply with international standards for fisheries management nor cooperate in the fight against IUU fishing. Through this scheme, the EU has engaged with over 60 ‘third countries’ to address and reduce IUU fishing. Countries such as Thailand that were previously afflicted by widespread illegal fishing have rapidly initiated reforms following dialogue prompted by the EU Commission’s application of the IUU Regulation. The Regulation has helped prompt a wholesale review of the policies and enforcement governing the Thai fishing fleet, sending a clear and decisive message across the sector and the associated international supply chains.

Seafood processors and importers are also adopting more stringent approaches to their own due diligence and analysis of supply chain risks. However, large gaps still remain (see Box 2). The EU IUU Regulation is narrowly targeted at preventing illegal fisheries products from entering the EU market - but it does not provide all of the tools we need to ensure that the seafood available to EU consumers is fully sustainable and free from human right abuses. A mandatory approach to corporate human rights and environmental due diligence would reinforce the progress made under the EU IUU Regulation and help to create a ‘level playing field’ and fairer competition between businesses across multiple value chains.

An mHREDD regulation will help ensure the same stringent requirements are met to achieve market access, and would more effectively prevent human rights and environmental violations in EU value chains.
Box 2: IUU fishing and human rights abuses on Taiwanese fishing vessels

The EU is the world’s largest import market for fisheries products by value. In 2019, the EU imported 30 million euros worth of fishery products from Taiwan, representing over 30% increase compared to 2018. In October 2015, the Commission issued a warning (yellow card) to Taiwan due to its insufficient efforts in fighting IUU fishing. The warning issued under the IUU Regulation’s ‘carding scheme’ prompted a period of intense dialogue and cooperation between Taiwan and the EU. This collaboration resulted in a deep reform of Taiwanese fisheries governance, which provided Taiwanese authorities with a broad range of modern and efficient tools to fight IUU fishing. Recognising Taiwan’s efforts, the EU lifted the yellow card in June 2019.

However, despite the successes of the carding scheme in prompting new legal frameworks, gaps remain in the implementation of sustainable fisheries. In 2020, EJF documented seven cases of Taiwanese vessels using destructive fishing methods and deliberately targeting marine mammals, including dolphins, that were brutally killed to be used as bait to catch sharks or as trophies. Over the past three years, EJF had provided the Taiwanese Fisheries Agency with a series of briefings and IUU fishing notifications relating to 20 vessels using similar practices. So far, no significant sanctions have been brought against these vessel owners by the Taiwanese Fisheries Agency for such practices, demonstrating that far more needs to be undertaken to instil a sea-change in the way in which fisheries vessels are monitored and controlled.

Taiwan has the world’s second largest distant-water fishing (DWF) fleets in the world, employing more than 22,000 migrant crew members, mainly from Indonesia and the Philippines. Due to the remote nature of fishing, language barriers and information gaps, fishing crew are particularly vulnerable to human trafficking and forced labour. The scope of the EU IUU Regulation only covers the legality of fisheries products and does not address working conditions on fishing vessels. Nonetheless, the European Commission has been working directly with Taiwan to improve labour conditions and address ongoing issues. Over the past year, Taiwanese authorities have reformed regulations to increase protection of migrant workers on Taiwanese vessels. Despite these improvements in the legal framework, enforcement by the Taiwanese authorities to identify and prosecute those engaged in human trafficking has been very limited. In 2020, EJF interviewed 38 crewmembers working on 36 Taiwanese-flagged and two Taiwanese-owned fishing vessels who alleged serious, ongoing labour abuses including withholding of wages (reported on 92% of vessels), excessive overtime (82%), verbal abuse and threats (37%) and physical abuse (21%). EJF observed a similar level of reported abuse in previous years. Between 2018 to 2019 EJF interviewed 71 crewmembers working on 62 vessels: withholding of wages was reported on 92% of vessels, excessive overtime on 82%, verbal abuse on 34% and physical abuse on 24% of vessels. This suggests that strengthened laws have not resulted in improved results on the water.

The EU’s dialogue with Taiwan has shown that international cooperation is a powerful driver towards a more rules-based management of natural resources. The limited scope of the EU IUU Regulation has been a critical first step in addressing the environmental impact of EU seafood consumption, but as EJF’s investigations in Taiwan reveal, significant gaps remain. A robust and expansive mandatory human rights and environmental due diligence regulation could reinforce the progress made under the EU IUU Regulation, and go further to address the environmental and human rights abuses in the seafood sector which are not covered by the Regulation, keeping unsustainable fish and human rights abuses off of European plates.

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mHREDD: an opportunity for EU leadership towards a greener, more just future for all

EJF urges all Members of the European Parliament to vote in favour of 2020/2137(INI) and send a strong message to constituents, businesses, and the Commission that it is time for the EU to take a leading role in promoting more just and sustainable business worldwide. Commissioner Reynders’ Sustainable Corporate Governance initiative is a critical juncture in setting a new standard for mandatory human rights and environmental due diligence (mHREDD) across European value chains. The initiative has received significant support from the public: a survey conducted as part of the EU Commission’s study on mHREDD indicated that 75% of business respondents favoured a single, harmonised EU-level standard over different national or industry standards. Voting ‘yes’ on 2020/2137(INI) is an opportunity for EU constituents’ voices to be heard and for Parliament to shape the development of a regulation which will positively impact the European way of life and the EU’s role as a global human rights and environmental leader.

The COVID-19 pandemic has forced us to recognise the interconnectedness of the multiple crises that humanity faces. Not only do we need to conserve key ecosystems such as oceans and forests, but we must ‘connect the dots’ between the charismatic species and landscapes to the triple crises of climate change, biodiversity collapse, and to the challenges of achieving the Sustainable Development Goals for the world’s most vulnerable communities. The only way to solve these challenges is by addressing them as parts of a whole. It is critical that the EU take the lead in recognising the interdependency of people and planet and develop a unified, cross-sectoral regulation that not only integrates environment and human rights at every stage, but requires business to adopt clear and rigorous standards and transparent and accountable reporting throughout their procurement, production and supply chains.

We can no longer afford to leave sustainability and justice in the hands of voluntary measures, or put the burden on consumers to protect people and the planet: we need bold, comprehensive regulations to enshrine human rights and environmental protections in business practices.

Box 3: Greening your pension funds

At the end of 2019, retirement saving assets were valued at over US$ 50 trillion globally, of which an estimated €8.3 trillion is in the EU. This enormous financial sector lacks transparency: most EU consumers do not know how their savings are being used or if they are unwittingly bankrolling human rights and environmental abuses. Only around 10% of funds have any detailed formal investment policies which align with the Paris Agreement target to reach carbon neutrality by 2050, according to a survey by the Asset Owners Disclosure Project (AODP) in 2018. Following the Paris Agreement, an industry-led, voluntary task force recommended that all asset managers, including pension funds, disclose all climate-related risks in their holdings, such as investments in fossil fuels. But under 20% of pension funds are following these recommendations. OECD-member pension funds alone may total €238–828 billion in liquid fossil fuel assets.

An EU mHREDD regulation must extend to the financial sector, including pension funds, in order to stop EU money from underwriting the destruction of our planet or the exploitation of marginalised communities.
EJF Recommendations

EJF urges the EU Parliament to use this opportunity to give a global footprint to the European Green Deal by driving historic change in the architecture of environmental and human rights governance in one of the world’s most influential markets. Parliament can take a leadership role by supporting a unified, cross-sectoral regulation that aligns private sector behaviour with the United Nations Guiding Principles on Business and Human Rights.

An EU mHREDD regulation should apply to all business enterprises, of all sizes and corporate structures, including financial institutions, which are domiciled in and/or operating in the EU single market. By harmonising and strengthening at EU level, a new regulation will provide certainty to companies, reduce administrative burden of meeting differing member state requirements and enhance transparency and comparability. It is critical that this legislation apply to all industry value chains and financial investments to protect against environmental and human rights violations that exist across economic sectors and geographies. The regulation should enshrine protection for human rights and the environment in all business decisions and require that such decisions are open to scrutiny and decision makers more readily held to account. By creating ambitious and sweeping protections, the EU can avoid displacing abuses and end the cycle of destructive business practices.

An EU mHREDD law must require businesses to identify, cease, prevent, mitigate, monitor, account for and remedy all potential and actual human rights abuses and environmental impacts through a continuous due diligence and risk prevention process that meets at a minimum the international standards laid out by the OECD and UNGPs. An EU law will contribute to the growing body of international law around the human rights and environmental protection obligations of states, firmly establishing the EU’s frontrunner status in sustainability and justice. In short, the legislation should set robust criteria and performance standards that support environmental and human rights protections over profit.

To be effective and fair, mandatory requirements on business should be applied along the entirety of the value chain, covering all subsidiaries, suppliers, and contractors as well as all business purchasing practices, and require mandatory transparency at every level. A broad and legally enforceable mandatory due diligence regulation is an opportunity to bolster a ‘level playing field’ in the EU’s private sector and accelerate a ‘race to the top’, supporting in and rewarding businesses for developing, implementing and demonstrating adherence to best practices in protecting global human rights and our shared planet.

An EU-level regulation which mandates human rights and environmental due diligence in all EU value chains can reward businesses for best practices and improve Europeans’ global consumer footprint.
Voting YES on 2020/2137(INI) is the first step in designing and implementing a robust, impactful mHREDD regulation that takes meaningful action to eliminate human rights and environmental abuses from EU supply chains. In order to be effective, EJF has six key recommendations for an EU mHREDD regulation to protect people and our shared planet.

1. Failure to Prevent:

The legislation should reinforce the concept of due diligence with the inclusion of a “Failure to Prevent” model. Such a framing better lives up to the “do no harm” principle enshrined in the European Green Deal: a “Failure to Prevent” (F2P) requirement would include liability provisions including requiring companies to undertake mandatory human rights and environmental due diligence across their value chains, and hold companies accountable when they fail to prevent environmental or human rights abuses. An F2P law sends a stronger message than a simple due diligence regulation, because the term ‘due diligence’ has historically been used loosely and is not consistently attached to liability provisions. An F2P law should be modelled after the example of anti-bribery legislation and embed transparency, disclosure, and accountability as the foundational pillars of the law, in the same way that the EU IUU Regulation sets mandatory responsibilities for seafood importers.

Definitions of environmental and human rights abuses should be clearly, measurably, and expansively defined, containing specific reference to environmental issues such as climate, biodiversity, ocean, forests, and air, soil, and water pollution, and human rights issues such as labour rights, gender, the rights of children, modern day slavery, indigenous rights, and land tenure. Compliance with performance targets should be assessed independently, ideally by a designated EU Member State public body, and take into account public and corporate governance and corruption as potential threats to environmental and human rights standards and should focus on the entire value chain from initial producer to the final retail stage.

2. Centring rights holders:

The EU must mandate a shift from shareholder to stakeholder primacy and amplify global public interest and environmental considerations in corporate governance. The legislation must expand the definition of corporate duty of care to all stakeholders affected by business operations - shareholders, employees, suppliers, and the communities impacted along the value chain. This must also include the consideration of future rights holders who will be impacted tomorrow by the corporate behaviours of today, in order to address short-term incentives that may prevent companies addressing long-term environmental and human rights abuses. Another important element is the consultation of all potentially-affected stakeholders at all stages of due diligence and risk mitigation. Corporate actors must develop participatory consultation and feedback mechanisms to ensure that all rights-holder voices are heard in business decision-making and operations. In order to effectively engage with stakeholders, the new regulation must include living wage guarantees and collective bargaining rights and account for both positive and negative human rights entitlements.

3. Sustainability performance:

An EU mHREDD regulation should amend the Non-Financial Reporting Directive and the consolidated Directive on Shareholder Rights as part of an F2P approach so that corporate governance more accurately reflects the challenges of protecting people and the planet. The new regulations should require company directors to define and integrate stakeholder interests and corporate sustainability risks, impacts and opportunities into corporate strategies with measurable and time-bound, science-based targets including targets aligned to the Paris Agreement and biodiversity, marine conservation, and deforestation targets. EJF also urges the Commission to investigate policy proposals regarding executive compensation as a way to combat short-termism and more tightly link corporate performance evaluations to performance against environmental and human rights targets. For example, executive remuneration policies which reward corporate directors with company shares and encourage short-term strategies to boost stock prices should be complemented by policies that set specific and non-trivial key performance indicators (KPIs) around human rights and environmental targets. This will encourage compliance with the ‘do no harm’ ethos of the European Green Deal and level the playing field for companies already investing in environmental and social governance practices.
4. Legal accountability, grievances and access to remedy:

An effective mHREDD legislation must set up a system of reasonable administrative, civil and criminal liability for failure to comply with due diligence requirements and failure to prevent environmental harm or human rights abuses. In addition to business liability, the EU mHREDD regulation must include access to remedy that emphasises restorative justice, including accountability for past grievances for affected rights holders. All liability mechanisms must be transparent and open for public and rights holders’ input and participation in enforcement processes, including enshrined access to information and pathways for third-party complaints and dispute mechanisms coupled with rapid remedial procedures.

5. Bilateral dialogues with countries associated with environmental crimes and human rights abuses:

The successful example of the EU IUU Regulation - and specifically the ‘carding scheme’ - demonstrates the importance of working with ‘third countries’ to improve compliance with and enforcement of international obligations and instil long-term changes in policy and implementation for improved governance of natural resources. Since the EU IUU Regulation came into effect in 2010, the European Commission has entered into dialogue with more than 60 third countries to assess their systems to fight IUU fishing and compliance with international law. Since 2012, out of the 27 procedures initiated (when shortcomings were detected and unresolved), only three countries have eventually failed to show sufficient improvement to avoid trade-related sanctions and have their ‘red card’ lifted. This process enjoys the widespread support of the EU seafood industry, which values its contribution to creating a ‘level playing field’ where all actors work to prevent illegal fishing, while the EU seafood processing and retail sectors recognise the merit of the EU IUU Regulation in establishing the legality of their product. In the USA, the Federal Government operates several mechanisms where third countries are assessed for their efforts to tackle a range of structural issues, such as human trafficking and forced labour. Assessments are published annually, providing recommendations for third countries to improve and providing valuable information to strengthen corporate due diligence measures. Both of these models serve as examples in which the EU and Member State mandatory due diligence mechanisms could support business actors and promote transparency in business practices. In the seafood sector, it is important that future bilateral dialogue complement those already undertaken under the EU IUU Regulation.

6. A just distribution of the due diligence burden:

In many high-risk value chains, producers – and especially smallholder producers – carry the majority of the risk and compliance burden, while also bearing the brunt of immediate impacts of climate change and environmental degradation and potentially suffering from human rights abuses and injustices from the bigger buyers and processors. The EU mHREDD regulation should build in opportunities for proactive cooperation and EU support for improved human rights and environmental practices along value chains, particularly in low-income producer countries. This will accelerate the potential for improvements in third countries and reduce the burden on corporate actors.

A new regulation must recognise that asymmetric power distribution between high-income consumer countries and low-income developing states, and between primary producers, workers, and small and medium-sized enterprises (SMEs) and bigger retailers and corporate and financial actors, are one of the root causes of environmental and human rights abuses. Therefore, the new legislation must avoid over-burdening or over-punishing already vulnerable actors in the value chain but instead engage with them and support them to achieve environmental and human rights targets, for example by including rules on fair purchasing practices and providing specific technical assistance to SMEs within the scope of the regulatory framework. Again, the example of the EU IUU Regulation is instructive, as it places lower regulatory burdens on small-scale fisheries that export seafood to the EU. Whilst targets and procedures need to be time-bound, the proposed mandatory due diligence regulatory procedures may benefit from a phased approach, enabling SMEs to build their capacity in order to comply with procedures and meaningfully adapt their value chains and reporting to best practices.

Climate change, biodiversity loss, the destruction of key ecosystems such as oceans and forests, and the human rights abuses they are engendering are the biggest challenges of our era. The time to act is now: the EU must take decisive, urgent action to establish itself as the global sustainability leader to protect people and the planet by rapidly developing and enacting a mandatory requirement for human rights and environmental due diligence.
3 Scott, J. op cit.
5 European Commission (2020a), Study on due diligence requirements through the supply chain, https://op.europa.eu/en/publication-detail/-/publication/8ba0a8fd-483-11ea-b8b7-01aa75ed7141/language-en
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24 IPE, 09.2020, Top 1000 Pension Funds 2020: Europe’s €8trn pension pot, Accessed 10.02.2021, https://www.ipe.com/reports/top-1000-pension-funds-2020-europe-s-8trn-pension-pot/10047512.article#:~:text=This%20year%09%27s%207.25%25%20increase%20in%202019%09%27s%20survey%20was%206.93%25.
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29 ibid.