Updated OECD Guidelines give civil society more grounds to demand corporate accountability

In June 2023, the OECD released a long-awaited “targeted update” of the OECD Guidelines for Multinational Enterprises. Negotiations on the new Guidelines - now called the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (Guidelines) - inevitably involved trade-offs and compromises. Nevertheless, OECD Watch believes the net result is positive. The majority of edits strengthen this authoritative global standard on responsible business conduct (RBC) for companies. In many areas, the changes echo and therefore bolster international norms on RBC, and on some topics the changes advance normative guidance.

The update of the Guidelines is particularly timely as it comes at a key moment in the development of mandatory due diligence legislation, which is largely based on the Guidelines, in Europe and globally. Civil society can use many of the updated standards in the Guidelines as grounds for seeking stronger provisions in national and regional corporate accountability initiatives.

The year 2023 also marks an important moment for the OECD Watch network, which was established 20 years ago. For two decades, OECD Watch has represented the voice of civil society and communities at the OECD, pushing for stronger standards and greater accountability for corporate conduct.

In a few areas, the standards updates do not go as far as civil society had expected and advocated. OECD Watch calls on the OECD to develop, through close consultation with rightsholders and civil society, improved guidance on engagement with groups experiencing vulnerability or marginalisation as part of due diligence, particularly on respecting the rights of Indigenous Peoples, human rights defenders, women, and other rightsholders, and on addressing the adverse impacts of technology and digitalisation.

OECD Watch is also concerned that the update largely did not raise requirements for governments to improve their implementation of the Guidelines through the National Contact Point (NPC) mechanisms. While the updated text reflects extensive improved recommendations for NCPs, the improvements are still largely optional. It therefore remains to be seen whether governments will choose to improve their NCP - making the drive for mandatory due diligence legislation that aligns with the standards of the Guidelines all the more urgent to ensure accountability.

Below, OECD Watch highlights the strongest elements for use in civil society complaints and advocacy, and makes a critical call for further guidance on crucial topics.
Key updates in the standards for enterprises

CLIMATE CHANGE: Significant updates to the Environment chapter elevate focus on the responsibility of companies to address their adverse impacts on climate change. Whereas the 2011 text did not mention the term “climate change”, the updated Guidelines identify climate change as a leading environmental impact that enterprises should address in their due diligence processes. Important updates include:

- Reference to the Paris Agreement and assertion of the important role enterprises play in contributing to net-zero greenhouse gas (GHG) emissions, necessary for achieving global goals on climate change mitigation and adaptation.
- Expectation that enterprises ensure their GHG emissions and impact on carbon sinks are consistent with internationally agreed global temperature goals based on best available science, including from the Intergovernmental Panel on Climate Change.
- Expectation that enterprises implement transition plans and adopt, implement, monitor and report on short, medium, and long-term mitigation targets, including absolute GHG reduction targets, that take into account scope 1, 2, and 3 GHG emissions.
- Expectation that enterprises prioritise eliminating or reducing sources of GHG emissions over offsetting, compensating, or neutralising measures. Carbon credits are framed as a “last resort” that should be of high environmental integrity and should not contribute to locking in GHG-intensive processes or infrastructures, and should be publicly reported separately from reporting on emissions reductions.
- The Disclosure chapter also highlights that sustainability risks such as climate change, among others, may be considered financially “material” and therefore subject to higher disclosure expectations.

Enterprises are seeking to disown their contribution to climate change and place sole responsibility on governments to solve the challenge. The updated Guidelines give civil society and governments a key tool to counter these corporate narratives and demand corporations’ responsibility for addressing their role in the climate crisis.

OTHER ENVIRONMENTAL IMPACTS: The updated Environment chapter also highlights numerous other leading adverse environmental impacts that enterprises should address in their due diligence. Whereas the 2011 Guidelines did not identify many of these topics, enterprises are now called on to identify and address their potential impacts on a non-exhaustive list of environmental concerns including biodiversity loss; degradation of land, marine, and freshwater ecosystems; deforestation; and pollution. The term “environmental impacts” is defined to cover significant changes in the environment or biota that can have impacts on the environment as well as “people”.

Enterprises often claim environmental challenges like biodiversity loss, deforestation, and pollution are beyond their scope of responsibility. The updated Guidelines state otherwise. Civil society can use the new expectations to critique enterprises’ conduct using complaints or direct corporate engagement.

JUST TRANSITION: The updated chapters on Environment and Employment and Industrial Relations set new standards for the corporate contribution to a just transition. While the term “just transition” did not appear in the 2011 text, enterprises are now called upon, in their due diligence, to identify, assess, prevent, and mitigate social impacts both in their transition away from environmentally harmful practices as well as towards greener industries or practices, such as the use of renewable energy. Meaningful stakeholder engagement and responsible disengagement are highlighted in this regard. The Employment chapter encourages enterprises to provide training for up- and re-skilling of workers in anticipation of future changes in operations and employer needs, including those responding to the just energy transition and to technological changes linked to automation and digitalisation.
Enterprises have a responsibility to support a just transition. In combination with other expanded text on the importance of continuous improvement in enterprises’ environmental performance, the updated Guidelines give civil society a strong foothold for demanding accountability from corporations.

**MEANINGFUL STAKEHOLDER ENGAGEMENT:** The Guidelines now incorporate expanded guidance for enterprises on the importance of stakeholder engagement in due diligence and on how to engage with stakeholders meaningfully. The 2011 text called for meaningful engagement, but the updated text goes further by explaining what that entails, including that engagement should be two-way, conducted in good faith, responsive to stakeholders’ views, timely, accessible, appropriate, safe, and adapted to remove potential barriers to engaging with stakeholders in positions of vulnerability or marginalisation. The Guidelines also underscores stakeholder engagement as a key part of due diligence.

Stakeholder engagement is regularly overlooked or poorly implemented by companies. The updated standard on meaningful stakeholder engagement gives civil society a tool to demand better engagement by companies.

**MARGINALISATION, VULNERABILITY, AND INTERSECTIONALITY:** The updated Guidelines call on enterprises to pay special attention to any particular adverse impacts on individuals who may be at heightened risk due to marginalisation, vulnerability, or other circumstances. No such expectation of heightened due diligence appeared in the 2011 text. The Guidelines also now reflect the concept of “intersectionality”, asserting that enterprises’ human rights due diligence may need to consider distinct and intersecting risks related to the individual characteristics of impacted people.

These new texts help civil society address adverse impacts to particularly vulnerable groups by seeking greater attention to their rights, and the unique risks they face, by enterprises undertaking due diligence.

**HUMAN RIGHTS DEFENDERS:** The updated Guidelines incorporate new expectations on reprisals in both the standards for enterprises and implementation procedures for governments. The text is strong in many ways, although a few key elements are left out and should be addressed through additional guidance. Whereas reprisals were not addressed in the 2011 standards, important updates include:

- The updated General Policies chapter calls on enterprises to refrain from and take steps to prevent reprisals against individuals or groups expressing concern over the enterprise’s or its business relations’ activities. Steps taken should include promoting an environment in which individuals and groups feel safe to raise concerns and, where relevant, contributing to the remediation of adverse impacts of reprisals when they occur. The Guidelines define reprisals as including, among other things, surveillance and strategic lawsuits against public participation.

- The Human Rights chapter calls on enterprises to pay special attention to impacts on, among others, human rights defenders, who may be at heightened risk due to marginalisation, vulnerability, or other circumstances.

- In the updated procedures, new text calls on NCPs to take all appropriate steps to address reprisals against a party to a specific instance or its relations, in consultation with the party(ies) at risk, with the goal of ensuring the person is protected and proceedings can continue in a safe, accessible, equitable, and impartial manner. The text also calls on governments to take appropriate steps to protect the NCP itself from reprisals.

1. Chapter II included a provision narrowly focused on refraining from discriminatory or disciplinary action against workers making bona fide complaints.
Civil society can use these additions to demand better practices by enterprises to respect the rights of human rights and environmental defenders, and to seek remediation of the impacts of reprisals themselves, as distinct from the impacts of the underlying harmful corporate conduct.

OECD Watch has documented the incidence of reprisals against individuals in relation to Guidelines complaints. We have also filed a substantiated submission (like an appeal) to the OECD exposing and expressing concern about reprisals by companies against complainants and NCPs themselves.

ALIGNMENT WITH OECD DUE DILIGENCE GUIDANCE: The Guidelines now align with the robust framework on corporate RBC due diligence developed since 2011 in the OECD’s due diligence guidance. Of note, the Guidelines now:

- Promote the six-step due diligence process described in the OECD guidance;
- Describe “meaningful stakeholder engagement” in more detail;
- Elaborate on the expectation that enterprises should build leverage over business relationships to proactively encourage improvement in business partners’ conduct;
- Highlight that an enterprise's relationship to harm (cause/contribute/directly linked through a business relationship) is not static but can change as situations evolve and depending on whether due diligence steps actually decrease the risk of the impacts occurring; and
- Underscore the importance of responsible disengagement, with focus on engaging meaningfully with stakeholders and addressing potential adverse impacts related to disengagement.

The implementation procedures of the Guidelines also now highlight the OECD due diligence guidance as a useful tool to help NCPs understand and promote the Guidelines when handling complaints.

Embedding the key elements of the OECD’s due diligence framework into the OECD Guidelines should strengthen NCPs’ interpretation of the Guidelines in complaints and better justify civil society’s reference to the guidance as a guide for other RBC policy initiatives.

RESPECTING ALL VALUE CHAIN WORKERS’ RIGHTS: The updated Guidelines call on companies to respect the rights of all workers. While the 2011 text focused narrowly on respecting rights of workers “employed by the multinational enterprise”, the updated text makes clear that enterprises should respect the rights of all workers in their value chain. This includes refraining from interfering with all workers' right to join or establish a trade union recognised for collective bargaining.

Enterprises commonly interfere with or ignore the rights of workers in their value chains, including to form unions and collectively bargain. With this updated text, civil society can demand better corporate action and file complaints where enterprises do not meet this expectation.

DUE DILIGENCE OVER IMPACTS RELATED TO SCIENCE AND TECHNOLOGY: The updated Guidelines make clear that enterprises should undertake due diligence over adverse impacts linked to technology and digitalisation. In the 2011 text, a clause exempted enterprises from undertaking due diligence over impacts addressed in the Science and Technology chapter. That clause is now deleted and the renamed Science, Technology and Innovation chapter has been updated to state clearly that in the context of...
development, financing, sale, licensing, trade, and use of technology, including gathering and using data, enterprises should carry out risk-based due diligence over actual and potential adverse impacts related to science, technology, and innovation. While the chapter is still disappointingly piecemeal in how it discusses the range of serious impacts presented by technological developments, the chapter does positively include a disclaimer asserting that, given the evolving and cross-cutting nature of this topic, the chapter's scope is meant to be broad and inclusive to ensure its continued relevance to risks associated with future technological developments.

Civil society can use this updated text to call out failure of enterprises to address - from the conception phase onwards - the potential and actual adverse environmental and social impacts of technology.

POLICY COHERENCE: The updated Preface to the Guidelines promotes policy coherence on RBC issues. While the 2011 text did not mention policy coherence, the Guidelines now identify policy coherence through a smart mix of mandatory and voluntary approaches as a key tool to foster alignment and harmonisation of RBC initiatives. Meanwhile, in a high-level declaration published in February 2023, ministers from 50 adherent governments to the Guidelines reiterated the importance of coherence between global standards and domestic policies on RBC and acknowledged the Guidelines as a leading instrument in this regard. In the declaration, the governments reaffirmed their intention to leverage the Guidelines to promote consistency of business conduct with OECD policy. The updated procedures also outline the many ways NCPs can help their governments promote policy coherence, in particular by supporting the alignment of domestic efforts on RBC with the Guidelines and OECD due diligence guidance.

Civil society can use these texts and government commitments to urge governments to adopt RBC legislation and policies that align with the high standards in the Guidelines.

DOWNSTREAM APPLICATION OF DUE DILIGENCE: The Guidelines now make explicit that enterprises should undertake due diligence over impacts associated with their products and services (i.e. downstream impacts). While the Guidelines’ due diligence expectation has, since its creation in 2011, always been applicable downstream, the updated provisions make that point incontestable. The Guidelines make clear that business relationships covered by due diligence extend beyond contractual, “first tier”, or immediate relationships, and that enterprises can contribute to adverse impacts caused by individual consumers who are natural persons.

Regarding downstream due diligence, the Guidelines clarify that risk-based due diligence should take into account known or reasonably foreseeable circumstances related to both the correct use and improper use or misuse of products or services, which may give rise to adverse impacts.

The Guidelines note that where products are sold or re-sold, it may be important to identify potential impacts and take preventive or mitigating actions prior to and at the point of sale.

Text on downstream due diligence is embedded across the whole of the Guidelines, appearing in the General Policies chapter (applicable across the other issue chapters) and also in the Employment and Industrial Relations, Environment, Consumer Interests, and Science, Innovation, and Technology chapters.

Civil society can use this important, government-backed standard to rebut arguments for a narrower due diligence scope (currently being raised in several jurisdictions) and promote the correct, wide applicability of due diligence to enterprises’ whole value chains.
MULTISTAKEHOLDER INITIATIVES AND CORPORATE DUE DILIGENCE RESPONSIBILITY: The updated Guidelines reframe text on multistakeholder initiatives (MSIs) to make clear that while participation in MSIs can contribute to sustainable development, as emphasised in the 2011 text, MSIs should be credible and transparent and participation does not change the fact that enterprises remain individually responsible for ensuring their due diligence is carried out effectively.

Too often, enterprises rely on MSIs as a tick-the-box for having met their due diligence expectations. This updated text discourages enterprises from participating in an MSI as a form of greenwashing or due diligence stand-in, and gives civil society a tool to counter these claims.

CORPORATE RESPONSIBILITY VIS-À-VIS STATE DUTY: The updated Guidelines underscore the corporate responsibility to avoid adverse RBC impacts irrespective of state action. The 2011 text, like the UN Guiding Principles on Business and Human Rights (UNGPs), made clear with respect to human rights, specifically, that failure of governments to uphold principles and standards consistent with the Guidelines or their associated international commitments does not diminish the expectation that enterprises respect human rights. The updated Guidelines now apply this point to all RBC issues covered by the Guidelines, not just human rights.

Enterprises commonly claim they have no responsibility to improve their own conduct if the state has failed its own duty to establish appropriate laws and regulations, or if the enterprise’s conduct aligns with State policy that does not meet international standards. Civil society can use this text in complaints and direct engagement with companies to clarify that RBC standards persist for enterprises regardless of whether the State has met its duty.

DUE DILIGENCE OVER IMPACTS RELATED TO CORRUPTION: The updated Guidelines now set standards around the prevention of corruption, not just bribery, and seek corporate due diligence over adverse impacts related to corruption. The 2011 text focused narrowly on combating bribery, but the updated Guidelines highlight all forms of corruption as frequent enablers of other adverse impacts. The text now calls on enterprises both not to engage in any act of corruption and to carry out risk-based due diligence over corruption-related adverse impacts as part of their prevention and detection operations.

The additions in the chapter, particularly in highlighting the cross-cutting nature of corruption on other issues raised in the Guidelines, strengthen civil society’s ability to demand that companies address the impacts associated with corruption in their own practices, as well as their business relationships’ practices.

COVERAGE OF ANIMAL WELFARE: For the first time ever, the Guidelines address corporate responsibility around animal welfare. The 2011 text did not discuss animal welfare. Now, the updated Environment chapter calls on enterprises to respect international animal welfare standards and describes “good welfare” as requiring, among other things, that the animal is healthy, comfortable, and well nourished, provided a stimulating and safe environment, ensured humane handling, and subjected only to humane slaughter or killing.

Animal welfare has not consistently been considered an RBC issue. The new additions make clear that respecting animal welfare is part of due diligence and necessary to ensure RBC. The text allows civil society to file complaints to NCPs and engage directly with enterprises regarding their failure to ensure, through due diligence, good animal welfare for animals in their value chains.
Key gains in the implementation procedures for governments

While the updates to the standards are generally strong, OECD Watch is concerned that the changes in the implementation procedures for governments may not result in meaningful change to NCPs. While the Procedures now give more examples and recommendations of what good practice by NCPs entails, governments are still given broad flexibility in establishing and running their NCP.

Of particular concern, the OECD failed to require or even encourage NCPs to issue determinations (compliance evaluations) on whether or not enterprises aligned their conduct with the Guidelines, or recommend that other ministries apply consequences (penalties) to companies that do not engage in good faith in the specific instance process. The OECD made only minor improvements to strengthen expectations on transparency, and it did not limit the organisational models governments may adopt for their NCPs to those shown to be most effective in handling complaints. These and other long-standing priorities of OECD Watch were not adopted. As is, extensive campaigning will be needed to push individual governments to adopt the new recommendations made in the procedures. Meanwhile, ongoing underperformance by NCPs would continue to hobble the effectiveness of the Guidelines, underscoring the need for effective binding legislation on RBC.

Within the updated procedures, OECD Watch sees a few updates that may be of use to civil society:

CLARIFIED MANDATE AND PERFORMANCE EXPECTATIONS: The updated Procedures more clearly describe NCPs’ dual mandate to promote the Guidelines and help resolve disputes. The updated Guidelines also make clear that NCPs’ chief responsibility is not merely to achieve functional equivalence with other NCPs (which could allow equivalence at a mediocre level) but instead to implement their dual mandate, in a manner that “fully meets” updated “core effectiveness criteria” of visibility, accessibility, transparency, accountability, impartiality and equitability, predictability, and compatibility with the Guidelines. Governments are called to give NCPs sufficient resources to be able to accomplish their mandate in a manner fully meeting the core criteria. While the criteria themselves are largely the same as in the 2011 text, the updated text generally gives more detailed and improved guidance on what is expected of NCPs to meet these criteria.

Civil society can use these updates to monitor and assess whether governments are adequately resourcing their NCPs to fulfill their dual mandate while fully meeting the core effectiveness criteria.

HEIGHTENED EXPECTATION OF ENGAGEMENT WITH STAKEHOLDERS: The procedures raise the requirement for NCPs to establish and maintain meaningful relations with civil society, among other stakeholders, including by encouraging NCPs to, for example, establish multistakeholder advisory bodies and consult stakeholders on their case-handling procedure and before significantly changing their institutional arrangement.

Many NCPs do not regularly or effectively engage civil society expertise in fulfilling their dual mandate. The updated Procedures give civil society grounds for expecting more regular and meaningful interaction with all NCPs of focus for them.

CLARIFIED STANDARDS FOR COMPLAINT OUTCOMES: Despite OECD Watch’s advocacy, the term “remedy” still does not appear as a primary reason for NCP complaint handling. However, several positive updates have been made with respect to complaint outcomes:
The updated Guidelines emphasise that the role of the NCP includes supporting commitments by enterprises to both further the implementation of the Guidelines in the future and, where relevant, address, in accordance with the Guidelines, adverse impacts that may have occurred.

NCPs are expected to use their expertise to help ensure that solutions reached through the complaint process are "Guidelines-compatible", which includes compatibility with expectations for enterprises to respect human rights and contribute to remediation wherever called for.

The updated Guidelines allow NCPs to ask the OECD secretariat and OECD Working Party on Responsible Business Conduct (WPRBC) for help interpreting the Guidelines during complaint-handling, which could improve and promote more coherence across interpretation by different NCPs, strengthening accountability and predictability of the system.

The Guidelines also make clear that follow-up on complaint outcomes should almost always occur.

Civil society can use these updates to seek broader scope for complaint handling (including coverage of past impacts), stronger interpretation of the Guidelines by NCPs, and more proactive solicitation, by the NCP itself, of the enterprise’s commitment to addressing its impacts and improving its conduct moving forward.

TOOL FOR ADDRESSING NON-FUNCTIONING NCPS: The updated Guidelines introduce a new tool for the WPRBC to critique and issue recommendations to NCPs that have “manifestly not been operating in a way consistent with the Procedures.” Examples of inadequate conduct are provided and include having inadequate resourcing, demonstrably inadequate institutional arrangements, and repeated and significant undue delays in complaints.

Through OECD Watch, as the representative of civil society to the WPRBC, civil society can use this new text to urge the WPRBC to recommend better performance by NCPs that are seriously underperforming.

Standards areas needing further guidance

In at least a couple areas, the updates fall short of civil society expectations either by not meeting international standards, or significantly failing to guide companies in the practical implementation of the standards.

Improved guidance needed on corporate engagement with groups experiencing vulnerability or marginalisation, especially Indigenous Peoples, human rights defenders, women, and others.

Incorrect and incomplete guidance on respecting the rights of Indigenous Peoples: The updated Guidelines call on enterprises to pay special attention during due diligence to adverse impacts on individuals who may be at heightened risk, including Indigenous Peoples, and note that OECD due diligence guidance provides further practical guidance, including in relation to free, prior, and informed consent (FPIC). The new Guidelines also refer, in the Human Rights chapter, to the UN Declaration on the Rights of Indigenous Peoples (UNDRIP) and, in the Environment chapter, to the International Finance Corporation (IFC) Performance Standards. While, on the whole, these additions improve the 2011 text, they fail to acknowledge Indigenous Peoples’ collective rights, and provide inadequate guidance on what enterprises must do to respect the right to FPIC and other key rights.
Incomplete guidance on respecting the rights of human rights defenders: The updated Guidelines incorporate new text on reprisals in both the standards and implementing Procedures. While strong in many ways, these updates leave out key elements, including explicit reference to “human rights defenders” in the new text on reprisals, reference to the UN Declaration on Human Rights Defenders, focus on reprisals by States that may not be business relations but are undertaking reprisals for the benefit of companies, and guidance for enterprises on what steps need to be taken to promote safe space.

Failure to address gender issues: Despite civil society and government interest in gender issues, the updated Guidelines do not expand emphasis on, or guidance about, the gender-specific impacts of business, aside from by indirectly including brief new text on intersectionality, and by mentioning the word “gender” twice in the Employment and Industrial Relations and Corruption chapters.

The shortcomings in these areas highlight the need for detailed guidance from the OECD on how enterprises should undertake due diligence vis-à-vis people, including guidance on how to engage rightsholders, especially those experiencing marginalisation or vulnerability, in the due diligence process, and how to identify and effectively address adverse impacts to their rights. OECD Watch calls on the OECD to develop new guidance in this area through an inclusive and consultative process.

IMPROVED GUIDANCE NEEDED ON DUE DILIGENCE TO ADDRESS IMPACTS RELATED TO TECHNOLOGY: While the updated Guidelines do call for due diligence over adverse impacts related to digitalisation, the Science, Technology, and Innovation chapter provides little elaboration on the range of serious impacts presented by technological developments. Given the increasing dominance of technology companies in the economy and the widespread digitalisation of all companies, services, and product development processes, detailed guidance is needed from the OECD on how enterprises should identify and address adverse impacts in this area.

Role of OECD Watch in the “targeted update” process

OECD Watch is recognised by the OECD Investment Committee and WPRBC as the representative of civil society. In that capacity, OECD Watch was invited to provide recommendations to governments to support their two-and-a-half-year process to update the Guidelines. Starting in 2019, OECD Watch consulted extensively with global civil society on priority topics to promote in connection with the update. Through these consultations and its own experience advising on complaints to NCPs, OECD Watch developed policy briefs to guide its advocacy with the OECD and individual governments on key topics. OECD Watch also called for and helped support civil society engagement in two public consultations held by the OECD to inform the update process. OECD Watch also made numerous written submissions and oral submissions on priority issues during non-public consultations with the WPRBC. OECD Watch did not “negotiate” the text; States retained the prerogative to negotiate updates and amendments. OECD Watch made recommendations on which texts to update, and how to update them.
Conclusion

The “targeted update” of the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct has resulted in standards that are, on the whole, improved. Key improvements address a range of issues, from expectations on due diligence over climate change impacts, to the improvement of engagement with stakeholders, to clarification of the downstream application of due diligence. Updates in the procedures are weaker, still leaving governments too much flexibility in the establishment and functioning of their NCP.

Moving forward, we urge the OECD to issue improved guidance respecting the rights of Indigenous Peoples, human rights defenders, women, and other rightsholders facing vulnerability and marginalisation, and on addressing the adverse impacts of technology and digitalisation.

OECD Watch appreciates the OECD’s open engagement with its three stakeholder representative bodies (OECD Watch, Business at OECD, and the Trade Union Advisory Committee) as well as with broader civil society during the update process.