



SOURCING STRATEGIES:

RESPONSIBLE ENGAGEMENT AND DISENGAGEMENT CONSIDERATIONS IN A CHANGING CLIMATE

AIM-PROGRESS AND HUMAN LEVEL BRIEFING NOTE | FEBRUARY 2024



ABOUT

Over the course of 2022 and 2023, AIM-Progress worked with Human Level to:

- Identify current practices and trends among members in addressing and reporting on the links between climate change and human rights.
- De-mystify the term 'just transition' for the fast-moving consumer goods (FMCG) sector, building on what other expert organisations are doing in this area.
- Support the creation of a common understanding of the just transition for the FMCG sector, based on what member companies are already doing in the human rights-climate nexus.
- Provide reflections on a helpful role for AIM-Progress to play in the just transition space, ensuring the organisation builds on and amplifies work already being undertaken by peer organisations.

The findings from this process are captured in a co-authored report between AIM-Progress and Human Level, [The Fast Moving Consumer Goods Sector and the Just Transition](#) (2023).

The report finds that FMCG companies are beginning to understand human rights risks and impacts from ongoing climate change and nature degradation. This includes risks in two buckets:

1. **Bucket 1:** risks to people from the company's current business model, and
2. **Bucket 2:** risks to people from the company's transition into sustainable business models.

Bucket 2 includes the need to look at risks to people from climate and environmental mitigation measures, as well as risks to people from climate and environmental adaptation measures. The report surfaced that, as companies start to advance on climate and environmental mitigation and adaptation, there will be a new impetus towards disengagement from certain suppliers, commodities, industries, regions and countries. This shift underscores the importance of responsible engagement and disengagement that takes account of – and proactively seeks to address – adverse impacts on people such as workers, smallholder suppliers and local communities.

To further explore the theme of responsible engagement and disengagement in a changing climate, in February 2024 AIM-Progress and Human Level coordinated a master class on the topic for AIM-Progress members.

This briefing note captures the key outcomes of that discussion, to inspire thinking and chart a path forward. We offer this resource to support FMCG companies in taking practical steps to integrate just transition considerations into their work. This is urgent work and we welcome all practical discussions that we can have on the issues that will arise as we start to implement just transition in practice.





FIVE KEY REASONS WHY RESPONSIBLE ENGAGEMENT AND DISENGAGEMENT IS IMPORTANT AND TIMELY

- 1. For mitigation reasons.** As companies advance on their climate transition plans and look to meet their net-zero commitments, they can feel the need to move away from certain suppliers, commodities, industries, regions and countries, to prioritise others. For instance, in order to reduce Scope 3 greenhouse gas emissions, some climate mitigation plans entail ending relationships with suppliers that are more carbon-intensive and are not equipped for a quick transition to renewable energy. As another example, a growing number of companies are choosing to stop or reduce use of fossil-fuels-derived materials, like fossil-based plastics, in favour of materials like plant-based or recycled packaging.
- 2. For adaptation reasons.** As companies adapt to the warming climate and the ensuing effects (such as extreme weather, droughts, flooding, rising temperatures, wildfires and beyond), they are starting to make both commercial and climate-driven decisions about how, where and from whom they source. This can mean moving away from certain suppliers, commodities, industries, regions and countries altogether. For example, one study shows that staple crops like corn, potatoes, rice and wheat will take a major hit by 2050, especially in the Southern Hemisphere and parts of North America.[1] Another study found that, by 2030, rising heat and intensified flooding in major manufacturing hubs like Bangladesh, Cambodia, Pakistan and Vietnam will have significant local economic impacts, impacting both local workers and the companies who operate and source in these places.[2]
- 3. For legal reasons.** As new laws are adopted to respond to the rapidly changing climate and human rights context, there will be times when companies will be pressured or incentivised to disengage from certain suppliers, commodities, industries, regions or countries. One key example is the EU regulation on deforestation-free products (EUDR) which, according to the EU, aims to promote the consumption of 'deforestation-free' products in the EU and reduce its impact on global deforestation and forest degradation.[3] Under this regulation, companies that place certain commodities on the EU market (or exports from it) must be able to prove that the products do not originate from recently deforested land or have contributed to forest degradation. In response, companies can look to move away from sourcing from certain locations where the risk for deforestation is high. In other cases, increasing litigation targeted at companies' action (or inaction) on climate change and human rights is raising the stakes for business.



4. For political reasons. Climate change spurs conflict over resources as well as significant climate-driven migration.[4] This is compounded by the global rise in anti-democratic governance and nationalism, which has a chilling effect on civil society and trade unions – and threatens a just transition.⁵ There will be knock-on effects for companies who operate in these environments. This can cause them to stop operating in and sourcing from certain regions and countries.

5. For reputational reasons. As scrutiny of companies' climate and human rights practices from consumers, investors, civil society organisations and governments increases, companies can feel pressured or incentivised to move away from certain suppliers, commodities, industries, regions or countries. At the same time, companies can face criticism for choosing to disengage from a region or sector without robust plans in place to address the human rights impacts they could be connected to by virtue of their decision to depart.

[1] <https://www.nationalgeographic.com/climate-change/how-to-live-with-it/crops.html>

[2] <https://www.ilr.cornell.edu/sites/default/files-d8/2023-09/Higher%20Ground%20Report%201%20FINAL.pdf>

[3] https://environment.ec.europa.eu/topics/forests/deforestation/regulation-deforestation-free-products_en

[4] <https://unfccc.int/news/conflict-and-climate>

[5] https://freedomhouse.org/sites/default/files/2023-03/FIW_World_2023_DigitalPDF.pdf



FIVE OBSTACLES & FIVE OPPORTUNITIES FOR ACTION

1. OBSTACLE

Current business models and procurement strategies are under pressure.

Climate change is affecting the bottom line in a number of ways, causing some companies to rapidly pivot away from a supplier or place.

Extreme weather causes fluctuating prices for some commodities, meaning profits are less predictable.

The quality and quantity of commodities is changing due to climate change, while extreme heat reduces worker safety, well-being and productivity.

Meeting consumer demands quickly might require changing a supplier immediately, rather than engaging to improve supplier practices over a longer period of time.

There is high physical risk from extreme weather, including damage to buildings and supply chain disruptions. The cost of insurance is rising for assets located in places at high risk of extreme weather.

1. OPPORTUNITY

Take a longer-term view on profit and value.

As climate change intensifies, no business will escape its effects, even if they take some time to manifest.

Apply human rights due diligence to climate mitigation, adaptation and disengagement decisions to create a step-by-step pathway for company action in a way that is grounded in the company's existing commitments and human rights responsibility. The difficult decisions presented by climate change are not new; companies already apply human rights due diligence to other challenging contexts and topics.

Get ahead of the game by using futures thinking and proactively creating plans for how to respond to climate impacts on both people and business—rather than reacting to challenges as they strike. Look at other examples as a model: consider the business response to the COVID-19 pandemic, increased automation leading to lay-offs, armed conflict and major events like the Rana Plaza factory collapse in Bangladesh.

If companies need to disengage for commercial reasons, they can help mitigate the challenges for local communities and economies by treating their exit as a process—not as a one-off. This can mean initiating conversations with key stakeholders early on; making sure supplier workers receive their full wages if they are laid off; working with other buyers to support reskilling efforts by governments, educational institutions and NGOs; and being transparent about the company's decision to leave.



2. OBSTACLE

There is an incentive to quickly eliminate the problem rather than stay and potentially incur risks.

- Some company leaders in functions like procurement, finance and legal may prefer to exit from a supplier or country to avoid scrutiny and legal, commercial or reputational risks.
- The costs of staying and leaving are difficult to quantify and to measure, making it harder for sustainability teams to build the case for leaning into the challenge by engaging with suppliers and remaining in more challenging contexts.
- It can be easy to quantify the costs of remaining engaged in the short-term, which can lead to decisions to disengage. However, the costs of disengaging, which can be longer-term in nature, are often not aggregated and quantified, leading to an erroneous cost analysis on the part of the business. For example, the compounded costs and implications of collective disengagement is seldom accounted for.

2. OPPORTUNITY

Make the business case for applying human rights principles when considering (and reconsidering) an exit.

- Partner with colleagues in different functions of the business to develop the business case for engaging (or disengaging) with respect for human rights, taking a longer-term perspective on costs.
- Design, R&D and marketing teams can be natural partners for responsible sourcing teams to help develop innovative solutions to climate-related production challenges (like alternative and recycled materials, circularity models, etc.).
- Human Resources teams can help make the case for enhancing local employment and retraining existing workers, in light of the high costs of hiring and training in a new place.



3. OBSTACLE

The pressure to act on climate change can mean social considerations take a backseat.

- Disengagement for climate reasons sometimes looks like a binary option: end a relationship or activity immediately to halt climate change or take more time to develop a plan that considers how people could be affected by the decision. Some business leaders fear that bringing a human rights lens to these decisions will delay necessary action and can hinder their ability to meet their own key performance indicators—some of which are connected to financial recognition.
- Disengagement is often prioritised by companies if it means better climate adaptation or mitigation. Some external stakeholders like investors and governments can inadvertently drive tunnel vision on climate goals that leave out human rights considerations.

3. OPPORTUNITY

Help others understand how just transition considerations are critical to the transition itself.

- Without social and human rights considerations, it will be a challenge to advance meaningfully on the climate transition. In other words, implementing a just transition is not a nice to have, but a must-have to ensure the transition takes place. Rather than delaying the climate transition, bringing a human rights lens to it will enable it to pick up pace and happen—with input and buy-in from those affected. The narrative within companies needs to change to reflect this.
- Leverage external drivers to incentivise the company to consider human rights in climate strategies. For example, engage with investors to explain your perspectives and actions to respect human rights while addressing climate change.
- Consider the negative effects of climate targets and KPIs that lead to internal tunnel vision on climate goals, leaving out human rights considerations.
- Seek out conversations with ‘critical friends’ like NGOs and trade unions on the just transition and translate these perspectives back to your internal colleagues.



4. OBSTACLE

Internal teams operate in silos and teams responsible for human rights often don't have a seat at the table.

- Sustainability and responsible sourcing teams can be separated from colleagues in other departments because of the way the company is structured and the way business decisions are made.
- They can lack visibility into business decision-making and may be brought in only after the decision has been made, making it challenging to address risks proactively.
- Even within sustainability functions, environmental and human rights teams may not be talking to one another. They might have separate goals, KPIs, budget lines and strategies that are not aligned with one another.

4. OPPORTUNITY

Break down the walls, one brick at a time.

- Take a step back to look at your operations and see where human rights expertise could be involved earlier. Then initiate regular conversations with your internal counterparts. Even starting a single conversation with a colleague in another function about human rights considerations can raise internal awareness of why and when your team needs to be involved.
- Start with one decision-making point and expand from there. For example, you could liaise with R&D or the business strategy team from the start of the product design process to weigh in on sourcing decisions or manufacturing locations. As another example, you could identify how the company's climate mitigation plan will entail the need for disengagement considerations and consider what it means to bring a human rights lens to this disengagement.
- Make internal knowledge-building about human rights a core pillar of your sustainability strategy. For many companies, this is already part of their policy commitment to human rights. Build awareness among colleagues of the pitfalls of advancing on climate adaptation and mitigation (including disengagement) without integrating social considerations. Translate knowledge about human rights for other areas of the business to get everyone speaking the same language.
- Look for existing company forums, like cross-functional steering groups, to have a seat at the table when key decisions are made.

5. OBSTACLE

Climate-driven disengagement decisions are cumulative and temporal. Everyone – and Government in particular – has a role to play.

- The impacts from company disengagement don't happen in a vacuum. Multiple companies deciding to disengage from a supplier, commodity, industry, region or country to reduce business risk from climate change will create a larger negative impact on people. They also converge with other impacts experienced by people in supply chains. For example, after a hurricane the economic shocks from the event for people can be worsened by a number of companies choosing to operate or to source elsewhere.
- The effects of climate change will worsen over time—meaning that harm to both people and the business will not go away and are likely to get worse. This means in practice that the negative impacts from company disengagement are worse when adding a temporal lens to the impacts. For example, poverty levels of farmers can be made worse from a group of companies disengaging (cumulative impact) and can worsen over time in light of growing climate change impacts converging with other impacts (temporal lens to impacts).
- There is limited visibility on what peers are doing. There is a disincentive (and even sometimes a legal risk) to sharing information and collaborating on collective solutions that prevent or mitigate harm to people.
- Governments are often not viewed as lifting their share of the burden when it comes to considering how they adapt to the changing climate, in a way that seeks to minimise adverse impacts on people—including as disengagement considerations start to pick up pace. A number of landscape factors (like policymaking on climate action, job reconversion and alternative livelihoods, training, social protection, just transition of workers, etc.) sit primarily on the shoulders of the government, but they might be hamstrung by political and economic realities. Governments may be prioritising short-term political considerations over longer-term climate goals, and this is likely to get worse as democracies backslide, making it even more challenging for companies to take a rights-based approach to engagement and disengagement.

5. OPPORTUNITY

Use collective action to apply leverage with suppliers and governments for change.

- When faced with a decision that may entail disengagement, take some time to get a fresh, holistic perspective on the risks to people involved. Look at other stakeholders and scenarios to see how they are handling the situation and identify ways that your exit could impact the situation alongside others.
- Trying to measure the cumulative and temporal effects of company action (or inaction) can feel overwhelming, especially with limited data available. But you can proceed even without this certainty, based on learnings from other sectors that demonstrate the dynamic.
- Engage with peers in collective forums as well as one-to-one, to look for creative solutions to the challenges presented in a particular market. Aim to find ways of using leverage first to try to address the problem. If you ultimately decide to disengage, identify and align with other buyers and relevant players—including governments and trade unions—to reduce the negative impact on people.
- Advocate with governments to create an enabling environment for those workers, farmers and community members that may be left behind as part of the transition, reducing the need for disengagement over the mid- and long-term, or at the least, reducing its impact.
- Openly support legislative priorities and regulations that contribute to a just transition. Use the company's existing channels of communicating with policymakers to convey your perspective and develop partnership opportunities.