Report on the official HLPF side event: "Spillover effects, sustainable supply chains and SDG 9"

On 13 July 2023, SDSN Germany, in partnership with its member organisation VENRO (Association of German Development and Humanitarian Organisations), SDSN UK, UNIDO (United Nations Industrial Development Organization) and the Permanent Mission of Ethiopia to the United Nations, hosted an official side event at the High-Level Political Forum on Sustainable Development (HLPF) in New York. Titled "Spillover effects, sustainable supply chains and SDG 9", the event focused on negative spillover effects and the challenges faced by governments, companies and other social actors in designing sustainable supply chains. The overall key message was that negative spillover effects can only be reduced by taking into account the different perspectives of affected countries, policy coherent governance strategies, solutions for the data challenges as well as global dialogues and multilateral partnerships.

After a welcome by **Ambassador Tesfaye Yilma Sabo** (Permanent Mission of Ethiopia to the United Nations) and introductory words by **Ralf Bredel**, Head of the UNIDO Office in New York, moderator **Axel Berger** (SDSN Germany) gave the floor to the panel experts. The panel included **Ilka Hirt** (German Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection), **Graham Long** (Newcastle University), **Carlo Mario Franchini Irujo** (Peruvian Ministry of Production), **Karen Björk Eyþórsdóttir** (Office of the Prime Minister of Iceland), **Amanda Archila** (Fairtrade America) and **Ana Maria Suarez Franco** (FIAN International). Further details about the speakers can be found in the programme.

It was emphasised that negative spillover effects, understood as undesired effects from the actions of one country towards another, have existed for a very long time, but are becoming increasingly important for the international discussion on accelerating the implementation of the 2030 Agenda. These include, for example, the outsourcing of emission-intensive production processes, exports of hazardous pesticides and waste, the demand for raw materials whose cultivation and extraction endanger local biodiversity, or poor labour standards and low wages in international supply chains. This is a global problem that cannot be tackled at the national level alone. The first step is to highlight the importance of negative spillover effects and to build international consensus that overcoming them is a very important factor in achieving the Sustainable Development Goals (SDGs) . For too long, spillover effects have not been taken into account in the review of the SDGs. This must be made clearer in the national, European and international debate and efforts to reduce them must be increased. Existing measures, laws and legislative proposals are not yet sufficient at all levels. In addition, more policy coherence and complementary instruments are needed to address this challenge.

A positive example is that Germany intends to include the topic in its national sustainability strategy and is pushing the promotion of green tech companies and innovative environmental technologies within the framework of international cooperation on "positive" spillover effects. Other high-income countries such as Iceland are also setting a positive example and striving to improve the knowledge base on negative spillover effects that is necessary for political action. For example, the University of Iceland was commissioned to conduct a study that resulted in four clear recommendations to reduce negative spillovers: Governments need a clear vision and a sound action plan, there needs to be a better understanding of the challenges through research, general consumption needs to be reduced and international cooperation in this area is central. Positive steps at the EU level were also emphasised: work is being done on measures that promote sustainable trade relations and environmental policy in equal measure. Examples of this are the law to combat global deforestation and forest degradation resulting from production and consumption in the EU and the EU regulation on batteries and spent batteries.

However, even if there are already legal provisions on due diligence in some sectors and the *Corporate Sustainability Due Diligence Directive* proposed by the European Commission is being implemented, this is not yet sufficient. It must be ensured that there are no exceptions or loopholes for companies, that injured parties can successfully sue for damages, and that the participation of those affected is already guaranteed in the drafting process, but also in the implementation process. Only through the latter is it possible to develop truly effective and sufficient solutions.

For this reason, an intergovernmental working group set up by the UN Human Rights Council is currently working on the development of an internationally legally binding instrument to regulate companies and their value chains worldwide - based on the experience and active involvement of the countries concerned. The instrument should aim to ensure prevention, liability, corporate accountability and intergovernmental cooperation along value chains, including by clarifying their human rights obligations. Policy and regulatory efforts to date have not only been largely national, but in most cases voluntary, with a significant asymmetry between the rights granted to companies in trade and investment agreements and the lack of effective enforcement of human rights, especially beyond their own national borders. Relying only on self-regulation by the private sector runs the risk of "green-washing". This is why a good mix of government regulations and a system that incentivises social justice and environmental sustainability, rather than just economic efficiency and competitiveness, is needed. It is also important to ensure that regulations, in areas such as deforestation, are actually implemented and controlled without burdening local people. The experts agreed that industry is part of the problem when it comes to negative spillover effects, but that it is also part of the solution. In order to accommodate them, it is important to involve them at an early stage.

Another important aspect is that often countries particularly affected by negative spillover effects strive to improve their industrial competitiveness. However, the manufacturing sectors are often unable to meet the new, improved international environmental standards. Therefore, there is a need for better technical cooperation and more financial support between the countries affected by negative spillover effects and the countries developing the standards. Together, a halfway point between the level of requirements and the adaptation time has to be found for the respective countries. In addition, there is a need to provide trade defence instruments and to regulate exemptions where necessary, always taking into account the differences between high-income and low-income countries in their willingness to comply with the new standards. In this context, the close link between SDG 9 on industry, innovation and infrastructure and SDG 8 on promoting decent work for all, inclusive and sustainable economic growth and full and productive employment, and SDG 12 on ensuring sustainable consumption and production patterns, was underlined.

Finally, in order to reduce negative spillover effects, existing data gaps would have to be closed quickly. It is true that only what can be measured can be regulated. In addition, it is also important to measure what is already regulated in order to check whether existing regulations make sense - but there is too little data for both. The spillover index is a good first indication, but could be expanded. A new indicator on modern slavery was a positive development, but overall political and social indicators were too weak compared to environmental indicators. In these areas, spillover effects are particularly difficult to measure, which is why there is an urgent need for more research on them. Data reliability must be improved and statistical capacities expanded worldwide, also through creative and alternative data collection methods.

SDSN Germany would like to thank all partners for the positive and productive cooperation and will continue to work on this topic.