



Human Rights and Environmental Due Diligence Become Mandatory

As the EU and many countries are about to install legislation on mandatory human rights due diligence, carpet traders and producers must prepare for the new laws. What can Label STEP offer?

No doubt about it: the human rights agenda has gone global. At an increasing rate, countries worldwide – with United States, Germany, Switzerland, UK and the EU representing only some examples – are starting to introduce new legislation for corporate sectors that are risky in terms of how they relate to slavery, child labor, human rights and environmental sustainability. **by Miges Baumann, Chair of the Label STEP Board**

Broad Support for New Legislation

Switzerland's Corporate Responsibility Initiative shows that a move toward [new legislation](#) on business and human rights is very popular.ⁱ In 2015, a broad coalition of over 100 Swiss civil society organizations launched a constitutional Initiative on mandatory Human Rights Due Diligence. This initiative led to a fiercely contested referendum campaign wherein, thanks to the commitment of thousands of volunteers, the supporters would gain as much ground as the industry opposition and prompt 50.7% of the Swiss population to vote in favor of the new regulations on November 29, 2020.

Unfortunately, because only a minority of cantons (provinces) were in support of the initiative, it did not become law at that time; however, a counterproposal by the government did automatically come into force, which obliges companies to report on human rights and environmental standards (including CO2 emissions) and conduct due diligence when it comes to child labor and mineral sourcing from conflict areas. Even if this law is considered to be weak by some, it has required many companies to improve their habits, especially when it comes to the environmental reporting obligations.

Around the same time, the German parliament was also [debating a law](#) on Corporate Due Diligence in Supply Chains, which will come into effect by January 1, 2023.ⁱⁱ [The law](#) makes it mandatory for all companies with 3000 employees (with that number becoming 1000 in 2024) to conduct risk analyses regarding human rights and environment, install prevention measures, and secure ways to access remedies. The law also includes documentation and reporting obligations.ⁱⁱⁱ

Laws on mandatory due diligence in the EU and US

On February 23, 2022, the EU Commission presented [a draft for an EU-wide law](#) on corporate responsibility.^{iv} This law obliges corporations to respect human rights and the environment, and contains liability rules and sanctions for violations. The EU proposal goes much further than the former Swiss and German Corporate Responsibility Initiatives. Applying to all EU corporations with 250 or more employees, this new EU directive contains a broad due diligence obligation for all human rights as well as for international environmental standards. Corporations will also be expected to demonstrate how they comply with the goals of the Paris Climate Agreement.



Even companies from third-party countries are included if they have either a turnover of at least 150 million euros in the EU area or if at least half of their total turnover comes from risk sectors, even if it amounts to less than 150 million euros overall. This is anticipated to affect about 4,000 non-EU companies, and the authorities have the power to sanction offending companies.

Similar changes are occurring in North America as well. On February 22, 2022, representatives from both parties of the US Senate introduced amendments to a law called the Securities Exchange Act of 1934, which required companies to disclose human rights risks and impacts. The newly formed legislation, dubbed the [Slave-Free Business Certification Act](#), requires businesses with annual revenue greater than \$500 million to audit their supply chains for labor practices or human trafficking activities that violate specified national or international standards and report the results to the Department of Labor.^v

What does due diligence entail?

Almost all the new laws are based on the UN Guiding Principles for Business and Human Rights and approach due diligence based on the proposals of the OECD Guidance. This approach looks at different risk areas in a whole supply chain of companies and asks for the implementation of responsible policies that are able to identify actual or potential harm. It also prescribes how to cease, prevent or mitigate harm, as well as tracks performance, ensures clear communication methods and enables remediation. In the OECD Guidance the following risk areas are defined: child labour; sexual harassment; forced labour; trade unions; health and safety; water; wages; working time; bribery and corruption; homeworkers; hazardous chemicals; and greenhouse gas emissions.

The OECD risk-based approach gives responsibility to each company in the supply chain. It is complementary and mutually reinforcing and recognizes the role of purchasing practices. It also incorporates stakeholder engagement and is tailored to a company's circumstances. The approach is based on collaboration (i.e. companies are encouraged to collaborate at a sector level and with stakeholders throughout the due diligence process) and is ultimately oriented toward enacting improvements in any given situation.

What can Label STEP offer?

The carpet sector is clearly defined as a risk sector, with reports about child labour and precarious working conditions as well as environmental problems being widespread in the industry. This pervasive precarity in the industry is exactly why Label STEP was founded more than 25 years ago. From the beginning, STEP has based its Standard and practices on ILO rules and other international laws. Specifically tailored to handmade carpet production, the STEP Standard encompasses 10 rules, which are verified with a broad variety of indicators (or 'compliance criteria') during independent audit. The [STEP Standard](#) covers:

- § 1** Protection of workers' health and safety
- § 2** Payment of fair wages and protection of agreed wages
- § 3** Prohibition of child labour
- § 4** No forms of discrimination
- § 5** Freedom of association and the right to collective bargaining
- § 6** No forced or bonded labour

- § 7 No harsh or inhumane treatment, no sexual harassment
- § 8 Limiting hours of work and application of weekly rest
- § 9 Identifying environmental risks and minimizing their impact
- § 10 Accepting STEP audit: transparency and access to information

With the exception of greenhouse gas emissions and the integrity risks, areas in which STEP is currently working to make our guidelines more explicit and precise, the STEP Standard covers almost all the risks stated in the OECD Guidance, listed below:

Human Rights and Labour Risks	Environmental Risks	Integrity Risks
<ul style="list-style-type: none"> • Child labour • Discrimination • Forced labour • Occupational health and safety (e.g. worker related injury and ill health) • Violations of the right of workers to establish or join a trade union and to bargain collectively • Non-compliance with minimum wage laws • Wages to do not meet basic needs of workers and their families 	<ul style="list-style-type: none"> • Hazardous chemicals • Water consumption • Water pollution • Greenhouse Gas (GHG) emissions 	<ul style="list-style-type: none"> • Bribery and corruption

Conclusion

The EU Directive and US law will be applicable to all risk sectors in the supply chains of companies and retailers in consumer countries. Since textiles (including carpet weaving) are considered as risk sectors, and carpet retailers and brands in the EU and the US will have to comply with these laws, the carpet sector (including exporters and factory owners in production countries) needs to prepare itself for these new obligations. With STEP's many years of experience working in fair and sustainable labour compliance, our team will be able to act as a source of information and support for its licensees during this transition period and beyond—offering key tools and pathways for addressing the new requirements as they become active.

ⁱ <https://konzernverantwortung.ch/>

ⁱⁱ <https://www.csr-in-deutschland.de/DE/Wirtschaft-Menschenrechte/Gesetz-ueber-die-unternehmerischen-Sorgfaltspflichten-in-Lieferketten/gesetz-ueber-die-unternehmerischen-sorgfaltspflichten-in-lieferketten.html>

ⁱⁱⁱ <https://www.bundesregierung.de/breg-en/search/supply-chain-act-1872076>

^{iv} https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1145

^v <https://www.congress.gov/bill/117th-congress/senate-bill/3578/text>