OKPABI V. SHELL AND NESTLE USA V. DOE:
TREND AND DIVERGENCE ON PARENT COMPANY LIABILITY FOR HUMAN RIGHTS ABUSE IN THE UNITED KINGDOM AND UNITED STATES

Ben Ye*

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I. INTRODUCTION

On February 12, 2021, the U.K. Supreme Court decided Okpabi v. Royal Dutch Shell [2021] UKSC 3, holding that the Nigerian claimants have an arguable case in common law negligence against a British parent company for its control and management of its Nigerian subsidiary, which allegedly caused environmental damage and human rights abuses in Nigeria. By contrast, on 17 June 2021, the U.S. Supreme Court decided Nestle USA, Inc. v. Doe, 141 S. Ct. 1931 (U.S. 2021), its latest decision concerning the Alien Tort Statute (“ATS”), 28 U.S.C. § 1350. The Court held that U.S. federal courts lack jurisdiction under the ATS over U.S.-based corporations whose general corporate conduct within the United States were alleged

* LLM Candidate, New York University School of Law. Fulbright Scholar, Hauser Global Scholar. I am grateful to Alejandra Sanchez for her editorial assistance. All errors are my own.
to have aided and abetted their subsidiaries to commit human rights abuses abroad.

The decisions demonstrate divergent approaches by two of the most significant common law jurisdictions for business and human rights litigation. This commentary explores the implication of these decisions on parent company liability for human rights abuses. Parent company liability refers to the civil liability of a parent company under the law of the parent company’s domicile arising out of human rights violations caused by activities of the company’s foreign subsidiary.

Parent company liability is an important tool for victims of human rights abuses by transnational corporations. Transnational corporations are often structured to compartmentalize liability risk of human rights violations that occur overseas within the sphere of an often impecunious foreign subsidiary not subject to the jurisdiction of the parent’s domicile. Parent company liability allows the entity that bears the ultimate responsibility to be held accountable. Litigation against the parent can more effectively change behavior within the entire corporate group and provide compensatory remedies from the entity that is not stripped of assets. Furthermore, parent companies can serve as anchors that enable claimants to litigate against foreign subsidiaries as co-defendants in a domestic court.

This commentary begins by summarizing the two decisions and outlining their significance within their respective domestic contexts. It then compares the divergence in approaches towards parent company liability within the United Kingdom and the United States. Finally, it discusses the decisions’ effects in the broader context of business and human rights compliance.

3. Id.
II. UNITED KINGDOM: OKPABI v. SHELL.

A. Facts and Background

In 2015, a group of Nigerian individuals commenced proceedings in the English High Court against the Shell Petroleum Development Company of Nigeria Ltd (SPDC), a Nigerian registered company, and its U.K.-domiciled parent, Royal Dutch Shell Plc (RDS). The claimants alleged that SPDC, in its capacity as operator of oil pipelines and related infrastructures in the vicinity of the claimants’ community, was negligent in causing oil spills, which led to widespread environmental damage that was not remedied. The claimants further alleged that RDS, in its capacity as the parent company, owed and breached the common law duty of care through its significant control over material aspects of SPDC’s operations and/or the assumption of responsibility for SPDC’s operations.

Under English law, English courts may only exercise jurisdiction over a company domiciled outside of the jurisdiction if it was a “necessary or proper party” to a suit against a company domiciled within the jurisdiction. Therefore, for the claimants to establish jurisdiction over SPDC, they had to show that their claims against RDS raised a real issue to be tried, for which they had a real prospect of success. In other words, as a preliminary matter, the claimants’ proceedings against SPDC could only progress before an English court if they could establish an arguable case of parent company liability against RDS.

The claimants obtained leave to serve SPDC outside the jurisdiction, but RDS and SPDC challenged jurisdiction and sought to set aside service on SPDC. The High Court concluded that the claimants could not reasonably argue that RDS owed any duty of care towards them. Without merit in the claim against RDS, SPDC was not a “necessary or proper party”

5. Id., at [4]–[5].
6. Id., at [7].
and service was set aside. A majority of the Court of Appeal affirmed.⁹

B. The Supreme Court

Prior to granting permission to appeal, the U.K. Supreme Court delivered judgment in *Lungowe v. Vedanta Resources plc.*¹⁰ It held that “the liability of parent companies in relation to the activities of their subsidiaries is not, of itself, a distinct category of liability in common law negligence,” and that the existence of the duty depends on “the extent to which, and the way in which, the parent availed itself of the opportunity to take over, intervene in, control, supervise or advise the management of the relevant operations . . . of the subsidiary.”¹¹ *Okpabi* presented an opportunity for the Supreme Court to further elaborate its jurisprudence on parent company liability in two ways.

First, the Supreme Court provided guidance on procedural aspects of these claims. It unanimously held that in jurisdictional challenges concerning service of a foreign corporate subsidiary defendant, the court should focus on the pleaded case and its particulars in order to determine whether a claim for parent company liability is arguable.¹² The factual assertions made by the plaintiffs should be accepted unless they are demonstrably untrue in exceptional circumstances.¹³ Therefore, by receiving voluminous documentary and oral evidence and being drawn into an evaluation of evidence and finding of fact, the High Court and the Court of Appeal impermissibly conducted a mini-trial.¹⁴ Through the affirmance of *Vedanta’s* observation that whether a parent company had sufficiently intervened in the management of the subsidiary was a “pure question of fact,”¹⁵ the Supreme Court observed that the final resolution of whether parent company liability may be argued can only occur at the final hearing, after due disclosure is

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¹¹. Id., at [49].
¹². Okpabi, [2021] UKSC 3 at [103], [109].
¹³. Id., at [107]. Compare this with the approach in the United States, where on a motion to dismiss for want of jurisdiction the factual allegations in the complaint are accepted as true.
¹⁴. Id., at [111], [120].
given by parties.\textsuperscript{16} In other words, provided that the claimants have pleaded the case sufficiently, it is difficult for defendants to dismiss the claim at an interlocutory stage.

Second, the Supreme Court found, through the allegations pleaded by the claimants and examination of internal documents so far disclosed, that it was reasonably arguable that RDS owed parent company liability over SPDC’s activities.\textsuperscript{17} Emphasis was also placed on the extended responsibilities of senior management of RDS, including environmental responsibilities, over the entire group’s activities.\textsuperscript{18} The focus of the inquiry should be the de facto management of the relevant activity that caused the harm, rather than de jure control which can be retained by the subsidiary.\textsuperscript{19} It was insufficient for the defendants to simply refer to their separate corporate personalities as an argument against the duty.

As the claimant’s case against RDS was reasonably arguable, SPDC was a necessary and proper party to the proceedings. The Supreme Court thus allowed the appeal and remitted the matter for further proceedings.

III. \textbf{UNITED STATES: NESTLE V. DOE}

A. \textit{Facts and Background}

In 2005, a group of six Malian nationals commenced proceedings against several companies within the Nestle and Cargill groups in the Central District of California, alleging that they were trafficked into Côte d’Ivoire as child slaves to produce cocoa which was purchased by Nestle and Cargill. The relevant complaint named several defendants. Within the Nestle Group, the complaint named Nestle SA, the parent company based in Switzerland; Nestle USA, a wholly owned subsidiary based in the United States; and Nestle Côte d’Ivoire SA, a subsidiary based in Côte d’Ivoire that processes cocoa beans for export globally, including to Nestle USA.\textsuperscript{20} Within the Car-

\begin{itemize}
  \item \textsuperscript{16} Okpabi, [2021] UKSC 3 at [132]–[138].
  \item \textsuperscript{17} Id., at [153].
  \item \textsuperscript{18} Id., at [157]–[158].
  \item \textsuperscript{19} Id., at [147].
\end{itemize}
gill group, the complaint named Cargill Inc., the parent company domiciled in the U.S., and Cargill West Africa SA, a subsidiary domiciled in Côte d’Ivoire which processes and exports cocoa beans supplied by farms in Côte d’Ivoire.\footnote{21. Id., at *23, *25.}

None of the defendants were alleged to operate the farms directly. Instead, the complainants alleged that by purchasing cocoa from, and providing technical and financial resources to those farms, the defendant companies aided and abetted child slavery in Côte d’Ivoire. This, according to the complainants, brought the defendant companies within the reach of the federal court’s jurisdiction under the ATS.\footnote{22. The ATS grants district courts “original jurisdiction of any civil action by an alien for a tort only, committed in violation of the law of nations or a treaty of the United States”.}

Since its revival in 1980,\footnote{23. Filartiga v. Peña-Irala, 630 F.2d 876 (2d Cir. 1980).} the ATS has become a “lynchpin of international human rights activism”\footnote{24. Developments in the Law - Extraterritoriality, 124 Harv. L. Rev. 1226, 1233 (2010).} utilized by foreign plaintiffs to sue foreign defendants in U.S. federal courts for human rights abuses suffered outside the United States.\footnote{25. Notes - Clarifying Kiobel’s Touch and Concern Test, 130 Harv. L. Rev. 1902, 1902 (2016).} In recent years, however, the Supreme Court has narrowed the ATS’s reach. In Sosa, the ATS was limited only to allegations of violations of international law norms that are “specific, universal, and obligatory.”\footnote{26. Sosa v. Alvarez-Machain, 542 U.S. 692, 732 (2004).} In Kiobel, the Court held that the presumption against extraterritoriality applies to the ATS and a plaintiff can only utilize the ATS if the claim “touches and concerns” the United States.\footnote{27. Kiobel v. Royal Dutch Petroleum Co., 569 U.S. 108, 124 (2013).} In Jesner, the Court held that foreign corporations are not subject to a district court’s jurisdiction under the ATS.\footnote{28. Jesner v. Arab Bank, PLC, 138 S. Ct. 1386 (2018).}

After the Supreme Court’s judgment in Kiobel, the District Court dismissed the complaint in Nestle on the basis that it impermissibly applied the ATS extraterritorially because the claimants’ injuries occurred overseas and the only domestic conduct of the defendants alleged in the complaint was “gen-
eral corporate activities.” While the suit was on appeal, the Supreme Court decided Jesner. The Ninth Circuit thus dismissed all foreign corporate defendants but held that the alleged financing decisions originated in the United States by U.S. companies, satisfying the requirement for sufficient domestic conduct under Kiobel.

B. The Supreme Court

In a fractured opinion, the Supreme Court held that the plaintiffs’ pleaded assertion that “every major operational decision by both companies is made in or approved in the U.S.” cannot alone establish domestic application of the ATS. Characterizing these activities as “general corporate activities,” the Court found an insufficient connection between the conduct and the alleged aiding and abetting of forced labor overseas. The Court disregarded the pleaded allegation that the U.S. defendants had “complete control” over the operations in Côte d’Ivoire with actual knowledge of the violation through their employees’ routine inspection of the farms in Côte d’Ivoire. The Court also paid no regard to the allegations that the subsidiary defendants exercised substantive oversight over the farms through exclusive supplier relationships; maintained a continued presence on cocoa farms; and provided training, financial, and technical support to those farms. The Supreme Court reversed the judgment and remanded.

IV. Parent Company Liability After Okpabi and Nestle

Commentators have hailed Okpabi as a win for parent company liability and criticized Nestle as a setback. More
importantly, Okpabi and Nestle demonstrate a further divergence of the approach towards parent company liability and business and human rights regulation in three key areas.

A. Existence of the Duty

First, the two jurisdictions diverge on the availability of parent company liability as a cause of action. Vedanta and Okpabi firmly establish that a parent company may owe a duty of care to those who are reasonably likely to be affected by the actions of its foreign subsidiaries. The existence of that duty should be assessed under ordinary principles of tort law.

By contrast, the availability of parent company liability as a possible cause of action to attract jurisdiction under the ATS in the United States is doubtful. Sosa suggests that though the ATS does not itself create causes of action, courts may exercise common law authority to create private rights of action in limited circumstances. In Nestle, by resolving the case on extraterritoriality grounds, the Court sidestepped the question of whether aiding and abetting forced labor overseas can be recognized as a private right of action in torts enforceable under the ATS.

Nevertheless, Justice Thomas, joined by Justices Gorsuch and Kavanaugh, went on to state that “federal courts should not recognize private rights of action for violations of international law beyond the three historical torts identified in Sosa.” This conclusion received some tacit support from Justice Alito. Therefore, a near-majority of the Supreme Court appears ready to foreclose the possibility for judicial recognition of any new causes of action under the ATS in absence of legislative intervention, even if parent company liability becomes a “specific, universal, and obligatory” norm of interna-


37. Sosa, 542 U.S. at 724. The three causes of actions are violation of safe conduct, infringement of the rights of ambassadors, and piracy.

38. Nestle, 141 S. Ct. at 1936.

39. Id., at 1939.

40. Id., at 1951.
tional law or is recognized by “a treaty of the United States.”

B. Scope of the Duty

Second, even if an action for parent company liability remains available under the ATS, the scope is more limited. Through Vedanta and Okpabi, the U.K. Supreme Court accepted a wide scope of the duty by refusing to lay down stringent criteria for identification of the duty. Instead, it favored a broader analysis considering the extent of the parent’s ability to control the subsidiary’s operation in question. A duty arises not only from actual control by the parent, but also when the parent sets down group-wide policies and guidelines and portrays itself to third parties as exercising close control of its subsidiaries. In Okpabi, the claimants established an arguable case for the duty on the basis of RDC’s group-wide policy, senior management’s responsibility over environmental matters of the entire group, and the close structure within the group of companies.

In Nestle, however, the Court left ambiguous the scope of “general corporate activities” insufficient to satisfy jurisdiction under the ATS. The operative pleading alleged that the U.S. defendants provided farms in Côte d’Ivoire with technical and financial resources in return for an exclusive buyer-seller relationship and maintained a continuous presence of personnel from U.S. headquarters on the farms, imputing actual knowledge of the alleged abuse. Nevertheless, they were dismissed by the Court as “operational decisions,” the making of which are “an activity common to most corporations.” This is a concerning development of the law, the consequence of which

41. Cf. Sosa 542 U.S. at 724. This could happen when, e.g., the duty to enforce parent company liability has crystalized into a customary norm of international law.
42. See 28 U.S.C. § 1350. See also note 59 on the development of a business and human rights treaty.
44. See, e.g., Chandler v. Cape plc [2012] EWCA Civ 525 (appealed from Eng.).
46. Complaint, supra note 20, at *44.
47. Nestle 141 S. Ct. at 1937.
will be to remove incentives for U.S. corporations to take corrective action upon discovery that their offshore activities may amount to human rights violations.48

The Court did not address other allegations in the Nestle complaint that the U.S. companies had established guidelines on corporate social responsibility within their group and had portrayed themselves to be diligent in ensuring respect of human rights within their supply chains.49 It is likely that such allegations, compounded with the allegation of actual knowledge, would have been sufficient to establish a case for parent company responsibility under the Okpabi framework had the suit been brought in the United Kingdom. However, there is a real possibility that a U.S. court would regard these actions of the parent as “general corporate activities” insufficient to trigger jurisdiction under the ATS.

C. Reaching Foreign Corporations

Lastly, Okpabi reaffirms the ability of plaintiffs in the United Kingdom to use parent company liability to bring foreign corporations under the jurisdiction of U.K. courts, though assertions of parent company liability do not, by themselves, guarantee that foreign subsidiaries will be joined. In Vedanta and Okpabi, the U.K. Supreme Court left open the possibility for other jurisdictional challenges to be raised in suits against foreign corporations.

This pathway to jurisdiction is unavailable in the United States. Indeed, all foreign defendants in the Nestle proceedings were dismissed by the Ninth Circuit after Jesner was decided. Thus, under the ATS, plaintiffs in the United States lack the ability to reach a foreign corporation through litigation against a domestic corporation as an “anchor.” Plaintiffs must revert to more general pathways to establish jurisdiction over a foreign corporation. But, as most foreign subsidiaries are deliberately set up to compartmentalize legal risks arising from their operations within the foreign jurisdiction,50 it can be nearly impossible for foreign plaintiffs to establish that a foreign subsidiary is “at home” within the United States so as to

48. Desierto & Song, supra note 36.
49. Complaint, supra note 20, at [51]–[61].
50. Weber & Baisch, supra note 1, at 671.
be subject to a court’s general personal jurisdiction,\(^{51}\) or that a foreign subsidiary is subject to specific personal jurisdiction due to the injury it caused within the United States.\(^ {52}\) Therefore, unless another specific provision of jurisdiction applies,\(^ {53}\) foreign companies are effectively immune from human rights litigation for their actions outside the United States.

V. Broader Consideration and Outlooks

With their differing approaches in the existence, scope, and reach of causes of action concerning parent company liability, it is apparent that parent companies domiciled in the United Kingdom are more exposed to litigation risk over human rights violations of their foreign subsidiaries than are their U.S. counterparts. Victims have more possibilities to pursue U.K. parent companies after the recognition in *Vedanta* and *Okpabi* that corporate policies on human rights and representations made to the public of a company’s commitment to corporate social responsibility may give rise to a duty of care. Furthermore, these cases indirectly strengthen the effect of mandatory reporting legislation such as the Modern Slavery Act 2015 (UK), which requires U.K. corporations to report their human rights due diligence efforts over their operations and supply chains.\(^ {54}\) These mandatory reporting legislations have been criticized as ineffective, unenforceable, and simply a “tick-box” exercise for companies.\(^ {55}\) But with growing expectations from investors, civil society, and regulators for companies to effectively discharge their reporting obligations,\(^ {56}\) and the possibility that the reports and disclosures made by companies can be used to establish a duty of care, there can be a real

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53. See also Fed. R. Civ. P. 4(k)(1)(C) and 4(k)(2).
incentive for companies to address potential human rights abuses conducted by their foreign subsidiaries.

Similar opportunities for human rights abuse victims are currently unavailable within the United States. Nestle endorses a broad conception of “general corporate activities” that encapsulates the extensive activities and knowledge of Nestle and Cargill as alleged in the pleadings. It is, therefore, questionable whether any conduct of a U.S. parent company can trigger jurisdiction under the ATS. Furthermore, it is possible that the Supreme Court will foreclose any new causes of action under the ATS besides those recognized in the eighteenth century. Absent congressional intervention, parent company liability actions and human rights litigation under the ATS may be unavailable.

This status quo places the United States at odds with trends in other developed countries and developments in international human rights law, as demonstrated in the non-binding U.N. Guiding Principle on Business and Human Rights and the most recent draft of a binding treaty regulating business activities and human rights. There is an emerging recognition that the state’s duty to protect human rights extends to effective regulation of corporations domiciled in their territory or under their jurisdiction. Judicial decisions such as Okpabi arguably constitute state practice contributing to an emerging customary international law norm of a similar effect.

Given the many multinational corporations domiciled in the United States and the extent of their abilities to facilitate corporate social responsibility of their foreign subsidiaries, much can be gained by recognition of parent company liability in U.S. federal laws. Due to the Supreme Court’s jurisprudence, statutory recognition of parent company liability and


creation of a cause of action for breaching that duty may be beneficial. This statutory intervention need not require extraterritorial overreach because the primary subjects of the legislation remain domestic parent companies. Through legislation codifying a duty to exercise due diligence in control over the activities of the subsidiaries, victims of human rights abuses may litigate against the parent directly, without necessarily joining the subsidiaries as co-defendants. Given the control of the domestic parent over the operations of the entire corporate group and the availability of assets for compensation, the inability to litigate against foreign subsidiaries is an appropriate compromise in exchange for effective access to remedy against the parent company.

VI. Conclusion

The progress in Okpabi and the setback in Nestle demonstrate significant divergence in the approaches towards parent company liability and corporate responsibility for human rights in two major common law jurisdictions. The era of ATS as the lynchpin of international human rights activism has passed. Congressional intervention is required to bring the United States back in line with other developed nations in its regulation of corporate social responsibility.