

Report on the development of the CHRB Methodology for Automotive Manufacturing

Drafting and Public Consultations

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Why Automotive Manufacturing?

During multi-stakeholder consultations on the development of the CHRB Methodology four industries were identified as the highest priority for assessment and benchmarking; Agricultural Products, Apparel, Extractives and Information and Communications Technology ('ICT'). Because of resource and capacity constraints, the first two Benchmarks, published in 2017 and 2018, focused on only the Agricultural Products, Apparel and Extractives sectors, with the Pilot ICT Manufacturing benchmark being published for the first time in 2019.

Additionally, in 2019 the CHRB decided to expand the scope of the benchmark into a fifth high-risk sector, Automotive Manufacturing, due to the challenges faced by the industry, which include:

- Risks of exploitative conditions such as forced labour or restrictions to freedom of association and lack of living wages for workers.
- The use of natural resources in the manufacturing of automobiles giving rise to a range of potential human rights impacts within and beyond the 'walls' of the company.
- The possible effect on communities globally, whether by becoming entangled with abuses by unaccountable security forces or undermining the livelihoods of communities surrounding automotive operations through impacts on their land, water and other natural resources.

Development of Automotive Indicators

The CHRB Methodology for Automotive Manufacturing is based on the existing CHRB Methodology, which was first published in 2016 and revised in subsequent years.

To enable comparisons between companies in different sectors, the CHRB Methodology for the Automotive Manufacturing industry is therefore aligned with the CHRB Methodology for the Agricultural Products, Apparel, Extractive and ICT Manufacturing industries where relevant. It also features indicators that were drafted to consider responses to human rights risks that are specific to the Automotive Manufacturing industry. These indicators were developed through extensive research, engagement and public consultations, which covered a variety of stakeholders and sources (see Annex 1).

Public Consultations

After an initial research and drafting phase, CHRB published the draft indicators on its website and sought comments on the proposed indicators from July to November 2019. A number of stakeholders provided feedback through these public consultations (see Annex 1).

At the end of the consultation phase, the CHRB collated all the feedback received, including general observations as well as indicator-specific comments and suggestions. If comments were on indicators that were not open for consultation (i.e. non automotive-specific indicators), the CHRB saved them to be taken into consideration in the next Methodology review, due to take place in 2020. This was to maintain the focus of the consultations on Automotive-specific indicators and to maintain consistency between the Automotive Methodology and the existing Methodology for other

sectors. If comments were on Automotive-specific indicators, the CHRB Methodology Committee went through every suggestion and decided whether and how to edit the draft indicators based on the different comments received.

When deciding whether to implement the suggested edits, the CHRB Methodology Committee took into account a variety of factors. These included:

- Alignment with the requirements and spirit of the UNGPs and other international instruments.
- Alignment with the existing CHRB Methodology for the Agricultural Products, Apparel, Extractives and ICT Manufacturing industries.
- Input from other stakeholders who contributed to the initial indicator drafting.
- Other input received through the public consultation.

The boxes below provide two examples of suggestions that led to a change in the drafting as well as an example of a suggestion that did not lead to a change in the drafting, along with an explanation for the Methodology Committee's decisions:

Example of a suggestion that led to a change in the drafting

Indicator: D.5.3 Mapping and disclosing the supply chain

Suggestion: Mapping the supply chain in the automotive industry is challenging, as beyond Tier 1 and Tier 2 suppliers, traceability becomes increasingly difficult. There might be 10-12 layers within a company's supply chain. Also, if CHRB looks to a manufacturing industry, where the company owns the manufacturing plants, the Tier 1 suppliers are defined differently to apparel / agriculture (as in the current CHRB methodology). Additionally, the automotive supply chains often have confidentiality agreements in place which restricts the knowledge beyond Tier 1, making the ability to track and monitor some of the key industry risks identified in the methodology unrealistic.

CHRB Methodology Committee decision: Recognising the challenges and inherent complexities associated with the Automotive manufacturing sector, the CHRB Methodology Committee made the decision to include the following definition in the 2020 Automotive Methodology: *Supplier: Defined as tier 1 and beyond, including subcontractors. For the Automotive Manufacturing industry, refers to manufacturing sites for major components (note: for specific indicators on conflict minerals and on raw material sourcing, refers to refiners, smelters and raw materials).*

Example of a suggestion that led to a change in the drafting

Indicator: D.5.11 Responsible Material Sourcing

Suggestion: Companies usually start from identifying the materials to be used in the manufacturing process and then identify the risks connected to each material, as a result water and land rights are not the only risks associated with automotive manufacturing. Therefore, the indicator should refer to raw material sourcing generally and leave it to the company to identify which materials carry risks, not just specifying rubber and leather to begin with, as this is arbitrary.

CHRB Methodology Committee decision: The CHRB Methodology Committee determined that based on feedback, the Automotive Methodology would include a ‘Responsible Material Sourcing’ indicator (D.5.11) instead of those relating to Land rights and Water & sanitation. While the scoring requirements in D.5.11 are not proscriptive about the types of raw materials a company’s due diligence should cover, the indicator description highlights leather, rubber and lithium as examples, along with the key human rights risks that could be associated with their sourcing.

Example of a suggestion that did not lead to a change in the drafting

Indicator: D.5.1

Suggestion: Amend “Living Wage” questions (D.5.1) to focus on “competitive wages” or “equitable pay.” The term “living wage” is not clearly defined globally. The term is subject to interpretation based on a wide range of subjective factors, and its meaning can vary by region and by context. There are significant challenges in defining a satisfactory, global standard of living wage and the income needed to meet it. The ILO provisions as to minimum wages should be taken into account as reference.

CHRB Methodology Committee decision: The CHRB Methodology Committee decided that the intent of the indicator was to maintain a ‘living wage’, as opposed to a ‘minimum wage’ as the basic standard. The CHRB recognises that there is no global standard when it comes to a living wage, however it does provide the following guidance in the D.5.1 indicator description on what a living wage is expected to cover: *“A living wage is sufficient to cover food, water, clothing, transport, education, health care and other essential needs for workers and their officially entitled dependents and provide some discretionary income. Workers also receive equal pay for equal work.”* The CHRB also sought to maintain consistency between the Methodology for Automotive manufacturing and the existing Methodology for other sectors, which include the same living wage requirements.

Publication of the 2020 CHRB Methodology for Automotive Manufacturing

The Automotive indicators were then finalised and the CHRB 2020 Methodology for the Automotive Manufacturing was published in February 2020. It is downloadable from the Methodology section of the CHRB website (www.corporatebenchmark.org/methodology).

Next steps

The CHRB 2020 Methodology for Automotive Manufacturing is being used as the basis for the 2020 Benchmark assessment for Automotive Manufacturing, which looks at 30 companies in the Automotive Manufacturing industry (see Annex 2 for the full list of companies)¹. The Pilot Automotive Benchmark will be published in November 2020.

After the publication, the CHRB will review the Automotive indicators based on learnings from the Pilot. At the beginning of 2021 the CHRB will publish revised versions of all Methodologies, incorporating the stakeholder feedback received during the 2020 consultation process. To ensure continued alignment between the various CHRB Methodologies, the Automotive Manufacturing Methodology will also be subject to revision as a result.

Acknowledgements

The CHRB would like to thank all the stakeholders who have contributed to the development of the CHRB Methodology for Automotive Manufacturing, either through direct input on the draft indicators or because their work – research, reports, blogs, etc. – was used in developing the methodology. The CHRB would also like to thank Aviva Investors, Caux Roundtable Japan & Daimler AG for hosting consultation sessions.

For more information, you can email the CHRB Team at info@corporatebenchmark.org.

¹ Please note that in 2020 the CHRB is also benchmarking companies in the Agricultural Products, Apparel, Extractives and ICT Manufacturing industries, bringing the total number of companies selected to be benchmarked in 2020 to 230 (barring any mergers, acquisitions or other corporate restructurings)

Annex 1 – Stakeholders involvement in the CHRB Methodology for Automotive Manufacturing

The CHRB is grateful to all the stakeholders listed below, who have contributed to the development of the CHRB Methodology for Automotive Manufacturing either through direct input on the draft indicators or because their work – research, reports, blogs, etc. – was used in developing the methodology.

- Audi
- Business & Human Rights Resource Centre
- Caux Round Table Japan
- Daimler AG
- Econsense
- Ford
- Global Business Initiative (GBI)
- Germanwatch
- GIZ
- ILO Council Japan
- Kate Larsen
- Kawasaki
- Mercedes Benz
- Nissan
- OECD
- Responsible Business Alliance (RBA)
- Twenty-Fifty
- Volkswagen AG

Annex 2 – Companies selected for the 2020 Automotive Manufacturing Benchmark

- Anhui Jianghuai Automobile Group Corp Ltd.
- BAIC Motor Corporation Ltd
- BMW AG
- BYD Co., Ltd.
- Chongqing Changan Automobile Co., Ltd.
- Daimler AG
- Dongfeng Motor Group
- FAW Car Co., Ltd.
- Fiat Chrysler Automobiles NV
- Ford Motor Company
- Geely Automobile Holdings
- General Motors Company
- Great Wall Motor Co., Ltd.
- Groupe PSA
- Guangzhou Automobile Group Co. Ltd
- Honda Motor Company
- Hyundai Motor Co
- Kia Motors Corporation
- Mahindra & Mahindra Limited
- Mazda Motor Corporation
- Mitsubishi Motors Corporation
- Nissan Motor Co., Ltd.
- Renault
- SAIC Motor Corporation
- Subaru Corporation
- Suzuki Motor Corporation
- Tata Motors Limited
- Tesla Motors, Inc.
- Toyota Motor Corporation
- Volkswagen AG