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Comments on SASB’s Proposed Raw Materials Sourcing in Apparel Project Exposure Draft

Thank you for this opportunity to provide comments on the [Raw Materials Sourcing in Apparel Exposure Draft](#). We represent institutions with collectively many decades of experience working to improve the rights of workers globally. As part of a formal research collaboration between SASB and Rights CoLab, we are advising SASB on how to better reflect human rights risks in the standards, particularly in relation to workers. We recognize the growing potential of SASB to help investors direct capital towards companies that uphold labor rights and thus have superior risk-adjusted returns. The recommendations we offer here reflect our on-going work to assist in improving the SASB standards.

We understand that the SASB board decided to revisit the metrics of raw materials sourcing in the apparel sector standard to address a market demand for specific metrics revisions.<sup>1</sup> We appreciate SASB’s desire to rectify a perceived weakness in the standard. However, we have serious concerns about the inclusion of the social aspect since raw materials sourcing is a topic that is relevant not only to the apparel industry, but to all sectors’ industries.

We strongly recommend that SASB removes the social dimension from this project and consider it as part of the Human Capital Management Project.

In our recent conversations with SASB research staff they explained that SASB is distinguishing this project from the Human Capital Management project, such that human capital management is an "inside-out" approach that emphasizes how management practices can create financially material risks. By contrast, the present Project construes raw materials sourcing in apparel, as an "outside-in" risk, where unforeseen external circumstances (wars, drought, climate impacts, etc.) can affect company profits. We also note that at the May 2021 Board Meeting Project Lead Taylor Reed explained:

Raw materials sourcing is focused on social and environmental factors that are most likely to impede a company’s ability to reliably source raw materials. Supply chain

<sup>1</sup> Taylor Reed, "SASB to Improve Apparel, Accessories & Footwear Industry Guidance on Materials Sourcing Measurement," March 31, 2020. <https://www.sasb.org/blog/sasb-to-improve-apparel-accessories-footwear-industry-guidance-on-materials-sourcing-measurement/>

management topic is focused on how the company manages the externalities and impacts that occur as a result of their supply chain operations.<sup>2</sup>

This distinction is a false one, particularly in relation to social risks, since they are understood under the international norm of the UN Guiding Principles on Business and Human Rights (UNGPs) to be manageable. Under the UNGPs companies must undertake human rights due diligence (HRDD), a proactive means by which companies identify, mitigate, and prevent harm and their contribution to it. This social expectation requires companies to create a management system that will allow them to know, address, and report on human rights risks throughout their operations. HRDD entails extensive and sustained stakeholder consultation to understand the company impacts on people throughout its operations -- including how it sources its raw materials. These risks can and often do rebound as material risks to the company, reputationally and operationally, and now that this norm is fast becoming embedded in law in several European jurisdictions, also legally.<sup>3</sup>

Take the example of forced labor and child labor in cotton production, a phenomenon that Verité has documented in 19 countries.<sup>4</sup> With the vast amount of information and guidance that is available today, apparel sector companies can know that the cotton they use might be sourced from a high-risk site and are expected to take steps to manage the risks and disclose its management steps.<sup>5</sup> As such, all social risks are manageable, and when HRDD is done right, the reliability of sourcing raw materials for any industry due to social risks is knowable and manageable.

Companies that were consulted during the development of the Raw Materials Sourcing in Apparel project apparently agree that outside-in/inside-out distinction is false. According to Project Lead Taylor Reed during her presentation at the December 2020 SASB board meeting, “market participants acknowledged that they did not distinguish between raw materials sourcing and supply chain management.”<sup>6</sup>

These issues are not unique to the apparel sector. With the high risk of forced labor in the mining and construction sectors, raw materials sourcing risks in relation to labor cascade across a wide array of industries. Xinjiang Uyghur Autonomous Region, China is in the spotlight for credible allegations of forced labor of Uyghur people in the production of multiple products including cotton, tomatoes and polysilicon, the chemical used in the production of solar panels. The U.S. Department of State (supported by five additional agencies) issued a business advisory regarding Xinjiang and the forced labor and other human rights risks associated with

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<sup>2</sup> May 2021 SASB board meeting [https://www.youtube.com/watch?v=jMqll21\\_Z0g](https://www.youtube.com/watch?v=jMqll21_Z0g)

<sup>3</sup> This norm is established in the UN Guiding Principles on Business and Human Rights (2011), Equator Principles banks, the World Bank, the OECD and the International Standards Organization have all incorporated within their own standards, and which is increasingly finding its way into national law – in France, Germany, the Netherlands, Norway, and soon at the EU level.

<sup>4</sup> Verité, “Countries Where Cotton is Reportedly Produced with Forced Labor and/or Child Labor” <https://www.verite.org/project/cotton-3/>

<sup>5</sup> See the following statements from the Fair Labor Association (FLA), “Forced Labor in Xinjiang China,” January 9, 2020 <https://www.fairlabor.org/report/forced-labor-risk-xinjiang-china-0> and “FLA Statement on Sourcing from China,” December 23, 2020 <https://www.fairlabor.org/blog/entry/fla-statement-sourcing-china>

<sup>6</sup> December 2020 SASB Board meeting.

sourcing from that region.<sup>7</sup> This advisory is not sector-specific – it covers any industry with connections to Xinjiang. Likewise, the increasing rate at which the U.S. Customs and Border Patrol is issuing Withhold Release Orders (WROs) for products made overseas with evidence of the involvement of forced labor presents risks across industries.<sup>8</sup> The social risks associated with raw materials sourcing should be an integral part of a company’s supply chain management and risk disclosures, regardless of industry.

When the Board approved the Raw Materials Sourcing in Apparel project, SASB had not yet determined that “Labor Conditions in the Supply Chain” would be part of the SASB’s Human Capital project, which was underway at the time. Following extensive research and a public consultation on the Human Capital Management Preliminary Framework in early 2021, SASB determined that there is sufficient evidence of the materiality of the supply chain topic to make it a high priority topic for human capital management standards revision.<sup>9</sup> The human capital risks of raw materials sourcing -- a significant component of the social dimension of raw materials sourcing -- will soon be addressed by the Human Capital project. By including social risks within the scope of the Raw Materials Sourcing in Apparel project, the Value Reporting Foundation runs the risk of creating conflicting standards for social risk in global supply chains.

In sum, we see three problems with the inclusion of the social dimension in the Raw Materials Sourcing project. First, the distinction between this project and the Human Capital Management project as “outside-in” versus “inside-out” is inconsistent with international norms and legislation, as companies today are expected to use the knowledge and available resources to manage these risks. Second, the social issues facing the apparel industry are shared by many other industries. Third, while this project is at a more advanced stage than the Human Capital project, it is illogical to proceed with a project scope that includes social risks when they will soon be addressed holistically across all industries by the Human Capital project. The Raw Materials project would benefit from having a narrower scope, focusing on a distinct set of issues that are unique to the apparel sector.

Thank you, again, for this opportunity to comment on the Exposure Draft. We would be happy to discuss our recommendations with you or provide further explanation in writing.

Sincerely,

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<sup>7</sup> U.S. Department of State, Department of Treasury, Department of Commerce, Department of Homeland Security, Office of the United States Trade Representative, Department of Labor, “Xinjiang Supply Chain Advisory,” July 13, 2021. <https://www.state.gov/wp-content/uploads/2021/07/Xinjiang-Business-Advisory-13July2021-1.pdf>

<sup>8</sup> WROs and other demonstrated human capital management rights are documented in, Rights CoLab, “Evidence of Corporate Risk from Harms to Workers in their Value Chains,” January 7, 2021 <https://rightscolab.org/evidence-of-corporate-risk-of-harms-to-workers-in-their-value-chains/>

<sup>9</sup> May 2021 SASB board meeting: [https://www.youtube.com/watch?v=WSZ10\\_zYPms](https://www.youtube.com/watch?v=WSZ10_zYPms)

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