



Taking responsibility for supply chain impacts: who, why and how?

What is the responsibility of supply chain actors in addressing production level impacts?

As attention grows on the negative impacts of unsustainable production (See [Discussion Paper 1](#)), responsibility is placed on all supply chains actors – producers, traders, retailers, brands, financiers – to manage production level impacts through what is known as ‘chain liability’. Equally, public sector institutions regulating trade are facing pressure to include environmental and social safeguards, leading to the evolution of methods¹, indices², and policies³ to account for the embedded impacts of trade.

If you are deriving benefit from the sale or consumption of a commodity, are you responsible for any negative externality associated with its production? The logical answer is ‘yes’, and it is increasingly understood that failing to address these impacts not only damages livelihoods and ecosystems (See [Discussion Paper 5](#)), but can lead to an array of risks for businesses and economies. These include supply chain risks, whereby the continued provision of commodities depends on both nature’s services and the producer communities, as well as risks associated with awareness of impacts by investors, consumers, and societies.

Many initiatives are guiding business to quantify and report on environmental impacts (e.g. [SBTN](#), [NCP](#), [TNFD](#), [CDP](#), [GRI](#)) and in response to the awareness around supply chain risks, encouraging them to account for impacts that occur upstream in

1 <https://hub.jncc.gov.uk/assets/709e0304-0460-4f83-9dcd-3fb490f5e676>

2 <https://www.sustainabledevelopmentindex.org/>

3 [https://ieep.eu/uploads/articles/attachments/9c951784-8c12-4ff5-a5c5-ee17c5f9f80b/Trade%20and%20environment_FINAL%20\(Jan%202020\).pdf](https://ieep.eu/uploads/articles/attachments/9c951784-8c12-4ff5-a5c5-ee17c5f9f80b/Trade%20and%20environment_FINAL%20(Jan%202020).pdf)

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the supply chain. Importantly, the draft Post-2020 Global Biodiversity Framework makes explicit mention of the need to consider supply chain impacts in business reporting. In response, there are a growing number of supply chain tools that can assess the scale of potential supply chain impacts on nature and people (e.g. [Trase](#), [resourcetrade.earth](#), [SupplyShift](#), [ENCORE](#), [Commodity Footprints](#)) and can be used to guide appropriate responses.

Supply chains are not linear and not all actors have the same ability to influence production practices. Therefore, does greater responsibility lie with those that trade the greater share of the commodity, or those that derive the greatest value? Are those actors responsible to drive change of entire production areas, the behaviour of whole suppliers, or just for the share of the commodity they trade? Equally, responsibility may vary across time and space. With temporal lags between the trade of goods and the associated impact in production areas, how far back in time should actors be responsible for? With such impacts scattered across geographies, how can we ensure liability across borders, jurisdictions, and appropriate timescales? And how can we ensure a fair distribution of these responsibilities across value chains?

Rewards and incentives

A typical response to the need to take responsibility is to put safeguards in place. These include due diligence legislation by importer countries, private sector commitments and supplier codes, and eligibility criteria for finance. This can enable actors to become market leaders, enhance competitive advantage, access more preferential loans, better market their goods and ultimately increase the financial benefits those goods provide.

Robust procurement standards can improve sustainability of production systems, but given the costs and challenges associated with a sustainability shift, only if coupled with investment and technical assistance that supports and rewards sustainable producers. This was the premise behind price premiums for certified goods but there is a need for mainstream market prices to reflect these costs and support farmer communities. Equally, sustainability linked loans provide a potential mechanism to reward sustainable actors, but the economic incentives are not always sufficiently attractive to traders or available to producers (as highlighted through a [case study for the Brazilian supply chain](#)).

Companies, despite the commitments made, are exposed to deforestation risks associated with their sourcing of commodities such as coffee and palm oil. In Indonesia, small-scale farmers often lack tenurial security (over land) and are often unable to access finance and influence the price they receive, which can incentivise illegal land clearance. There is a need for greater synergies between public and private policies and initiatives for sustainable supply chains along with farmer support and economic reward structures to meet policy commitments. This is echoed in other soft commodity markets, with incentive-based initiatives arising. These include private sector initiatives such as those based on payment for ecosystem services – as being trialled for Brazilian soy farmers adopting sustainable agricultural practices– as well as public sector ecological fiscal transfer to compensate sub-national governments for the opportunity cost of preventing land clearance.

Common but differentiated responsibility and collective action

Actors all along the supply chains are working within the constraints of profit margins, competition for suppliers and buyers, and consumer pressure for low price goods and services. It would be complex to quantitatively differentiate responsibility

among supply chain actors. Further, such attribution to individuals may be futile as supply chain flows exist on a landscape scale. We therefore need to acknowledge that while there is a shared responsibility among all actors who are deriving benefit from the production and trade of commodities, perhaps the onus lies with the biggest beneficiaries of trade, both nations and commercial actors. Those actors perhaps have the capabilities and influence to effect change by working with all actors for harmonised and long-term solutions.

Collective action is required to address challenges in shared landscapes. An example of this is the Produce, Conserve, Include ([PCI](#)) strategy for the Mato Grosso state in Brazil - a jurisdictional approach that brings together the state, NGOs and the farming sector to increase soy and beef productivity and tackle deforestation through technical assistance, small holder inclusion and access to credit. Similarly, there is also an increased number of subnational governments in Indonesia, highly committed to taking a role in leading the transition towards sustainability through adopting policy measures and tools such as low carbon and green growth development. Through multi-stakeholder platforms, they engage a wide range of actors including producers, buyers, civil societies and sustainability initiatives such as RSPO.

To reach scale we need systems that can facilitate engagement from all actors, many of which will not have the level of control, traceability required, or ability to engage directly with producers. Tools such as [Trase](#) can help to build accountability through traceability, enabling buyers and investors to engage with supply chain actors, and platforms such as [SourceUp](#) are emerging to link agri-commodity companies to multi-stakeholder initiatives in producing regions, offering sustainability assurances at a landscape level. The increasing space for supply chain engagement can provide the tools we need to reset the incentive structures necessary for common but differentiated responsibility across value chains.

This discussion paper is a part of a series highlighting the findings of ongoing research by partners across the GCRF TRADE Hub. It is intended to encourage dialogue. The opinions expressed in this article are the responsibility of the authors Sharon Brooks (UNEP-WCMC), Hannah Nicholas (UNEP-WCMC), Chris West (SEI-York), Marcello De Maria (University of Reading), and Heru Komarudin (CIFOR), and do not represent the GCRF TRADE Hub as a whole. Comments are welcome, and should be directed to sharon.brooks@unep-wcmc.org.