Specific instance notified by Clean Clothes Campaign Denmark and Active Consumers regarding the activities of PWT Group

FINAL STATEMENT

17. oktober 2016

1. SUMMARY

Clean Clothes Campaign Danmark and Aktive Forbrugere (Active Consumers) submitted a complaint in December 2014 to the Mediation and Complaints-Handling Institution for Responsible Business Conduct (The Danish OECD National Contact Point (NCP)) regarding PWT Group A/S, alleging that PWT Group had violated the OECD Guidelines for Multinational Enterprises by failing to carry out due diligence in relation to its supplier, the textile manufacturer New Wave Style Ltd., Bangladesh.

New Wave Style was located in the Rana Plaza building in Dhaka, Bangladesh, which collapsed on 24 April 2013, killing 1,138 people and injuring more than 2,000.

PWT Group has stated that the company conducts inspections of the working conditions at the factories that manufacture goods for the company, and that an inspection was conducted at New Wave Style in 2012. The documents submitted by PWT Group do not provide details on checks and inspections that were con-
ducted during the visit, nor whether improvements were required by PWT on the basis of the inspections. Nor has PWT submitted documentation of the company’s risk and decision making systems, e.g. checklists, used as the basis for inspections and visits at New Wave Style for the purpose of ensuring health and safety at the workplaces.

On this basis, the NCP finds that PWT Group did not apply processes for due diligence in compliance with the OECD Guidelines. In particular, PWT Group failed to make demands that New Wave Style ensure employees’ basic human and labour rights, including failing to take adequate steps to ensure occupational health and safety in their operations, see chapter V, paragraph 4c of the OECD Guidelines.

The NCP has not been able to determine that the inspection of suppliers’ building structures was an incorporated and established buyer practice at the time of the accident. The NCP, however, finds that practice by itself may be indicative, but not conclusive regarding the scope of risk-based due diligence.

In the NCP’s view, it has not been documented that an inspection would have identified the risks present in the building structure.

PWT Group is not responsible for the collapse of the building.

The NCP wish to underscore that companies should respect the principles of the OECD Guidelines, including that they make demands on suppliers to take appropriate measures to ensure health and safety in the workplaces. This obligation now also includes a risk assessment of the safety of building structures.

2. INTRODUCTION

The following provides a description of the NCP’s processing of the case and decision regarding a complaint submitted by Clean Clothes Campaign (CCCDK) and Aktive Forbrugere (AF) (complainant) regarding PWT Group (respondent).

The complaint, received by MKI on 12 December 2014, raises two points: the issue of whether the respondent has violated the OECD Guidelines for Multinational Enterprises (OECD Guidelines) by failing to carry out due diligence in relation to its supplier, New Wave Style Ltd. (New Wave Style), Dhaka, Bangladesh; and that the respondent, according to the complainant, has denied remedy to help the victims of the accident by not paying compensation to the Rana Plaza Donors Trust Fund.

New Wave Style was located in the Rana Plaza building in Dhaka, Bangladesh. The Rana Plaza building, which housed a number of textile factories, collapsed on 24 April 2013, killing 1,138 people and injuring more than 2,000.

3. CONSIDERATION OF THE CASE BY THE NCP

3.1 The process in brief

The NCP received the complaint on 12 December 2014 and additional information from the complainant on 15 December 2014.

The NCP accepted the case for further consideration on 2 February 2015. The parties were encouraged to seek to resolve the matter themselves, in accordance with section 7(2) of Act no. 546 of 18 June 2012 on the Mediation and Complaints-Handling Institution for Responsible Business Conduct (the NCP Act). As the parties did not wish to resolve the matter on their own, the NCP conducted an initial assessment of the case, collecting additional information, including information from the respondent. The NCP completed its initial assessment in June 2015 and decided on that basis to offer the parties mediation assisted by the NCP. Both parties agreed to the offer, which was followed by three mediation meetings (27 August, 10 September and 30 September 2015). The parties were unable to agree on a mediation agreement. The mediation process ended in February 2016. On 17 March 2016, the NCP decided to conduct an actual investigation of the case in accordance with section 7(4) of the NCP Act. On this basis, the NCP collected additional information regarding the case. The NCP completed its consideration of the complaint on 22 August 2016.
About the complainant
Clean Clothes Campaign Danmark (CCCDK) is a network organisation that works to improve the conditions for garment workers in developing countries. CCCDK is part of the international Clean Clothes Campaign, which operate in 14 European countries and collaborates with a network of more than 200 organisations and trade unions in the producer countries. Aktive Forbrugere (AF) works for the advancement of better and more sustainable consumption, including ethical and socially sustainable consumption. Aktive Forbrugere (AF) is active in Clean Clothes Campaign Danmark (CCCDK).

About the respondent
The respondent, PWT Group, owns the menswear chains Tøjeksperten and Wanger, which comprise more than 175 stores in Denmark, Norway and Sweden. The company has 550 employees. The company is 60% owned by Polaris Private Equity. The other owners include the company’s management and board of directors.

4. ASSESSMENT OF THE COMPLAINT
As part of the initial assessment, the NCP conducted an assessment of whether the aspects of the complaint are within the scope of the OECD Guidelines for Multinational Enterprises, and whether there are objective grounds and reasonable documentation of the alleged violations of the OECD Guidelines (ref. section 5 of the NCP Act).

Issues raised by the complainant
The complainant provided the following objectives of the complaint:

- The respondent should acknowledge that the company’s business practices resulted in a violation of the OECD Guidelines and that the company had not carried out due diligence to ensure the observance of basic human rights.
- To ensure that, in the future, the respondent takes the necessary measures to guarantee that similar episodes do not recur in Bangladesh or anywhere else, including by:
  - Disclosing its supplier lists to the public.
  - Ensuring transparency regarding business practices by regularly publishing inspection reports from factories where their external production takes place.
- The respondent should pay compensation to the fund established in January 2014 by the ILO for the victims of the Rana Plaza accident.

Is the complaint covered by the CD Guidelines for Multinational Enterprises?
In order for the NCP to consider a complaint, the complaint must be based on objective grounds and the alleged violations of the complaint must be covered by the OECD Guidelines for Multinational Enterprises.

In the complaint, the complainant refers to OECD Guidelines, chapter II on general policies, chapter IV on human rights and chapter V on employment and industrial relations. Additionally, the complainant refers to ILO Conventions nos. 131 (on minimum wage) and 155 (on safety and health at the workplace and working environment), as well the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.

As for the aspect of the complaint regarding compensation to the victims of the Rana Plaza accident, the NCP collected information from the Danish Ministry of Foreign Affairs and has received documentation of the complainant’s donations to the rescue efforts for victims of the accident to CRP (Centre for the Rehabilitation of the Paralysed) on 1 July 2013 and to BGMEA (Bangladesh Garment Manufacturers and Exporters Association) on 4 July 2013. On this basis the ground the NCP finds it to be confirmed that the complainant has provided a certain and not insignificant compensation to the aforementioned support organisations. The NCP has not further considered the amount of these donations.

On 2 February 2015, the NCP informed
the complainant that, in its consideration of the case, the NCP can solely assess and comment on the extent to which there is a violation of the OECD Guidelines and how the company can remedy any adverse impact. The NCP cannot impose liability or sanctions on companies.

On this basis, the NCP rejected the part of the complaint regarding the issue of compensation, see section 7(2) of the NCP Act. The NCP assessed that the other parts of the complaint were objectively justified, as there may have been a lack of due diligence on the part of the respondent and an adverse impact on human and labour rights covered by the OECD Guidelines.

Is the complaint supported by reasonable documentation? The submission of a complaint does not require proof of the alleged violation, but rather a degree of specificity regarding how the respondent could have acted in violation of the OECD Guidelines (ref section 4 of the NCP Act).

The complainant submitted documentation in the form of:
1. Reports describing the textiles sector in Bangladesh.
2. Overview of customers from the supplier’s website, which includes the respondent.
3. Documents from Rana Plaza relating to the respondent.
4. Press release on social and working conditions in Bangladesh.
5. Documentation of dialogue between the parties on the matters now addressed in the complaint.

On this basis, the NCP found that the complaint was supported by specific documentation that with a reasonable degree of clarity specified how the respondent could have violated the OECD Guidelines. Given that the complaint as a whole met the formal criteria, including the requirements of objective grounds and reasonable documentation that the respondent did not act in accordance with the OECD Guidelines, the NCP decided to consider the complaint.

5. EXAMINATION OF THE ISSUE OF DUE DILIGENCE

The NCP next considered the question of whether the respondent acted in accordance with the OECD Guidelines for Multinational Enterprises by neglecting to carry out due diligence in relation to its supplier, New Wave Style, in the form of demands that the supplier take adequate steps to ensure occupational health and safety in their operations., see the OECD Guidelines, chapter V, section 4c.

Due diligence is a term describing the processes the company is expected to have established to a) identify areas where there is a risk of adverse impact, b) prevent and remedy any adverse impact, and c) account for the company’s efforts to handle adverse impacts.

Due diligence includes the obligation to identify, prevent and remedy existing and potential adverse impacts as described in the OECD Guidelines, which in this respect are aligned with the UN Guiding Principles for Business and Human Rights.

A distinction has to be made between how due diligence is to be implemented within a company and in relation to suppliers:

Chapter II, paragraph 10. (The company should) Carry out risk-based due diligence, for example by incorporating it into their enterprise risk management systems, to identify, prevent and mitigate actual and potential adverse impacts as described in paragraphs 11 and 12, and account for how these impacts are addressed. The nature and extent of due diligence depend on the circumstances of a particular situation.

Chapter II, paragraph 11. (The company should) Avoid causing or contributing to adverse impacts on matters

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1. “Adverse impact” is a term used in the OECD Guidelines for Multinational Enterprises. An adverse impact arises when the company’s activities or lack thereof are in violation of the internationally recognised CSR principles.
covered by the Guidelines, through their own activities, and address such impacts when they occur.

Due diligence in relation to the company’s suppliers:

Chapter II, paragraph A12. (The company should) Seek to prevent or mitigate an adverse impact where they have not contributed to that impact, when the impact is nevertheless directly linked to their operations, products or services by a business relationship. This is not intended to shift responsibility from the entity causing an adverse impact to the enterprise with which it has a business relationship.

In the following, the NCP will consider the following three points:

- To what extent are the respondent’s activities directly linked with New Wave Style?
- To what extent has the respondent carried out due diligence in accordance with the OECD Guidelines for Multinational Enterprises?
- To what extent should building safety have been part of the respondent’s due diligence at the time of the accident?

The respondent’s relationship with New Wave Style

The New Wave Style factory manufactured products in the Rana Plaza building. The respondent’s name is included on New Wave Style’s list of “Main Buyers”. The clothing brands Shine and Jack’s were manufactured for the respondent at Rana Plaza. These brands are sold in the stores Tøjeksperten and Wagner, which are also owned by the respondent. A number of production documents from the respondent were found in the ruins. The respondent has also stated that New Wave Style has been a supplier to the respondent since 2010.

In multiple statements to the NCP, the respondent has asserted that it is unclear to the respondent what the relationship is between the collapse of the Rana Plaza building and the complainant’s claim that the respondent has violated the OECD Guidelines. The respondent has also stated that New Wave Style was not manufacturing products for the respondent on the day that the building collapsed. The last time that clothing was manufactured at New Wave Style for the respondent was on 8 March 2013. The accident occurred on 24 April 2013.

Based on the above, the NCP finds that New Wave Style has been a supplier for the respondent since 2010 and thus PWT Group is directly linked with its supplier New Wave Style.

The NCP does not find it of significance that goods were not being manufactured at New Wave Style for the respondent at the time of the accident. No information was provided as to whether this was due to specific actions of the respondent, or whether the cooperation was suspended; therefore, this circumstance can be a matter of chance. Thus the NCP finds that the respondent and New Wave Style were directly linked at the time of the accident (ref the OECD Guidelines, chapter II, paragraph 12).

According to the OECD Guidelines, companies must seek to prevent or mitigate an adverse impact where they have not contributed to that impact, when the impact is nevertheless directly linked to their operations, products or services by a business relationship, see the OECD Guidelines, chapter II, paragraph 12.

The issue of the respondent’s due diligence

According to the OECD Guidelines, companies must carry out due diligence by seeking to prevent or mitigate an adverse impact where they have not contributed to that impact, when the impact is nevertheless directly linked to their operations, products or services by a business relationship, see the OECD Guidelines, chapter II, paragraph 12.

Furthermore, chapter IV of the OECD Guidelines requires due diligence in regard to human rights, including that companies must make demands on their suppliers to establish human rights policies, carry out due diligence in the area of
human rights and establishing legitimate processes to remedy adverse impacts, see chapter IV, paragraphs 3-6.

The NCP has asked the respondent to account for its due diligence at the time of the accident by submitting a description of the company's CSR policies for responsible supply chain management, including a description of the company's process for risk assessment of suppliers, and particularly with a view to any risk assessment of New Wave Style that may have been conducted.

**Question of the respondent’s due diligence at the time of the accident**

The respondent has stated that the company regularly conducts inspections of suppliers, including inspection of working conditions at the factories where the goods are manufactured. The respondent has stated that the company's purchasing manager conducted an inspection at New Wave Style on 12 November 2012. The materials submitted by PWT to the NCP do not indicate what checks or inspections were conducted during the visit, including whether the prepared checklists were used, nor whether improvements by New Wave Style were demanded on the basis of the inspection and, in the event of such demands, whether a follow-up was to be conducted.

The respondent has stated that an inspection of 12 November 2012 found that the New Wave Style factory at Rana Plaza had taken appropriate measures to ensure health and safety in the workplace. Escape routes with fire extinguishing equipment had been established and the factory appeared neat and well-maintained with good working conditions for the seamstresses. Furthermore, New Wave Style was covered by a welfare programme that provided the opportunity for physical activity during breaks. Lastly, at no time had child labour been observed at the Rana Plaza factory.

According to documents provided by the respondent, New Wave Style was WRAP\(^2\) - and TCP\(^3\) -approved. The respondent has asserted that New Wave Style was in a BSCI-approval process.\(^4\) PWT Group submitted a BSCI “social audit” report of 3 March 2012, which concludes that improvements are needed.\(^5\) The respondent has also submitted documentation showing that, at the time of the accident, efforts were being made in relation to Social Buying Conditions and a Corporate Social Responsibility policy that suppliers would be required to sign and observe. These conditions prohibit suppliers from using forced/child labour and AZO dyes, and require suppliers to respect ILO Conventions nos. 29 (Forced Labour Convention, 1930), 87 (Freedom of Association and Protection of the Right to Organise Convention, 1948), 105 (Abolition of Forced Labour Convention, 1957), 138 (Minimum Age Convention, 1973), and 182 (Worst Forms of Child Labour Convention, 1999). The submitted documents are not signed by New Wave Style, but according to the information provided, are signed by PWT Group's agent, Union Fashion in Bangladesh. On this basis, the NCP finds that the respondent has not submitted sufficient documentation that, at the time of the accident, the company had established processes for due diligence in order to prevent and remedy risks of adverse impacts at its suppliers' facilities, including those of New Wave Style.

The NCP finds – in contrast to the respondent – that the company’s decision-making and risk management systems as well as the measures taken in relation to New Wave Style at the time of the accident, did not comply with the Guidelines' requirements to prevent and remedy existing and potential adverse impacts.

The NCP finds that the exercising of due diligence in relation to a business associate in Bangladesh was particularly required, as poor working conditions in large parts of the textiles sector in Bangladesh were known and reported upon (e.g. Foreign Trade Association’s April 2006 press release “European Commerce pushes for improvement

\(^2\) Worldwide Responsible Apparel Production.  
\(^3\) The Children’s Place.  
\(^4\) Business Social Compliance Initiative.  
\(^5\) The BSCI report states: “The basic need wage for the area is BDT 6,200 per month, whereas the company is paying a minimum wage of BDT 3000. There is no plan in place to increase the salary to achieve the basic need wage within a specific period of time.”
of social standards in Bangladesh” and the March 2013 report by Clean Clothes Campaign and SOMO entitled “Fatal Fashion”).

**Issue of the respondent’s due diligence after the accident at Rana Plaza**

The respondent has submitted documentation showing that since the accident the company has prepared a Code of Conduct, which also includes a CSR policy. In addition, following the accident the respondent has joined a number of initiatives, including the Foreign Trade Association (July 2013), the Business Social Compliance Initiative, BSCI (August 2013), the Accord on Fire and Building Safety in Bangladesh (the Accord) (June 2013) and the Danish Ethical Trading Initiative, DIEH (May 2013).

Systematic due diligence activities in relation to suppliers should include the following: demands on suppliers in the form of CSR policy, request for suppliers to conduct self-assessment based on a risk analysis, review of self-assessments to determine which aspects are to be inspected (taking into account the supplier’s importance and industry/country risks), reporting on results and follow-up.

The respondent has stated that the most recently adopted Code of Conduct includes a CSR policy and a checklist that suppliers are expected to complete on their own. The respondent has not submitted information to MKI documenting the implementation of measures as described above.

The respondent’s CSR Policy, which is part of the company’s annual report, requires that 50% of the respondent’s 50 largest suppliers (which represent 94% of the respondent’s revenue) must be BSCI-approved, see PWT Group’s annual report 2014/15, page 17 on CSR Policy. The NCP has taken note of this, but also stresses the respondent’s obligation to conduct systematic follow-ups on the BSCI inspections to assess the need to implement improvements.

**Building safety**

The complainant asserts that the respondent has not carried out due diligence in order to prevent the collapse of the building. Thus the company, in the view of the complainant, has not ensured that New Wave Style fulfilled its obligation to ensure the company’s employees’ right to just and favourable working conditions, as well as their right to health and safety at the workplace.

With regard to the building’s safety, the respondent has stated that an inspection it conducted prior to the accident concluded that “the factory appeared as good and conforming with the market, and that it was equipped in accordance with practice in the industry”. The NCP does not find that the respondent has documented that the company itself has conducted actual inspections of New Wave Style, but rather that the company solely relied on approvals issued, such as WRAP and TCP, and on the fact that New Wave Style was used by other international brands. Thus, as the purchasing manager’s visit is described to MKI, including the scope, and as the observations are documented as inspection, the NCP does not find that this constitutes an inspection suitable to prevent existing and potential adverse impacts.

No information has been presented to the NCP as to which inspections of building safety were generally conducted in the textile industry at the time of the collapse, i.e. whether there was an established industry practice.

At the time of the accident, inspections in Bangladesh were typically conducted as “social audits”, which did not include inspections of building structures. The complainant has asserted that the respondent has acted in violation of the OECD Guidelines for Multinational Enterprises by neglecting to carry out due diligence to prevent the building collapse. In regard to this matter, the respondent has referred to that which, according to the respondent, was considered industry practice.

In the NCP’s view, it has not been documented that an inspection would have identified the risks present in the building. The NCP has not been able to determine that an inspection of suppliers’ building structures was an incorporated and established buyer practice at the time of the accident. The NCP finds that practice per se can be indicative but not conclusive regarding the scope of risk-based due diligence.

The NCP has considered the follow-
ing views: On the one hand, there were discussions in the industry at the time of the accident regarding the fact that these “social audits” failed to examine risks associated with building structures. This was due in part to criticism from NGOs (e.g. Foreign Trade Association’s April 2006 press release “European Commerce pushes for improvement of social standards in Bangladesh” and the March 2013 report by Clean Clothes Campaign and SOMO entitled “Fatal Fashion”), On the other hand, it can be argued that building structures did not constitute a normal part of the inspections conducted at the time.

The respondent states that the company now collects building permits, construction permits and inspections.

6. CONCLUSION

On 24 April 2013, the Rana Plaza building in Dhaka, Bangladesh collapsed. The building housed a number of textile manufacturers, including New Wave Style, a supplier to the respondent, PWT Group A/S. The collapse killed 1,138 people and injured more than 2,000.

On the basis of this event, Clean Clothes Campaign (CCCDK) and Aktive Forbrugere (AF) submitted a complaint to the NCP asserting that PWT Group had not carried out due diligence in terms of ensuring that New Wave Style complied with its obligation to ensure just and favourable working conditions, as well as health and safety at the workplace, see the OECD Guidelines for Multinational Enterprises, chapter II (General Policies), chapter IV (Human Rights) and chapter V (Employment and Industrial Relations).

The complainant has asserted that PWT Group acted in violation of the OECD Guidelines for Multinational Enterprises by neglecting to carry out due diligence to prevent the building collapse. The documents presented by PWT Group do not provide documentation of the use of risk and decision-making systems, e.g. checklists, in connection with inspections and visits to New Wave Style.

On this basis, the NCP finds that PWT Group did not apply processes for due diligence that meet the OECD Guidelines. In particular, PWT Group failed to make demands that New Wave Style ensure its employees’ basic human and labour rights, including to take adequate steps to ensure occupational health and safety in their operations, (ref chapter V, section 4c of the OECD Guidelines).

The NCP has not been able to determine that the inspection of building structures was an incorporated and established practice at the time of the accident. The NCP finds that practice per se can be indicative but not conclusive regarding the scope of risk-based due diligence.

In the NCP’s view, it has not been documented that an inspection would have identified the risks present in the building.

Accordingly, PWT Group cannot be held accountable for the building collapse.

The NCP stresses that companies must respect the principles of the OECD Guidelines, including that they make demands on suppliers to take adequate steps to ensure occupational health and safety in their operations, see chapter V, section 4c. This responsibility now also includes a risk assessment of the safety of building structures.

In continuation of the above, the NCP notes that PWT Group has stated that following the accident in 2013, the company now collects building permits, construction permits and inspections. The NCP assesses that the new measures enacted after April 2013 are a positive step towards incorporating a systematic process for due diligence in relation to the company’s suppliers, but also notes that no decision can be made on the basis of the current information regarding the extent to which these measures are suited for identifying and managing potential adverse impacts in 2016.
7. RECOMMENDATIONS

The NCP recommends that the respondent, PWT Group, revises its management and risk assessment systems in order to implement processes by which the company can meet the requirement of due diligence in relation to its suppliers, in accordance with chapter II of the OECD Guidelines.

PWT Group should also ensure that the company’s CSR policy complies with the OECD Guidelines for Multinational Enterprises, particularly with regard to fundamental human and labour rights.

PWT Group is recommended to review its suppliers’ self-assessments in conjunction with an analysis of industry and country risks and, on this basis, select which circumstances are to be inspected. The NCP recommends that PWT Group report and communicate about these efforts and about the measures carried out by the supplier to prevent potential risks, see the OECD Guidelines, chapter II, paragraph 10 and chapter IV, paragraph 5 and associated comment no. 45.

The NCP recommends that PWT Group continues its efforts to systematically incorporate the company’s Code of Conduct into management and risk systems.

Occurrences such as that at Rana Plaza show that companies cannot assume that inspections of building safety are responsibly conducted by local authorities, nor by their own employees without special structural engineering qualifications.

The conditions in Bangladesh underscore the importance of companies exercising due diligence of suppliers that includes risk-based analyses, which consider the structure and integrity of buildings as a potential point of inspection. The NCP takes the view that inspections, including building safety inspections, can be advantageously conducted by industry and other collective organisations.

PWT Group can find inspiration for this work in the UN Global Compact, the UN and OECD. All of these organisations have developed a number of guides to specific due diligence practices; these can be found at the website of the Business & Human Rights Resource Centre. For Danish companies, it may be particularly relevant to refer to the CSR Compass, a free online supplier management tool developed in accordance with the international guidelines for social responsibility.

The NCP recommends that the respondent remain up to date on new guides on due diligence within its sector as a means of continuously developing the company’s work in this respect. In this regard, the NCP notes that the OECD is preparing a guide on due diligence specifically for the textiles sector, which is expected to be published in 2016.

The NCP has noted that the Accord includes an independent inspection programme – with publication on the Accord’s website – of all factories that are suppliers to members of the Accord, reports from the inspection of these factories and follow-up measures (Corrective Action Plans). As PWT Group is a member of the Accord, its suppliers in Bangladesh will be subject to this inspection. The NCP recommends that PWT Group, as part of its due diligence efforts, follows up on the results of these inspections.

Pursuant to section 7 of the NCP Act, the NCP is obliged to follow up on this statement after one year to assess whether the company has complied with the NCP’s recommendations.

On this basis, the NCP requests that PWT Group, no later than one year after the publication of this statement, provide the NCP with a report on follow-up on the above recommendations and on the company’s efforts to develop decision-making and risk management systems that meet the due diligence requirements of the OECD Guidelines.

7. wwwcsrkompasset.dk.
8. OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector.