



Human Rights in Supply Chains

An Overview of Due Diligence Obligations
for Austrian Firms

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Research assistance: Irene Fröhlich, Tim Slickers

December 2023

Austrian Institute of Economic Research

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Based on the United Nations General Assembly's Universal Declaration of Human Rights from 1948, human rights have become an integral part of the behaviour of states and companies. This study provides an overview of the development of the legal framework for the observance of human rights along supply chains and presents the international trade links of Austrian companies in vulnerable sectors with fragile countries. Building on the status of the implementation of corporate practices to safeguard human rights in Austrian supply chains, measures to strengthen the implementation of due diligence obligations, in particular human rights, along supply chains are briefly discussed.

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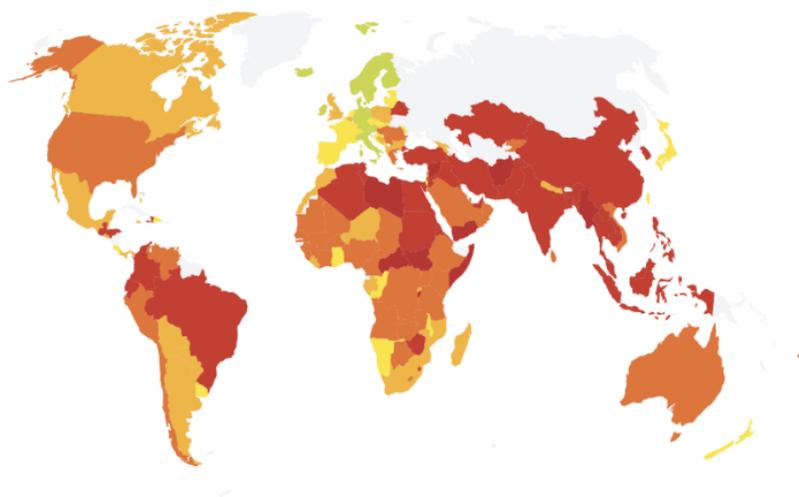
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1. Introduction

The growing fragmentation of global value chains has raised awareness of potential human rights violations in global supply chains. Austrian firms increasingly face several challenges in integrating responsible business conduct, including respect for human rights, into their business activities. Responsible Business Conduct (RBC) aims to contribute to economic, environmental, and social progress while preventing and eliminating negative impacts caused by business activities, products or services. The core principles of RBC require compliance with laws, including the protection of human rights and the environment, as well as addressing labour relations and financial accountability. This study provides an overview of the development of legal frameworks for the protection of human rights along supply chains and presents international trade links of Austrian companies in vulnerable industries or with fragile countries. Based on the current state of implementation of due diligence practices in Austrian supply chains, this paper discusses measures to strengthen the implementation of due diligence obligations, including safeguarding human rights along supply chains.

The Universal Declaration of Human Rights has played a key role in shaping the behaviour of nations and firms since its adoption by the United Nations General Assembly in 1948. The related programmes of action set out in the 1993 Vienna Declaration consolidated important instruments such as the establishment of the High Commissioner for Human Rights and the strengthening of the rights of women, children, and indigenous peoples. Today, human rights are enshrined in numerous international and national legal instruments, in policies and in codes of conduct for states and businesses. At EU level, a series of policy initiatives have been launched, including a proposal for a Corporate Sustainability Due Diligence Directive (CSDDD), a proposal for a regulation banning forced labour products on the EU market, and initiatives to strengthen non-trade objectives in EU trade agreements.

Figure 1: **Violations of human rights in 2022**



Note: Scale ranges from green – sporadic violations of rights to dark red – no guarantee of rights due to breakdown of the rule of law. Source: ITUC Global Rights Index 2022 (<https://www.globalrightsindex.org/en/2022/countries>).

As international trade increased over the last decades, firms relocated parts of their production processes from developed to developing countries, where typically labour costs are lower. However, labour regulations also tend to be less effective in these countries. Insufficient due diligence along supply chains is a particular problem when trading with developing countries. Decent work violations occur in various countries and regions around the world, particularly in the Asia-Pacific and Arab regions, where human rights abuses are most prevalent. According to the International Labour Organisation (ILO, 2022), approximately 50 million individuals are estimated to be subjected to modern slavery in 2021, of which 27.6 million are in forced labour situations. Forced labour pervades all sectors of the private economy, encompassing manufacturing, construction, agriculture, and mining (DOL, 2022).

Figure 1 illustrates the global scale of human rights and labour standards violations according to the International Trade Union Confederation's Global Rights Index. China, an important trading partner of many EU countries, has the highest number of reported human rights and decent work violations in the Xinjiang Uyghur Autonomous Region, particularly affecting Uyghurs and other ethnic minorities (Lehr & Bechrakis, 2019).

2. Overview of legal frameworks for compliance with human rights along supply chains

2.1 Historical development

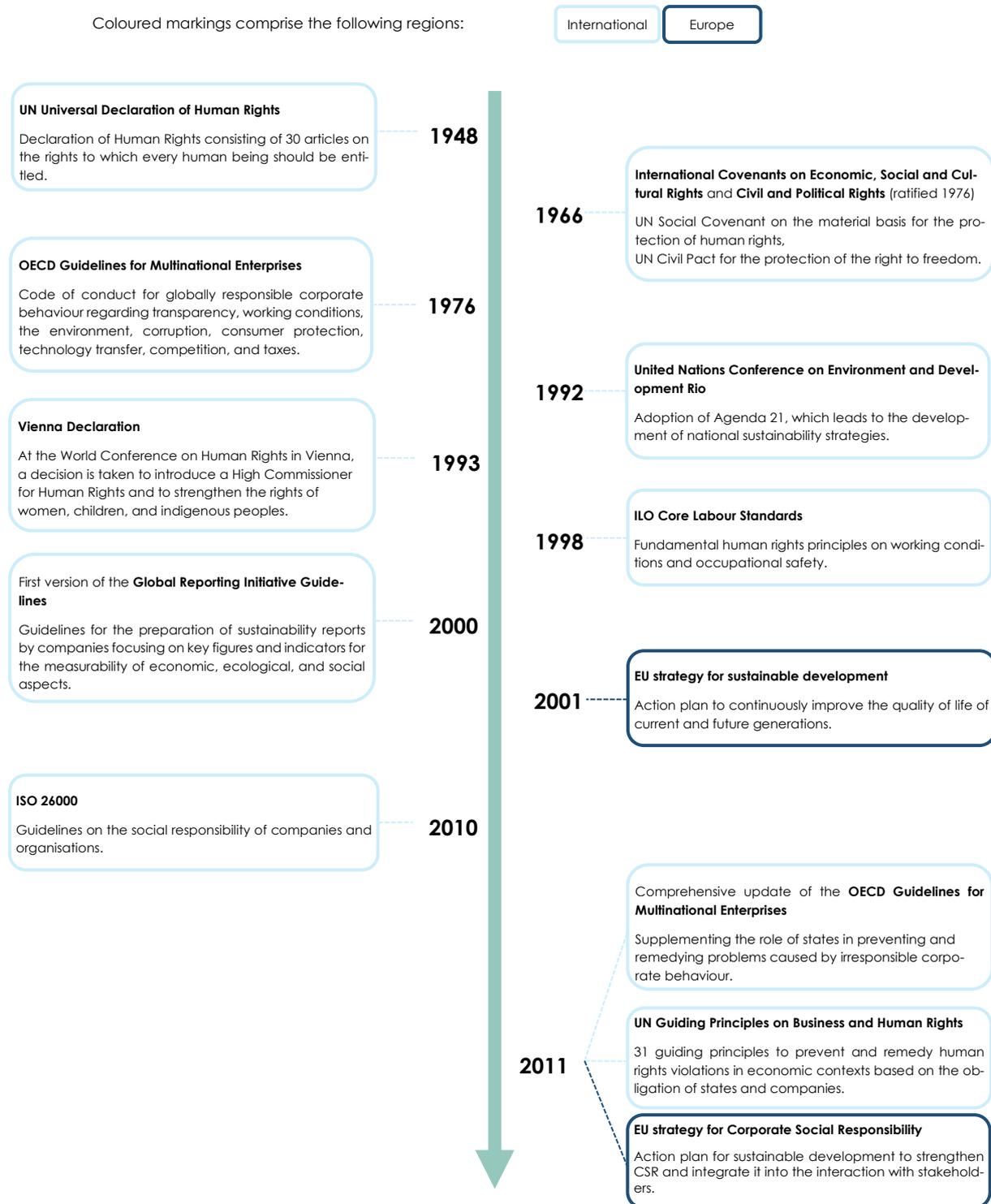
Companies are increasingly required to respect and protect human rights along their supply chains, both nationally and internationally. A chronological development of legal frameworks and guidelines related to human rights affecting supply chains is shown in Figure 2.

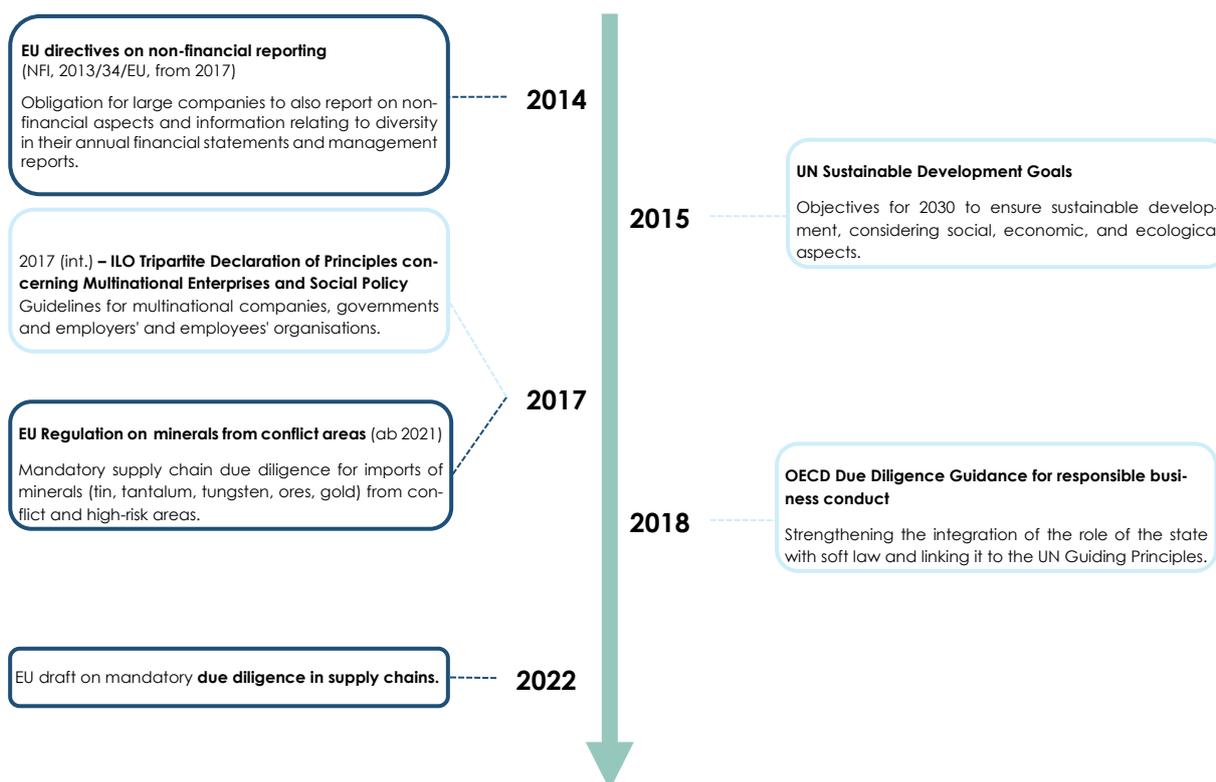
Based on the United Nations General Assembly's Universal Declaration of Human Rights in 1948, human rights have become an integral part of state and firm behaviour. The Vienna Declaration and Program of Action¹, which were adopted based on the United Nations World Conference on Human Rights in summer of 1993, is one of the milestones when it comes to the concrete development of instruments related to the 1948 Universal Declaration. It makes recommendations to strengthen and harmonize the UN's monitoring capacities to prevent and mitigate human rights breaches. As a result of the Vienna conference, the UN established the post of High Commissioner for Human Rights² in 1993, a Special Rapporteur on Violence against Women in 1994, proclaimed an International Decade of the World's Indigenous People, and called for the ratification of the Convention on the Rights of the Child by 1995 (OHCHR, 1993).

¹ <https://www.ohchr.org/en/about-us/history/vienna-declaration#:~:text=The%20World%20Conference%20on%20Human,rights%20work%20around%20the%20world> (accessed on November 17, 2023).

² In 2022, the Austrian Volker Türk was appointed High Commissioner for Human Rights.

Figure 2: Development of the integration of human rights in supply chains: important frameworks since 1948





Source: WIFO presentation.

Today, human rights are widely integrated into legal and political instruments, as well as guidelines and codes of conduct, both nationally and internationally. The increase in legal frameworks, guidelines, and action plans since the early 2000s illustrates the growing role of corporate social responsibility (CSR), especially related to human rights. The OECD Guidelines on Multinational Enterprises and the OECD Guidelines on Due Diligence are one of the most important and comprehensive instruments for promoting corporate social responsibility in international active firms. These guidelines aim to mitigate and prevent undesirable effects of business activities on human rights, labour standards, the environment, and consumers. This includes a thorough due diligence throughout the supply chain, including a risk assessment of all business activities along the whole supply chain. The most recent update of these OECD Guidelines has been in 2011, more than 30 years after their introduction in 1976. In 2015, the UN adopted the 17 Sustainable Development Goals (SDGs) with the resolution “Transforming our world: The 2030 Agenda for Sustainable Development”. These goals are defined along economic, social and environmental aspects and emphasise the importance of sustainable development for all UN member states.

In addition, many voluntary corporate initiatives exist to protect human rights. One example is CSR Austria (now respACT), a business platform founded in 2003. In conjunction with the Federation of Austrian Industries, the Austrian Economic Chambers, Caritas, the umbrella organization for environmental associations and the Austrian Red Cross, respACT sponsors the TRIGOS award, which honours firms for implementing responsible business practices since 2004

(Knieling, 2019). In addition, an annual CSR Day, a corporate congress on corporate social responsibility and responsible business conduct has been held in Austria since 2005.

The creation of legally binding mechanisms to ensure compliance with human rights in supply chains has received considerable attention in recent years. Several European countries have already implemented national laws, that oblige large companies to carry out supply chain due diligence. Notably, France³, the Netherlands⁴, Germany⁵ and Norway⁶ have laws that intend to ensure that, among other due diligence obligations, human rights are respected, and child labour is prevented and eliminated along supply chains. The EU is proposing a legally binding directive that obliges companies to conduct supply chain due diligence (COM/2022/71) (see Chapter 2.3), which draws on the UN Sustainable Development Goals and the OECD Guidelines on Responsible Business Conduct. The proposed CSDD Directive also builds on numerous other EU activities to promote responsible business conduct. Existing laws already oblige firms to conduct due diligence when importing certain minerals, such as tin, tantalum and tungsten, their ores and gold, originating from conflict-affected and high-risk areas into the EU (EU 2017/821)⁷. A proposal on prohibiting forced labour in the EU is currently also discussed (COM/2022/453, see Chapter 2.2). Bilateral trade and investment agreements between the EU and third parties increasingly contain provisions on compliance with and promotion of supply chain due diligence (see Chapter 2.4).

The inclusion of these goals and guidelines into national and international policies and guidelines reflects a growing public interest and a rising expectation from society that companies act in a socially and environmentally responsible manner while producing their goods and services. This is particularly relevant for companies operating in global supply chains.

2.2 Combating forced labour

Forced labour constitutes a core violation of human rights and presents a major concern in many supply chains, particularly in the agricultural, mining and manufacturing sectors as shown in Figure 1. The ILO estimates that since 2016 there has been an increase from 24.9 to 27.9 million people worldwide, that find themselves in forced labour situations (ILO, 2022). In response to the rising forced labour violations, the EU Commission has proposed prohibiting products made with forced labour on the EU Single Market in September 2022 (COM/2022/453)⁸. The proposal

³ France already passed a law in 2017 to make responsible business conduct legally binding (loi de vigilance, <https://www.legifrance.gouv.fr/loda/id/JORFTEXT000034290626>, accessed on November 20, 2023).

⁴ The Netherlands is currently discussing an extension to the existing law against child labour. It is expected to be passed early summer next year (<https://www.business-humanrights.org/en/latest-news/netherlands-six-political-parties-submit-bill-on-mandatory-due-diligence-to-parliament/>, accessed on November 11, 2023).

⁵ Germany passed a comprehensive law on supply chain due diligence in 2023 (<https://www.bmas.de/DE/Service/Gesetze-und-Gesetzesvorhaben/Gesetz-Unternehmerische-Sorgfaltspflichten-Lieferketten/gesetz-unternehmerische-sorgfaltspflichten-lieferketten.html>, accessed on November 20, 2023).

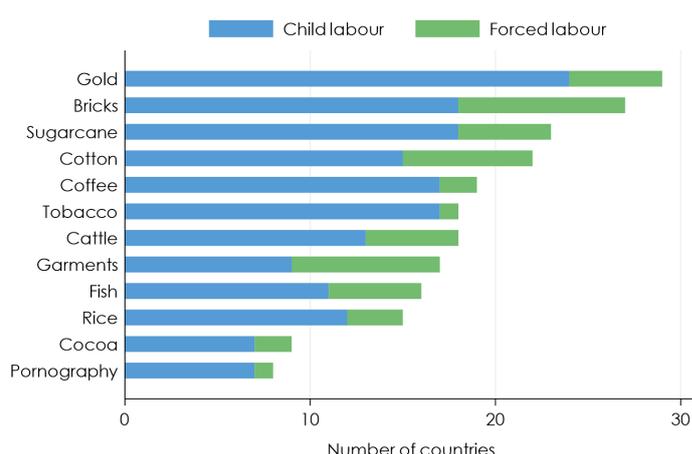
⁶ Norway regulates corporate supply chain transparency duty to conduct due diligence since 2022 (åpenhetsloven, <https://www.business-humanrights.org/en/latest-news/norway-govt-proposes-act-regulating-corporate-supply-chain-transparency-duty-to-know--due-diligence/>, accessed on November 22, 2023).

⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R0821> (accessed on November 19, 2023).

⁸ A particular motivation behind the regulation have been human rights and decent work violations in China (Figure 1).

includes the prohibition to place and to make available on the EU Single Market any products that are produced with forced labour, including forced child labour, irrespective of their origin or sector and whether the products are domestic or imported. This prohibits also EU exports of products produced with forced labour. Such a ban to market products on the EU Single Market as well as to export products outside of the EU is more comprehensive and associated with fewer negative economic distortions than an alternatively discussed import ban⁹. The proposed forced labour regulation aims to halt and withdraw goods that are made using forced labour at EU borders and legitimates national authorities to launch investigations if they have reasonable suspicion that products contain elements of forced labour in the value chain.

Figure 3: **Goods with most child or other forced labour listings by number of countries**



Source: (DOL, 2022), WIFO presentation.

In October 2023, the proposal had been amended by European Parliament (EP) committees¹⁰. The amended proposal includes tasking the EU Commission with providing an indicative data-base of geographical areas and economic sectors at high risk of using forced labour. For goods produced in these high-risk areas, the authorities would no longer need to prove that people have been forced to work in the firms, but the burden of proof would fall on companies, to show that their goods do not contain traces of forced labour¹¹.

⁹ An import ban risks the fragmentation of enforcement and can have direct negative effects on FDI. A ban to market products on the EU market on the other hand is considered to be an indirect barrier to FDI. Both tools are considered to be effective, but under certain conditions import bans can be more effective than marketing bans (Jacob et al. 2022).

¹⁰ The Committee on Internal Market and Consumer Protection (IMCO) together with the Committee on International Trade (INTA) lead the file in a joint committee procedure. The proposal is expected to find its final regulatory shape once European Parliament and EU Council have adopted their positions.

¹¹ Such a list is an important tool to improve coordination among those who evaluate and engage in assuring due diligence on labour rights in supply chains (<https://www.europarl.europa.eu/news/en/press-room/20231016IPR07307/towards-an-eu-ban-on-products-made-with-forced-labour>, accessed on November 19, 2023).

The US Bureau of International Labour Affairs (ILAB), as a part of the US Department of Labour (DOL), has already such a list, which could provide a first orientation for EU authorities. The ILAB monitors goods and their source countries that have a high probability to be produced by child labour or other forced labour¹². According to the 2022 report, most of the 208 listed goods that are likely to involve indentured child labour or other forced labour are produced in agriculture (105 goods), manufacturing (58) and mining/quarrying (43). Figure 3 shows the number of countries that produce goods that are likely to involve child labour or other forced labour. Among the highest ranking goods are gold, bricks, sugarcane, coffee, tobacco, cotton, cattle rice and fish (DOL, 2022).

2.3 Supply chain due diligence

The EU Commission adopted the proposal for a Directive on Corporate Sustainability Due Diligence (COM/2022/71) in February 2022¹³. The proposed CSDDD aims to foster sustainable and responsible business conduct across global supply chains with companies being a key enabler in building a sustainable economy and society. This involves compliance with human rights along global supply chains. The objective of the proposed CSDDD is to enhance corporate governance practices to mitigate adverse human rights and environmental impacts, elevate corporate responsibility, enhance redress for those impacted by possible adverse effects, and improve access to remedy. Companies must identify and address any human rights violation, while taking appropriate measures to prevent and mitigate the risks of human right violation.

The proposal of the CSDDD applies to large EU-based companies, i.e., companies with more than 500 employees and an annual worldwide net turnover of more than € 150 mn. Companies in high-impact sectors with more than 250 employees and a net turnover of more than € 40 mn are also subject to the proposal. Table 1 lists the high-impact sectors as defined by the EU CSDDD¹⁴. Non-EU companies¹⁵ will also have to comply with the requirements of the Directive if they have a net turnover in the EU of more than € 150 mn, or if they have a net turnover in the EU of more than € 40 mn and more than half of their global net turnover comes from high-impact sectors.

Although small and medium-sized enterprises (SMEs) are not directly within the scope of the Directive, they will still be affected indirectly as suppliers and contractors to companies subject to the CSDDD proposal. According to the CSDDD proposal, it is the duty of directors to include due diligence in their policies and management systems. EU Member States are responsible for

¹² Note that both ILAB and EU institutions use common definitions on forced labour based on ILO guidelines. The ILAB database additionally monitors goods produced in general child labour, whereas the EU proposal only considers forced child labour, which is a subcategory of forced labour.

¹³ In 2023, the proposal for the CSDDD is undergoing the EU Trilogue. The EU Council adopted its position on the CSDDD in December 2022, and the EU Parliament voted on its formal position in June 2023. EU Member States will have two years to transpose the proposed CSDDD into national law once it is adopted.

¹⁴ The definition of high-impact sectors is limited to sectors that pose a high risk of adverse impacts for the EU and for which guidance from the OECD exists.

¹⁵ Non-EU companies comprise direct investors into the EU Single Market or importers. They must appoint an EU-based representative to liaise with EU regulators in order to fulfil the CSDDD requirements.

monitoring compliance and may issue penalties that are proportional to any breaches. Victims have the right to seek legal action for damages.

Table 1: **High-impact sectors as defined by the EU CSDD Directive**

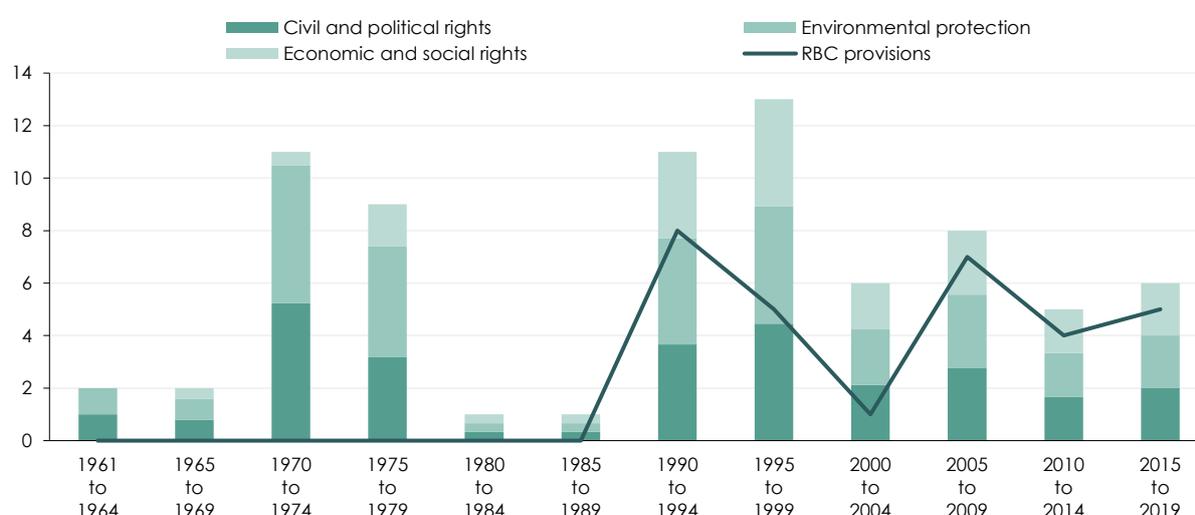
CPA code	CPA name
01	Products of agriculture, hunting and related services
02	Products of forestry, logging and related services
03	Fish and other fishing products; aquaculture products; support services to fishing
05	Coal and lignite
06	Crude petroleum and natural gas
07	Metal ores
08	Other mining and quarrying products
10	Food products
11	Beverages
13	Textiles
14	Wearing apparel
15	Leather and related products
16	Wood and of products of wood and cork, except furniture; articles of straw and plaiting materials
23	Other non-metallic mineral products
24	Basic metals
25	Fabricated metal products, except machinery and equipment

Source: EC 2022/0051 (COD), WIFO presentation.

2.4 Non-trade objectives (NTOs) in EU trade agreements

The EU's trade policy aims to ensure respect for human rights, equal social and economic opportunities as well as high standards of labour and environmental protection among the EU's trading partners. Together with the proposed CSDDD and the proposed forced labour regulation, the trade and sustainability chapters in EU trade agreements aim to facilitate the implementation of EU standards and values beyond the EU borders.

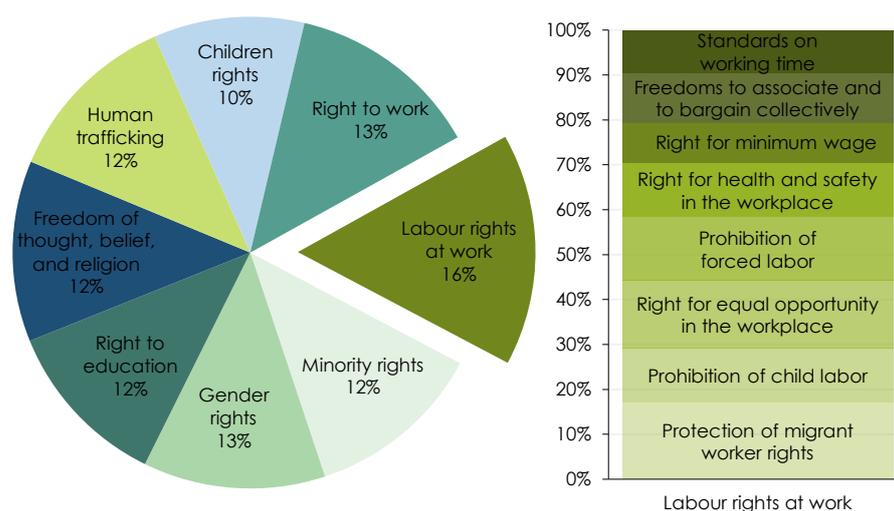
Figure 4: **Human rights provisions in newly signed EU trade agreements over time**



Note: Number of trade agreements with different provisions including human rights.
Source: Lechner (2022), WIFO presentation.

About one third of all EU trade agreements contain provisions on labour standards and two thirds on human and environmental rights (Borchert et al., 2021). Figure 4 provides an overview of the development of the number of EU trade agreements including provisions on human rights. In 2020, the EU had a total of 68 agreements in place that contain provisions on civil and political rights, 71 agreements containing provisions on environmental protection, 50 agreements containing economic and social rights and 30 trade agreements containing (non-enforceable)¹⁶ clauses on responsible business conduct. Most prominently labour rights (rights to work and rights at work) are included in EU trade agreements, as shown in Figure 5.

Figure 5: Human rights provisions in EU trade agreements since 1961



Note: Share of EU trade agreements with provisions on human rights.
Source: Lechner (2022), WIFO presentation.

Particularly, the trade agreements of the new generation contain provisions on human rights. NTOs are included in trade agreements with Canada, Central America, Colombia, Peru, Ecuador, Georgia, the United Kingdom, Japan, Moldova, Singapore, South Korea, Ukraine and Vietnam¹⁷. Not only the number of EU trade agreements with NTOs increased, but also the degree of legalisation¹⁸ of non-trade issues and thus the precision with which NTOs are formulated (Lechner, 2019). This, in turn, improves the extent to which trading partners are legally

¹⁶ Although NTOs are typically not enforceable, the EU acts in cases of severe breaches over NTO clauses. For example, in 2018, the EU initiated a consultation with the government of the Republic of Korea over its breach of commitment for sustainable development and labour standards.

¹⁷ https://ec.europa.eu/trade/policy/policy-making/sustainable-development/#_trade-agreements (accessed on November 27, 2023).

¹⁸ The degree of legalisation of NTOs in trade agreements depends on the extensity of the obligation, the precision of the formulation and the possibility of delegation to third parties. Trade agreements with extensive obligations, high precision, and delegation possibilities impose a greater commitment towards the NTOs in the trade agreement (Lechner, 2019).

bound by rules or obligations, and the extent to which powers to implement and enforce NTOs can be delegated to third parties¹⁹.

3. Human rights in EU and Austrian supply chains

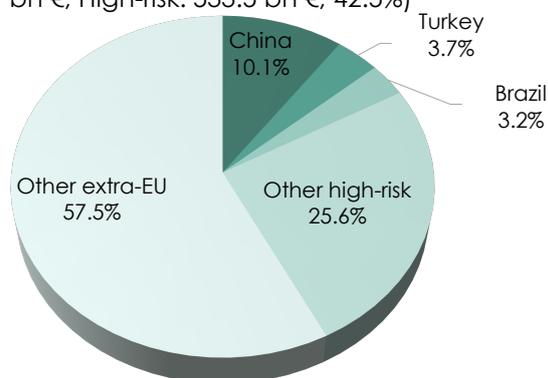
3.1 EU trade linkages

The EU is a significant supplier and buyer for many countries with a high risk of human rights violation, breaches of labour standards and environmental protection. In 2022, the EU imported 42.5% of goods in high-impact sectors, as defined by the CSDDD, which include to a large extent the goods likely to be made with forced labour, from high-risk countries²⁰. Figure 6 shows that more than 10% of these products are from China, which is among the countries with the most breaches of labour standards (see Figure 1).

Figure 6: Shares in extra-EU imports in sectors prone to human right violation

High-impact sectors

(Extra-EU: 1,255.7 bn €; High-risk: 533.5 bn €, 42.5%)

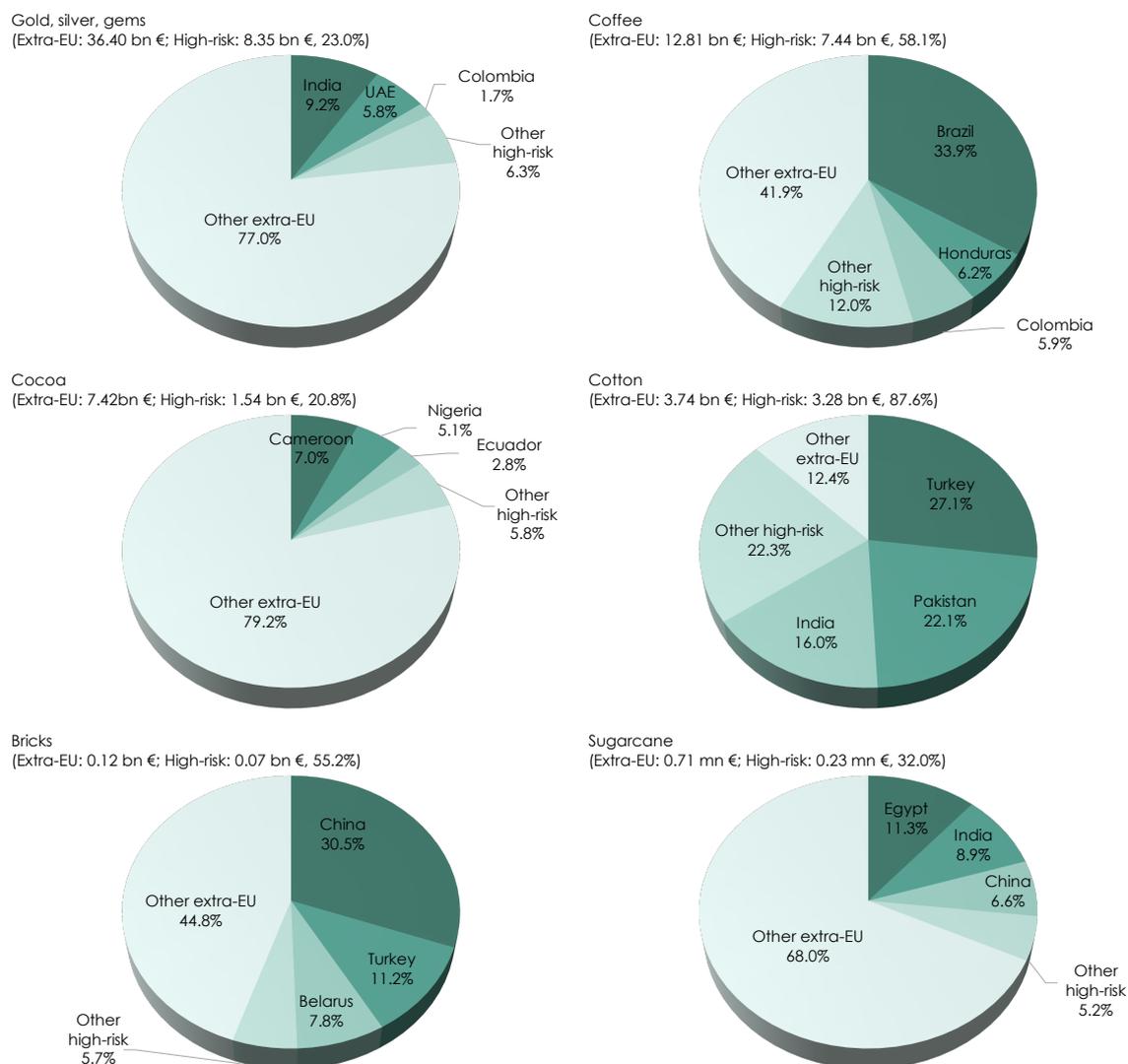


Source: EC 2022/0051 (COD), ITUC (<https://www.globalrightsindex.org/de/2022/countries/afg-2>), EU (<https://www.cahraslist.net/cahras>), Eurostat, WIFO calculations.

¹⁹ A detailed discussion on non-trade objectives in EU trade agreements can be found in the study by Felbermayr et al. (2022).

²⁰ We define high-risk countries based on the countries with no guarantee of rights according to the Global Rights index and countries that are determined as conflict-affected and high-risk areas as defined by Conflict Minerals Regulations (EU 2017/821). High-risk countries include Afghanistan, Algeria, Bahrain, Bangladesh, Belarus, Brazil, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, China, Colombia, Democratic Republic of Congo, Ecuador, Egypt, Eritrea, Eswatini, Ethiopia, Guatemala, Haiti, Honduras, Hongkong, India, Indonesia, Iran, Iraq, Jordan, Kazakhstan, South Korea, Kuwait, Laos, Libya, Malaysia, Mali, Mozambique, Myanmar, Niger, Nigeria, Occupied Palestinian Territory, Pakistan, Philippines, Somalia, South Sudan, Sudan, Syria, Turkey, Thailand, Tunisia, Ukraine, United Arab Emirates, Venezuela, Yemen, and Zimbabwe.

Figure 7: Shares in extra-EU imports of goods in high-impact sectors that are likely to involve forced or child labour



Source: (DOL, 2022), ITUC (<https://www.globalrightsindex.org/de/2022/countries/afg-2>), EU (<https://www.cahaslist.net/cohras>), Eurostat, WIFO calculations.

A closer look at the products that are likely to involve forced or child labour (see Chapter 2.2) reveals that gold and diamonds are particularly prone to violations of due diligence, even if for these specific products the import share of high-risk countries is relatively small. Figure 7 shows the import share of products prone to human right violations from high-risk countries for individual goods. The EU mainly sources gold, silver and gems from India, the United Arab Emirates and Colombia. Although the amount of imported gold, silver and gems from high-risk countries is with € 8.35 bn only a relatively small share of total imports of those goods, these minerals are often mined using forced labour. The EU imports more than 55% of bricks from high-risk countries, with China, Turkey and Belarus as most important source for EU firms. Moreover,

looking at agriculture products, the EU imports 32.0% of sugarcane, 20.8% of cacao, 58.1% of coffee and 87.6% of cotton from high-risk countries. Cotton as a major input for the textiles and garment industry is often produced with child labour. The EU sources its cotton imports mainly from Turkey and Pakistan, which account together for nearly half of total extra-EU imports (€ 3.74 bn). A third of the EU's coffee imports are from Brazil. Cacao²¹ is mainly sourced from Cameroon, Nigeria and Ecuador and sugarcane from Egypt, India and China.

Examining CSDDD's high-impact sectors (see Table 1) highlights the vulnerability of the textile and apparel industries²² to due diligence violations, largely connected to labour rights abuses. Figure 8 shows the CSDDD high impact sectors with a share of more than 50% of high-risk countries in extra EU imports. The EU imports 84.4% of wearing apparel and 82.0% of textiles from high-risk countries. China, Bangladesh, Turkey, and Pakistan are the most important trading partners accounting for nearly two-thirds of total extra-EU imports in the textile and apparel sector. Besides the high reliance on high-risk countries in the textile and apparel sector, also the related leather and leather products show a high dominance of products imported from high-risk countries, particularly from China (44.2%). Moreover, wood and products made of wood and cork, other non-metallic mineral products and fabricated metal products are among the six sectors of the 16 high-impact sectors that are predominantly sourced from high-risk countries. Turkey, India and China alone account for more than 50% of total extra-EU imports in the fabricated metal and the other non-metallic mineral products sector.

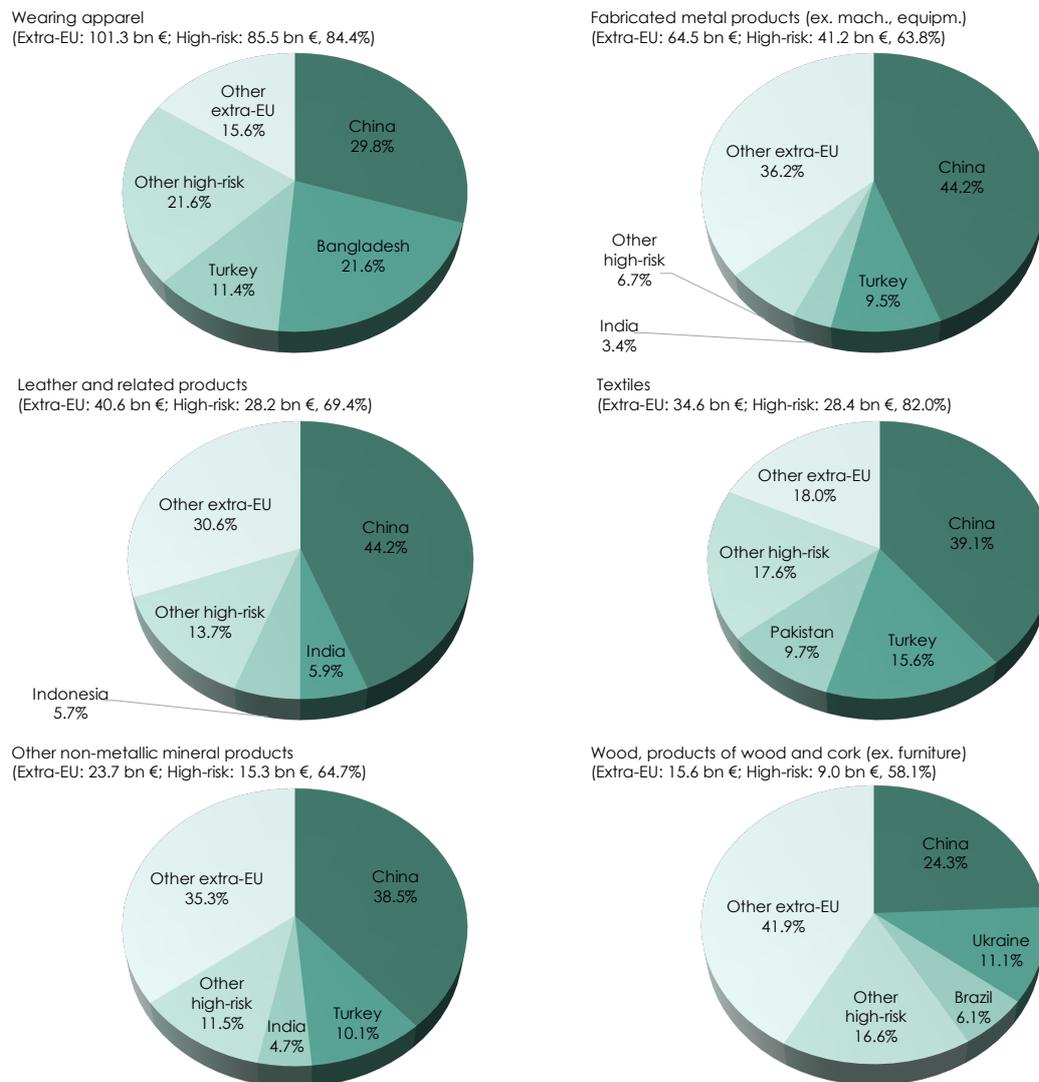
Wolfmayr et al. (2023) simulate the likely impact of the CSDDD on welfare and trade. They highlight that the implementation of the CSDDD by the EU can promote due diligence in global value chains but can also increase the risk of a loss of competitiveness for EU firms. EU firms may become more risk-averse and exit from markets with evident human rights and environmental violations. As Hurt et al. (2023) stress, there is a high likelihood for firms of having a potential human rights violation not as a direct supplier but on a higher tier in the supply chain. Therefore, as Wolfmayr et al. (2023) estimate, there might be a substantial decline in international trade between the EU and high-risk countries, including China²³. In a scenario of an EU withdrawal from major high-risk trade partners, the EU would experience a decline of over 26% in imports of high-impact sectors such as wearing apparel, textiles, and minerals. China, a key supplier of high-impact goods, would experience a severe decline of 22.9% in its exports to the EU. This could hinder the EU's sustainability goals since many products that are prone to human rights violation are essential inputs for the green transition.

²¹ Note that products like coffee and cacao, are affected by the EU Regulation on Deforestation-Free Products, which demands that EU imports of certain primary products are free from deforestation, forest degradation and human rights abuses at latest from end of 2024 onwards. For more details on the EU Regulation on Deforestation-Free Products and its potential impact on welfare and trade, see Wolfmayr et. al (2023).

²² Textiles and Garments are as well among those products with a high likelihood of involving forced or child labour in the production (see Figure 7).

²³ This is in line with preliminary evidence from France where importers have withdrawn from small and risky countries after the French due diligence law was introduced (Kolev and Neligan, 2021).

Figure 8: CSDD high-impact sectors with a share of more than 50% of high-risk countries in extra-EU imports



Source: EC 2022/0051 (COD), ITUC (<https://www.globalrightsindex.org/de/2022/countries/afg-2>), EU (<https://www.cahraslist.net/cahras>), Eurostat, WIFO calculations.

In addition, the CSDDD like the forced labour regulation also may have negative effects on welfare for developing countries, especially those that heavily rely on exports in high-impact sectors such as textiles, apparel, agriculture and food products, mining, minerals, and metal products to the EU (Wolfmayr et al., 2023).

3.2 Implementation of due diligence in Austrian firms

The majority of Austrian companies already adopted responsible business practices. Meyer and Reinstaller (2022) show that firms often implement concepts of RBC as an integral part of business activities, that are embedded into their corporate culture. However, many firms still

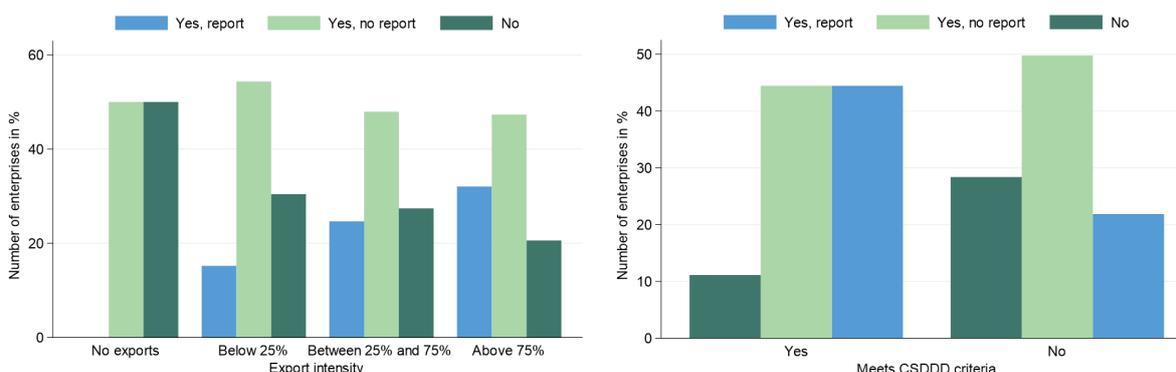
lack comprehensive integration and monitoring of responsible business conduct as required by thorough documentation of supply chain due diligence. The degree of implementation of RBC measures in Austrian firms varies according to the position of the firm in the value chain, to the product(ion) requirements and to the investment needs (Meyer & Reinstaller, 2022).

The WIFO industry survey

Since 2016, WIFO has been surveying the largest Austrian industrial companies (ÖNACE Section C - manufacture of goods). The survey focuses on competitive strategies and the assessment of Austria as an industrial location. This survey is repeated every three years. The third wave was conducted between January 17 and March 15, 2022. As part of the study by Meyer and Reinstaller (2022), WIFO collected data on the implementation of responsible business conduct in Austria. 260 Austrian companies participated in the guided interviews and special module of the WIFO industry survey 2022. This study re-evaluates these results focusing on human rights.

Export-intensive companies and companies that fulfil the criteria of the CSDDD (Figure 9), not only implement RBC concepts more frequently, but also publish reports on RBC more frequently than other large companies or companies that are not affected by the CSDDD. Thus, these companies seem to be more dedicated to complying with human rights in their supply chain.

Figure 9: Implementation of responsible business conduct by export intensity and CSDDD firm criteria

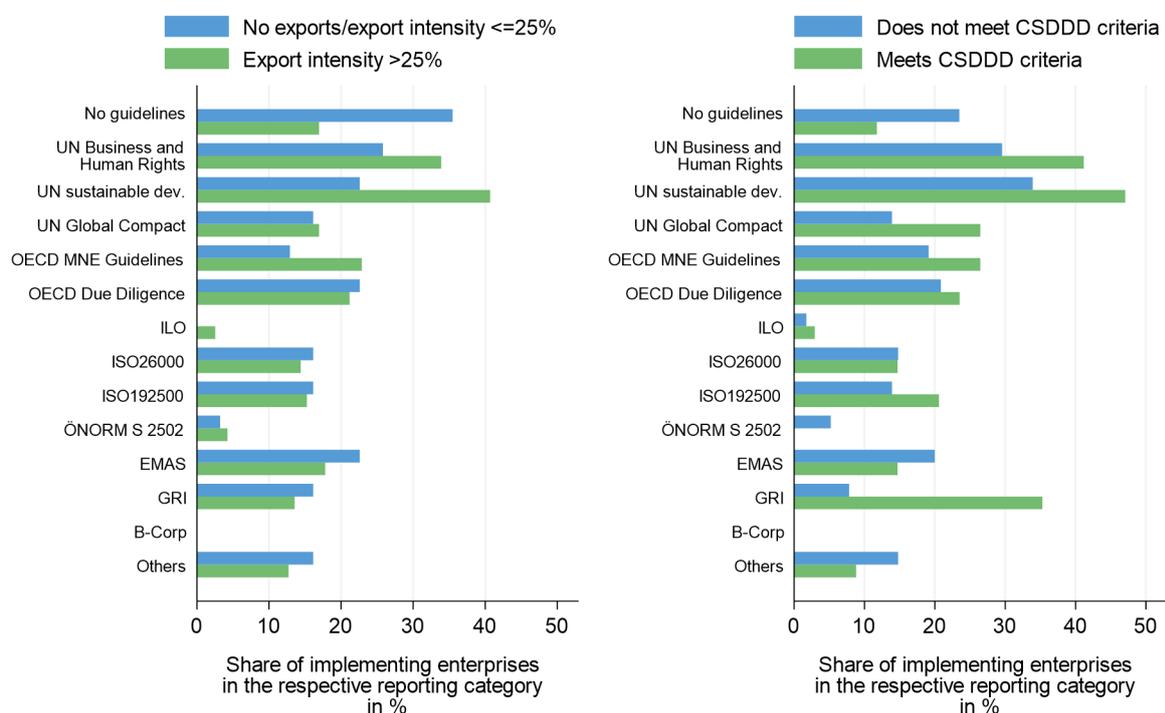


Source: WIFO industry survey 2022. Number of observations: 260.

When implementing RBC concepts, particularly focusing on human rights, firms often use existing guidelines and standards such as the UN Principles on Business and Human Rights. Accordingly, if companies are asked which (international) guidelines and standards they explicitly use, they frequently mention these UN guidelines and the UN Sustainable Development Goals. As can be seen in Figure 10, the OECD guidelines play a rather subordinate role. The results in Figure 10 also show that the Global Reporting Initiative's Reporting Standard is used aside from UN and OECD guidelines to document due diligence practices. This indicates that firms find it important to use uniform reporting standards. Finally, it shows that export-intensive and globally integrated companies have a relatively higher degree of professionalisation. Firms that export

little or not at all and firms that do not meet the criteria for the CSDDD also largely follow the UN guidelines, if they follow any guidelines at all²⁴.

Figure 10: Usage of (international) guidelines by export intensity and CSDDD firm criteria



Source: WIFO industry survey 2022. Multiple responses allowed. Number of observations: 149.

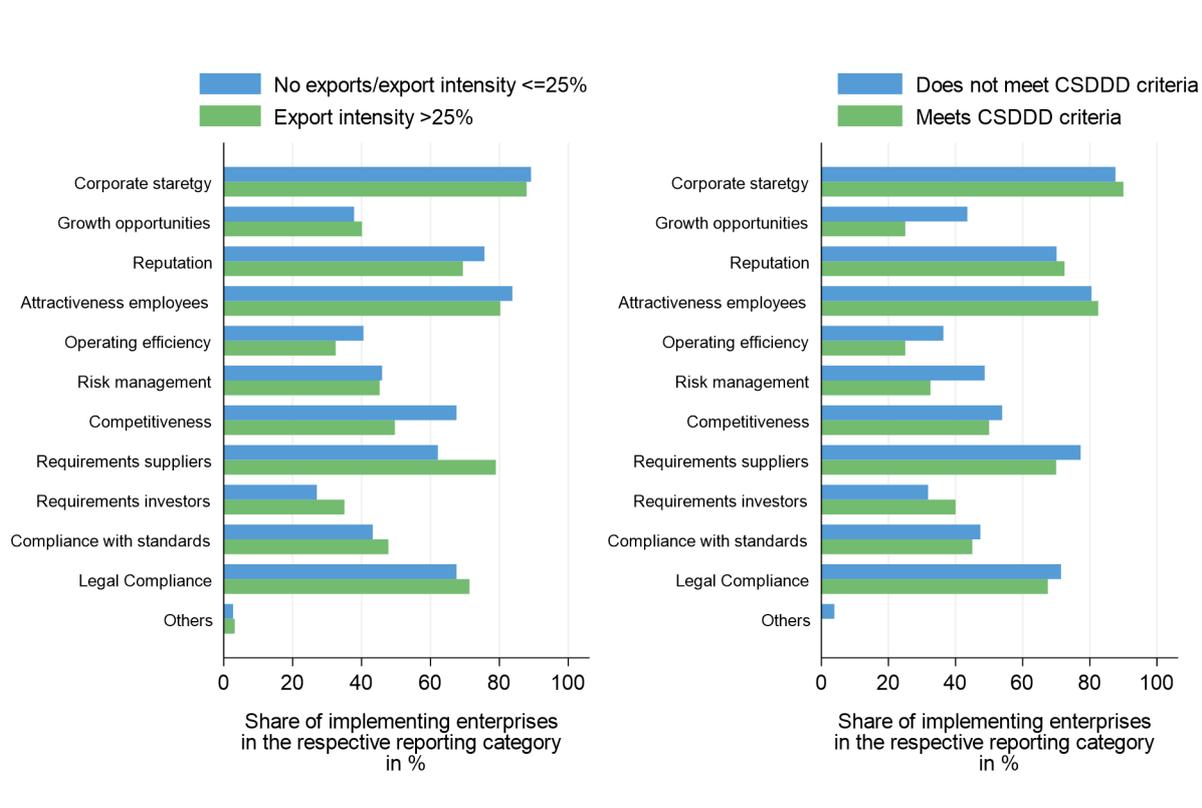
Consulting services, such as the OECD’s National Contact Points, which are intended to support implementation of the OECD guidelines, are rarely used. Most frequently, if at all, Austrian firms contact respACT, an Austrian business platform, for assistance on supply chain due diligence implementation.

Following Meyer and Reinstaller (2022), three main motives for Austrian companies to implement RBC concepts can be observed: firstly, increasing the company’s reputation (as an attractive employer and supplier), secondly, satisfying investor requirements and expectations, and thirdly, legal compliance. This applies particularly to export-intensive firms and firms to which the CSDDD might apply (Figure 11). Thus, Austrian companies are not only driven by legal compliance to implement RBC concepts but are also intrinsically motivated to uphold human rights. Similar trends can be observed beyond national borders. Haupt et al. (2021) show that environmental and human rights concerns impact consumer behaviour and employer choice

²⁴ Note that many of the firms that export little (or not at all) or do not meet the CSDDD criteria do not use any of the common standards for RBC.

in Germany. According to a survey by EY among CEOs, investment decisions are increasingly being made along social, environmental, or sustainable dimensions, as human rights violations along supply chains could have negative impacts on business activities (Guerzoni et al., 2022). The OECD also observes companies, that are involved in supply chains, reporting pressure to document and certify that their products comply with human rights and responsible business conduct guidelines. This is particularly true for companies that produce in high-impact sectors (OECD, 2021).

Figure 11: **Reasons to implement due diligence obligations by export intensity and CSDDD firm criteria**



Source: WIFO industry survey 2022. Multiple responses allowed. Number of observations: 194.

Austrian companies indicate that the formal implementation of due diligence is most frequently hindered by limited resources and capacities. Implementation in practice is further challenged by the large number of different standards, norms, and guidelines. Diverging customer and supplier requirements add to the challenge. Firms seem to still lack full clarity on the domestic and foreign legal requirements related to due diligence. Further, they report insufficient access to information on reporting standards and certification processes (Baumgartner & Ebner, 2010).

4. Conclusion

Since the 2000s, there has been an increased focus on instruments for anchoring human rights in supply chains. Measures have been taken in recent years, particularly at EU level, to integrate respect for human rights into supply chains in a more legally binding manner. EU initiatives, such as the proposed ban to place, make available and export products made with forced labour and the EU proposal for a Directive on Corporate Due Diligence, follow an international trend towards greater recognition of the importance of human rights in business activities. Countries such as the USA, Canada or Mexico already have a ban on products made with forced labour, and countries such as the Netherlands, France, Germany and Norway have already introduced mandatory supply chain due diligence laws.

However, the effectiveness of the proposed EU measures depends on the specific legal design, the construction of the burden of proof and the establishment of a supporting database. An effective implementation of the CSDDD can be achieved through the promotion of human rights due diligence guidelines, the harmonisation of reporting standards, certification schemes and risk management requirements, as well as the involvement of civil society in the implementation process. The effectiveness of the EU in influencing third countries to fulfil the human rights due diligence obligations of the CSDDD depends on the strength of trade relations and the importance of the EU Single Market for these countries.

The degree of implementation of due diligence obligations along supply chains in Austrian industrial firms varies widely. Many firms have already taken steps to implement human rights standards in their supply chains. This is particularly true for companies that would be affected by the proposed legally binding EU instruments. As there are also incentives based on supply chain linkages, investment projects or corporate reputation, independent of legal obligations, it can be assumed that there will be greater implementation of due diligence obligations along supply chains in the coming years. A lack of resources and capacities as well as high costs or a lack of financing are the most common hurdles faced by Austrian companies when implementing corporate due diligence. Public strategies and information support should take greater account of the needs of small and medium-sized enterprises, as these tend to be at a disadvantage when implementing social, ecological, ethical and sustainable measures along their supply chains²⁵.

It is also crucial to support developing countries through partnerships, development aid or initiatives such as the Global Gateway to mitigate the negative economic impacts related to human rights. At the same time, diplomatic efforts with key trading partners and geoeconomic powers such as the USA could promote cooperative initiatives that facilitate the harmonisation of international sustainability standards and reduce the burden of human rights due diligence for firms in the EU.

²⁵ SMEs face a size disadvantage when implementing RBC measures (McWilliams & Siegel, 2001; Meyer & Reinstaller, 2022). The costs and administrative processes associated with the introduction and implementation of due diligence measures within the company, as well as the supply chain, are proportionately higher than for larger companies. In this context, Torres-Cortés et al. (2020) estimate that costs for SMEs are fifteen times higher than for large companies. In addition, SMEs often lack awareness and information about the requirements and certification processes, which, in addition to the complex risk and impact assessment, also makes implementation more difficult (Zowada, 2018).

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