



## **The EU and Global Value Chains**

### ***Implementing sustainable business through EU aid and trade policies***

#### ***Key message***

Sustainable development is a cornerstone of the EU's internal and external policies. And the private sector is a driving force behind it. Stimulating sustainability in global value chains should therefore be central to the EU's external policies, and to its trade and development agenda in particular. During its EU Presidency the Netherlands will seek to enhance the coherence of EU trade and development policies and their contribution to sustainable development. The EU needs to stimulate EU-wide, multi-stakeholder sectoral cooperation, providing leverage and a level playing field for businesses in global value chains that respect the principles of responsible business conduct (RBC).

#### ***EU policies and the emergence of global value chains***

The EU has a wide array of instruments and policies at its disposal for external action, particularly on trade and development. This is a sphere in which we are particularly keen to increase EU policies' impact on sustainable development by enhancing the sustainability of global value chains.

Global value chains – where the different stages of the production process are located across different countries – have come to be a dominant feature of world trade. More than 70% of world trade consists of intermediate goods, services and capital. The increased significance of global value chains, and the fact that the most serious environmental and human rights violations generally occur in producer countries in these chains, necessitate responsible business conduct and private sector engagement for sustainable development figuring more prominently in aid and trade policy. With the advent of global value chains, abuses come to light much more quickly, so that companies have an incentive to prevent them. They pursue a sustainability strategy not only to prevent their reputation from being harmed, but also because it offers them new opportunities and reduces their dependence on scarce resources. If they ensure that everything is in order at each location involved in making their products, they generate not only value but also good publicity.

By promoting responsible business conduct, or corporate social responsibility, governments encourage companies to take responsibility for the impact that activities in their value chains have on society and the environment. According to the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, it is the responsibility of companies to map the risks of adverse social and environmental impacts in their international supply chains and to take appropriate measures to prevent or mitigate them (due diligence). Creating value for people, planet and profit is not only a responsibility of business, but also an opportunity for business. The necessity of tackling these societal and environmental challenges and anticipating

opportunities for collaboration between business, governments and civil society organisations is increasingly accepted. This often entails a sector-wide change in business behaviour.

The G7 Leaders' Declaration of June 2015 highlights the importance of responsible supply chains and the need for better application of internationally recognised labour, social and environmental standards, principles and commitments (in particular UN, OECD, ILO and applicable environmental agreements) in global supply chains. The EU is well positioned to act now on this declaration.

### ***An agenda for EU action and a multi-stakeholder approach***

The EU, together with business and civil society, can lead the way on sustainability in global value chains, provided that it devises a clear agenda that contributes to this. The new EU trade strategy 'Trade for all' and the Global Goals set the stage to do so. Like other EU member states, the Netherlands actively and successfully promotes sustainable value chains. However, if we are to increase our effectiveness and ensure a level playing field, we will need to achieve policy coherence and implementation at EU level to back up our national solutions.

The EU is already taking steps to promote sustainable global value chains and encourage businesses to invest more responsibly by enhancing market rewards for corporate social and environmental responsibility, disseminating good practices and improving company disclosure of social and environmental information. Through development cooperation, the EU aims to promote business engagement in sectors including agriculture, infrastructure and energy. The EU also promotes sustainability guidelines on responsible business conduct, including the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, notably via its free trade and investment agreements (FTAs).

The Netherlands welcomes and supports the following **actions and next steps by the EU** on sustainable economic growth:

#### ***1. more coherence between development and trade policy...***

- aligning aid policies better with the goal of greater sustainability in global value chains;
- stimulating more effective implementation of trade and sustainable development chapters in free trade and investment agreements;
- encouraging a stronger EU focus within the aid for trade programming of the EU and its member states on sustainability aspects, such as anticorruption, transparency and responsible business conduct;
- stimulating that developing countries benefit more from trade with the European Union.

#### ***2. ... with a focus on responsible business conduct***

- introducing a new EU agenda for action on responsible business conduct, supporting a stronger external dimension of EU policy on RBC linked to the new private sector policy in development cooperation;
- facilitating and enhancing multi-stakeholder, voluntary EU sectoral initiatives like the EU garment supply chain initiative, including SMEs as well as large firms;

- Supporting private sector efforts to make global supply chains more sustainable; e.g. inclusive business models and related private sector multi-stakeholder partnerships.

Individual EU companies operating in global value chains prone to social and environmental risks cannot effectively meet these challenges alone. EU leadership will mean stronger leverage for sustainability in global value chains and will help achieve a level playing field for businesses. When looking at how to stimulate sustainable global value chains, we need to focus on how the EU can facilitate and enhance EU multi-stakeholder, sector-wide voluntary collaboration, and look at specific steps that can be taken to improve policy coherence for sustainable development. There are no easy answers to the questions we face. The EU needs to respond to them collectively.

To conclude, the growing significance of global value chains is forcing EU policymakers to tackle more complex sustainability challenges than ever before. Given the contribution that sustainable global value chains make to many countries' prosperity, the EU's external policies need to reflect the crucial importance of global value chains and responsible business conduct. This will be a topic of debate at the events organised during the Dutch EU Presidency.

### ***Agenda of the Dutch EU Presidency:***

The agenda of the Dutch EU presidency will contain, inter alia:

#### Conference on Global Value Chains (7 December 2015)

In the run-up to its EU Presidency, the Netherlands is organising a conference on 'the EU and Global Value Chains: implementing sustainable business through EU aid and trade policies' on 7 December 2015, with the participation of EU Trade Commissioner Cecilia Malmström and high-level representatives of European governments, MEPs, industry, civil society organisations and international organisations.

#### Back-to-back informal Trade and Development Councils

Together with the EEAS, the Commission and all member states, the Presidency will set an agenda on how to strengthen EU trade and development policies and enhance their coherence in order to increase sustainability in global value chains.

#### Promotion and discussion of the EU's new RBC action plan in Trade, Development and regional Council configurations