

## **Response of the Global Legal Entity Identifier Foundation (GLEIF) to the European Commission Call for Evidence for an initiative titled effectively banning products produced, extracted or harvested with forced labor**

June 19<sup>th</sup>, 2022

The Global Legal Entity Identifier Foundation (GLEIF) is pleased to provide comments to the European Commission Call for Evidence for an initiative titled effectively banning products produced, extracted or harvested with forced labor. GLEIF will focus its comments on the use of the Legal Entity Identifier (LEI) and how the inclusion of the LEI in the risk-based enforcement framework can help to standardize basic due diligence and transparency requirements for economic operators across Member states.

GLEIF welcomes the Commission's initiative for promoting the implementation of responsible business conduct across all sectors of production and all levels of the supply chain and the protection of victims of business-related human rights violations and abuses, regardless of the companies' location, size, sector, operational context, ownership and structure.

It is stated in the [Commission's and European External Action Service's \(EEAS\) Due Diligence Guidance document](#) that effective due diligence allows companies to identify and address the potential and actual adverse human rights and environmental impacts linked to their operations, products or services, including in their supply chains and business relationships. However, without identifying who their suppliers are in a given value chain, a proper due diligence cannot be performed. In today's globally interconnected economies, companies of all sizes have subsidiaries or supply chain networks EU-wide or even global. However, the Commission's [Final Report on the study on due diligence requirements through the supply chain](#) highlights that just over a third of business respondents are undertaking due diligence which considers all human rights and environmental impacts, and a further third undertake due diligence only in certain areas. Moreover, most businesses undertaking due diligence indicated that third-party impacts are included for their first-tier suppliers only (i.e., the first layer of the business relationship in the supply chain). Current due diligence practices beyond the first tier and for the downstream value chain are significantly lower by comparison.

Given that due diligence is an ongoing process aimed at achieving continuous improvements, identification of business partners at the beginning of the business relationship and then, similar to the KYC refreshes performed by financial institutions, monitoring the suppliers with these lenses is crucial to manage labour and human rights risks properly.

And as in the financial industry, the enforcement is crucial for preventing products produced, extracted or harvested with forced labor. GLEIF suggests that the Commission could prepare a template with mandatory data collection for companies to assess their operations, products, and suppliers. The questionnaire could request companies to report their suppliers and products in a standardized manner. If global data standards are required in the template such as the LEI and Global Location Number (GLN), both companies and supervisory authorities can easily identify red flags (e.g., country risk factor, product risk factor) as they can easily aggregate and map company, country of origin, supplier and product data thanks to these data standards.

GLEIF suggests that easy, fast, and transparent access to a central open data source about legal entities' identity is key for performing basic due diligence and bringing legal certainty to contractual relationships. Thanks to the Global LEI Repository, a business, supervisory authority or consumer can freely trace the identity of a supplier/subcontractor at no cost to access this data. The complete database of LEIs and the associated LEI reference data is available free of any charge or barrier to anyone on the web. GLEIF operates under the Open Data Charter terms, which means the data can be used for searching entities in 200+ jurisdictions by all users without limitations.

As highlighted in the Due Diligence Guidance, GLEIF agrees that the risk factors are higher for women as women are more likely to be paid lower wages than men and are more often linked to precarious, informal or irregular employment. In sectors and global supply chains in which large numbers of women are employed such as, apparel, electronics, tourism, health and social care, domestic work, agriculture and fresh cut flowers. To reduce informality gaps and wear gender-based lenses for improving financial inclusion, South Africa-based think-tank CENFRI [suggests](#) that once women-owned SMEs in Africa obtain LEIs, they can easily prove to their counterparties who they are in a digital way and unlock international trade opportunities. Therefore, European companies' request for LEI from their suppliers would help those suppliers and contractors in non-EU jurisdictions to (i) identify themselves in a trusted, credible, standardized manner and (ii) re-use these global credentials in their interactions with other business partners.

By mandating the LEI as part of due diligence in supply chains, the EU Commission would introduce a standardized, uniform approach for entity identification across supply chains. This would also benefit EU companies as it would ensure transparency and clarity regarding the identities of the suppliers they are engaging with. It would also ensure interoperability between supply chain and financial markets information flows. The LEI is already used in 124 financial markets regulations, including the recently adopted [Commission Delegated Regulation C\(2022/1931\) \(final\)](#) which supplements the Sustainable Finance Disclosure Regulation ((EU) 2019/2088), specifying the content, methodology and presentation of sustainability-related disclosures. By including the LEI in the product flow that is facilitated by the financial flows, business, supervisory authorities and investors/consumers can more easily connect the associated information flows. Setting out minimum mandatory requirements for all would also help to save certain costs compared to what companies are facing now - trying to keep up with disparate recommendations and expectations which leads to administrative burden and legal uncertainty.