Sustainable Procurement

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Minimal Sustainability Criteria for Sustainable Procurement Processes

Draft for Public Review v0.4

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Recommendation n xx: Establishment of Minimal Sustainability Criteria for Sustainable Procurement Processes

Introduction
The importance of public opinion in buying goods from- or trading business with- socially responsible companies is becoming a strong business-selection criterion. It is also a reason why those companies that do not fulfill the criteria of environmental and social sustainability are being heavily hit with negative brand reputation.

Sustainable procurement is a process by which public authorities or private corporations seek to achieve the appropriate balance between financial, environmental and social considerations when procuring goods, services or works at all stages of the value transformation cycle, taking into account their costs through the entire life-cycle. Such considerations pertain, for instance, to the respect of core labor and safety standards in the production process, and the energy efficiency performance and innovative characteristics of the purchased products.

Demonstrating compliance with sustainability considerations may introduce however additional administrative burdens to trade across border, particularly for small-medium enterprise suppliers when, participating in international tenders, are requested to proof compliance with specific environmental and social regulations, norms and standards. It becomes therefore relevant to facilitate these companies in their compliance with these sustainability matters.

Purpose
The purpose of this document is to identify policies, standards and good practices for sustainable procurement, and their impact on trade facilitation.

The document also identifies common requirements and provides recommendations as to their use in such a way to minimize administrative burdens and facilitate cross border trade and access of transition and developing economies to procurement opportunities worldwide, in line with both the WTO Government Procurement Agreement and the WTO Trade Facilitation Agreement.

Scope
The document collects best practices that provide guidance and support for financially sound, environmentally sustainable and socially responsible procurement in business-to-government (B2G) and business-to-business (B2B) transactions.

Benefits
The adoption of sustainability criteria for sustainable procurement processes will bring the following benefits to a country:

- Simplify the exchange of information and data once compliance is ensured;
- Enable fast transfer of certificates;
- Allow for electronic smooth tendering;
- Support the legal validity of the documents exchanged;
- Streamline the procedures between the contracting entity and the tenderer.

Recommendation
The project team anticipates to interested parties- corporations and policy makers- that the paper will strongly recommend the following actions:

- That the selection of responsible suppliers can only be effective when collaboration exists between different stakeholders along the supply chain;
• That a certain level of tolerance must be accepted to facilitate buyers and suppliers in
  the co-creation of indicators and benchmarks for sustainability;

• That typical vendor evaluation criteria (e.g., price, quality compliance, delivery
times) must be integrated with indicators in environmental assessment and social
  security;

• That sustainable procurement processes must be integrated with ethical standards
  (e.g., Social Accountability, Occupational Health and Safety Assessment);

• That any form of trade limitation justified by sustainability needs must be avoided.
  Sustainability is not to be used as a tool for limiting free market competition and
  concurrence dynamics.
Guidelines for Recommendation xx on the establishment of Minimal Sustainability Criteria for Sustainable Procurement Processes

Introduction

Sustainable procurement can be defined as “(...) a process whereby organizations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organization, but also to society and the economy, whilst minimizing damage to the environment”. ¹

Sustainable procurement is rapidly increasing, as international, regional and national entities are establishing ambitious policy objectives in this regard. In the European Union for example, where public procurement amounts to 17% of countries’ GDP on average, Member States have been required to achieve a share of 50% of public tenders including environmental criteria in more than 20 priority product and services categories, including lighting, textile, food, paper, office building design construction and management.

The facilitation of international sustainable procurement practices looks at how procedures and controls governing the movement of goods across national borders can be improved to reduce associated costs and maximize efficiency, while safeguarding legitimate regulatory objectives.

Finding a set of minimal sustainability criteria is a crucial goal for simplifying the compliance procedures at a global level, where market forces maximize their synergies engaging simultaneously multinational companies and SMEs.

1. Differences between private and public sector procurement

Public organizations rely on national or local governments for funding. This means they have little control over the procurement cycle because they have to wait for the funding institutions to collect tax revenue and disburse funds. If the disbursement of funds is delayed, they have to suspend procurement activities or delay paying suppliers for delivered goods, leading to poor business relationships. Also, public organizations have to assure citizens that public money is spent wisely and transparently: to achieve this, public organizations must spend funds conducting regular internal audits to enhance regulatory compliance. Traditionally, the public sector expects procurement to address several issues beyond simple value for money or basic supply. For example, “social value” or “proximity”, as for policy goals supporting smaller firms, or minority owned firms, driving employment or education, supporting equalities. While some private sector firms might decide to look at similar areas, it is unusual to find the same focus on these wider issues in a private sector organization. Finally, the public-sector stakeholder base is wider and includes entities outside the buying organization, as for significant public sector expenditure areas like new railway lines, hospital equipment, waste disposal, etc.

Private organizations are profit-oriented and mainly focus on increasing returns for company owners or shareholders. Often procurement professionals are constrained by meeting cost reduction targets and their procurement activities are confidential, as they operate in a competitive business environment, where sharing trading intelligence with competitors is not advisable. Private organizations operate under institutional policies that are tailored to meet their business goals: they can source suppliers at will and award direct contracts without a bidding process. If private organizations choose to invite vendors to submit bid proposals, they naturally focus on awarding contracts to suppliers with favorable terms and conditions.

2. Public procurement: tools for evaluating suppliers according to green/social performances

A significant number of projects have already been developed to cover the need for sustainable forms of procurement.

The ECE Standard on a Zero Tolerance Approach to Corruption in PPP (public-private partnerships) has developed a standard framework for initiatives undertaken through PPP, calling on governments to put ‘people first’ in their PPP programs and projects ‘People-First PPP’ in that programs and projects:

(a) Increase access to essential services and lessen social inequality and injustice;
(b) Enhance resilience and deliver more care with the environment;
(c) Improve economic effectiveness;
(d) Promote replicability and the development of further projects;
(e) Fully involve all stakeholders.

The UN recognizes that corruption has a unique potential to undermine the Sustainable Development Goals (SDGs) and consequently is working to build upon existing anti-corruption and anti-bribery resources and develop materials that a) are universal in nature, b) contain anti-corruption principles and recommendations specifically targeted toward PPPs, c) may be readily incorporated by countries and governments into their systems to combat corruption, and d) enhance a government’s overall anti-corruption efforts.

Doing so will offer all stakeholders of PPP projects a comprehensive and substantially increased level of protection against corruption, unlock the potential for pipelines of projects in countries, and put people first while saving money and lives.

The United Nations Economic Commission for Europe Standard helps to build strong and corruption-free institutions called for by the SDGs.

The overall objectives of the Standard are the following:

(a) Provide a voluntary set of principles and conditions that governments could incorporate in their regulations or policies in undertaking PPP procurement in compliance with the SDGs.
(b) Assist governments desiring to improve the implementation of PPPs in ways that mobilize their potential and reduce risk and complexity while improving the regulatory response to corruption in PPPs.
(c) Inform and educate all parties, including civil society, on how PPPs may be entered and operated that are of high quality and not compromised by unethical behavior and defects caused by the lack of integrity or corruption.

PPPs are public contracts. As such, the core principles underlying the procurement of ‘traditional’ public contracts are also applicable to PPP contract procurement. This includes competitive bidding, and a need for transparency and non-discrimination throughout the tender. PPPs trigger a “partnership situation” where the public and private sector partners must truly work together over extended periods of time and fine tune the services, economic conditions, and other contractual obligations and performance of the project.

The United Nations Development Programme (UNDP) Procurement Strategy 2015–2017 represents the UNDP’s commitment to help countries achieve the simultaneous eradication of poverty and

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2 UNECE Standard on a Zero Tolerance Approach to Corruption in PPP Procurement, 2017
significant reduction of inequalities and exclusion. The fulfillment of UNDP’s vision and mandate requires the efficient and effective provision of goods and services, making procurement a strategic function essential to delivering results globally.

UNDP incorporates sustainability, the social costs of carbon emission, women’s empowerment and South-South Cooperation as criteria in key purchasing decisions, shifting from a narrow focus on “price” to a calculation based on the “total cost of ownership throughout the life cycle of products and services.” Through the reorientation of its procurement strategy, UNDP makes a significant investment in renewable energy solutions and energy-efficient technologies such as solar cooking stoves and hybrid vehicles.

PPPs are integral part of UNDP’s strategy which recommends to forge strong, mutually beneficial partnerships with private entities committed to the strategic use of procurement in the domains of innovation, corporate social responsibility and greening.

In implementing better procurement services to support project delivery, UNDP aspires to deliver a demand-driven, scalable, self-financing service in support of UNDP Programme Delivery needs. The implementation support structure will have, at its core, three main drivers: accelerated delivery, better client support and better information and systems.

3. Private procurement: towards a green and sustainable procurement

Looking at the private sector, the need to continuously improve the corporate performance forces firms to select and evaluate their suppliers according to their environmental and social performance and involve them in their sustainability programs. Companies have some advantages through evaluating their suppliers according to green and social criteria: they have better visibility into supplier performance, decrease risk, reduce order cycle times and inventory, improve loyalty, thus increasing competitive advantage and coordinating practices between themselves and their suppliers.

Key to this goal is supplier identification and definition of sustainable purchase objectives, that should be assessed on a monthly or annual basis. In this regard there are three main phases to perform:

(a) Supplier check list. This represents the first tool that should be used to include the identified supplier in the vendor rating process. The supplier company may be incorporated in the buyer’s supplier database as a “qualified supplier” provided that it passes a survey questionnaire as the example provided in the Annex2.

(b) Round table – Face-to-face meeting with supplier. This phase enables the buyer to assess how the supplier can be included in buyer’s company business processes, and the need for dedicated supplier loyalty management.

(c) Product offer analysis. This phase identifies and standardizes sustainability criteria for the selected supplier, setting the foundation of the rules that establish the minimum set of requirements. In so doing, many aspects need to be clearly considered given that it is not enough to define evaluation criteria related exclusively to the company or the individual supplier: criteria need to refer also to the goods or services exchanged. It is advisable to differentiate the criteria between goods and services since the means of verification of sustainability requirements are not always univocal. Moreover, the request for tests aimed at certifying the conformity of the required criteria may involve different actors in the supply chain. Lastly, it is advisable to create a registry of suppliers aligned on minimum level of sustainability thresholds.

In the end, these phases lead to integrate environmental and corporate social responsibility standards into supply chain management, including product design, material sourcing and selection, manufacturing processes, delivery of the final product to the consumers and end-of-life management
of the product after its usage. In other words, sustainable supply chain management ranges from sustainable purchasing to integrated life-cycle management.

**Internal Case study**

This process flowchart illustrates the phases to build a best-practice Sustainable Vendor Rating model. Suppliers should be audited every 3-6 month, depending on the goods/services offered.

Legend:
- DBA: Data Base Administration
- KPIs: Key Performance Indicators
- RFQ: Request for Quotation

Periodic planning of procedures aimed at verifying the sustainability level declared by each supplier is paramount to ensure the achievement of sustainable procurement goals. The collection of data related to suppliers’ compliance to sustainability principles not only is necessary for public reporting, but it also allows the buyer’s company to have a complete information framework of its sustainable procurement policy.

It is advisable to utilize a dedicated environmental management system to assess and manage green and social performances. The system may use standardized questionnaires and connect to e-procurement platforms, which range in complexity from electronic bulletins, where simple tenders and contract notices are posted, to full e-procurement systems in which the whole procurement process is conducted. Other tools used include internal financial software, online product catalogues, scorecards, or plans and performance reports.
Case-Study: an Italian SME in the (B-to-B) manufacturing sector

This case-study refers to an Italian SME producing valves and actuators for industrial uses, since 1981. Their value proposition is characterized by a strict control on the quality of input materials, as well as by the willingness to run counter commodification dynamics that, in the manufacturing sector, negatively impact on quality and responsibility of production processes. For this reason, since 2015, the company decided to adopt a Social Innovation framework within which to reinforce its brand reputation by improving procurement practices.

In 2016, the firm engaged all the internal units to co-create an Ethical Code, reaffirming the company’s values: passion, respect and sense of duty, putting them into practices targeting suppliers, customers and employees. Later, they re-shaped their former Suppliers’ Code of Conduct by developing a set of Social and Environmental indicators, organized as a matrix set up along two variables: supplier’s origin (developing country vs. advanced economy) (i), type of tool (mandatory vs. voluntary) (ii). Every green/social indicator was weighted as a single criterion, as well as aggregated to the other green/social indicators, ultimately reaching to a percentage representing the value of sustainability vis à vis other indicators (quality, lead-time, financial sustainability, etc.). Thanks to this effort for integrating sustainability metrics within their procurement processes, the company won the Italian Procurement Award in the category of “Ethical & Sustainable Practices” in 2016 and 2017. Notably, such process of Integrated Sustainability Management (ISM), had positively impacted company’s suppliers, which benefitted from cost-optimization dynamics stemming from:

- reduced times for double-checking input materials among all suppliers,
- knowledge sharing leading to easier regulation compliance,
- innovation outputs deriving from circular dynamics along the supply chain.

Interestingly, the firm managed to align suppliers from Developing Countries on virtuous sustainability performances, so as to replicate in low-income communities responsible approaches in procurement processes that were not required by local authorities and regulations. The latter, can be considered as a positive effect of Sustainability Procurement when it is conceived as a participated process improving the performances of all actors along the Global Value Chain.

4. Suppliers’ evaluation: procurement indicators for a sustainable vendor rating

To better understand where the buyer should focus its efforts to make procurement practices greener and more socially-oriented, it is crucial to clarify in which stages of a typical procurement cycle it is most effective to consider sustainable procurement principles. According to a survey by the United Nations Environment Programme (UNEP, 2017), 78% of participants considered the development of requirements and technical specifications as the most effective stage at which to implement sustainability into procurement, followed by needs definition, which was chosen by 69% of participants. Looking at respondents’ composition, participants from private-sector companies, large or small, were more likely to choose supplier development, pre-qualification and contract management.
Since there are both qualitative and quantitative factors that influence the evaluation and selection of green suppliers, and consequently the creation of a green vendor rating, it is important to consider the selection process as a multi-criteria decision making problem. Hence, it is key to use composite indicators to create reliable performance measures for sustainable supply chains.

The process of creation of evaluation indicators is a complex procedures that usually encompasses two phases:

- Criteria definitions
- Rationale and application

**4.1 Criteria definition**

To ensure a measurable and quantitative process of supplier evaluation, indicators need to connect environmental and social factors with related cost elements that purchasing departments may take into consideration when evaluating supplier bids.

These\(^4\) include, but are not limited to:

1. Operation costs (e.g. energy or water consumed by the good over its life)
2. Indirect costs (e.g. less energy efficient information technology equipment will produce more heat causing the building's air conditioning system to work harder and increase electricity costs. Fair working conditions will imply shorter audits and less administrative procedures to comply with the law by avoiding fines and legal procedures)
3. Administrative costs, such as complying to the Workplace Hazardous Materials Information System (WHMIS) or to the Conflict Mineral Declaration
4. Investing up front to save costs later, such as specifying higher levels of insulation where the extra expenditure can be recovered from lower energy costs
5. Use of refurbished parts or products, where possible
6. Recyclability, which can create markets for a firm’s own waste (such as paper, toner cartridges, etc.) through the transformation and sale of products containing recycled materials
7. Cost of disposal arrangements
8. Establishing minimum environmental or social performance standards for commodities where there is a sufficient supplier base to support competition
9. Where the supplier base is limited, include incentives for meeting extra environmental or social performance criteria
10. Use of contractual terms, to define environmental and social obligations, such as packaging take-back, use of certified recyclers for e-waste, transparency and avoidance of forced labor

Moreover, it is important that indicators, which may vary within different industrial sectors and firms’ dimensions, focus on a broader perspective to scrutinize social and environmental impacts at corporate level independently from the type of business involved (i) and on a more specific perspective looking at indicators tailored on a given sector or supplier (ii). Notably, as sustainability

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encompasses Social, Environmental and Economic dimensions, also Sustainable Procurement
aligns impacts around these three perspectives, aiming at designing a responsible vendor rating.

1. Generic Indicators:

- Economic - Gross Value Added (GVA) (this indicator only works at regional scale and is a
  standard measure of economic value used by national government)
- Economic - Full Time Employment (FTE) (standard organizational output target for the
  majority of regeneration related activity)
- Economic - Consumer Re-spent Propensity (basis for calculation of economic impact)
- Environmental - Number of deliveries received (proxy for indicative mileage and carbon
  output)
- Environmental - % of value of eco-labelled products bought (proxy for supply chain
  carbon and carbon equivalence)
- Environmental - % of suppliers with an Environmental Management System (proxy for
  degree of environmental awareness and action)
- Social - % of suppliers involved in voluntary industry initiatives (proxy for social
  capital/community involvement – wellbeing)
- Social - % of value invested in activities on behalf of third sector organizations (direct
  numeric measure of socially based activity)
- Social - % of value invested in activities on behalf of social value initiatives (proxy for
  social orientation of supply chain)

2. Specific indicators:

- Economic - % of value invested in activities executed with distributors (taken with the
  indicator ‘% spend with producers’ this can provide additional data for multiplier of regional
  economic value)
- Economic - % spend with producers (taken with the indicator ‘% spend with distributors’
  this can provide additional data for multiplier of regional economic value)
- Environmental - Use of Whole Life Costing (where appropriate data exists, such as timber,
  this approach can give a more complete picture)
- Social - % value to good cause (Proxy for contribution to community)

4.2 Rationale and application

To create a sustainable vendor rating shared by different industry sectors and open to both goods and
services, it is crucial to conceive some variables to make the assessment closer to better capturing
green and social impacts. More precisely, indicators need to be differentiated between general and
specific (as illustrated above) (i); contextualized with reference to the socio-economic conditions in

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which the supplier operates (ii), diversified following a specific compliance mechanism (iii), weighted according to their relevance within the procurement processes (iv) and, finally, prioritized according to their contribution in terms of environmental and social impacts (v).

For instance, it is possible to differentiate environmental and social indicators selecting those that are more suitable for suppliers based in Developing Countries vs. Developed Countries, so to adopt more realistic criteria to collect information from suppliers. Also, indicators may require a different type of scrutiny whether they refer to documents suppliers may possess, or not, in opposition to a degree of compliance that the supplier can show with reference to a given average benchmark. Social and green indicators can also be weighted depending on the importance of a certain topic within the procurement processes, implying a degree of preference expressed by adopting a range of evaluations spanning from “Mandatory”, “Strongly Advisable” to “Nice to have”. Also, social and environmental indicators can be prioritized with reference to their social and environmental impacts, implying for instance a higher score for human right practices than for voluntary community engagement processes. Finally, social and environmental indicators will need to factor in performance indicators such as quality, financial sustainability, price and lead time, which express additional operational evaluations for ranking suppliers’ performances. The combination of the two analysis leads to a matrix expressing suppliers’ reliability and value.

5. Conclusions and Recommendations

As described above, building a sustainable vendor rating model requires to focus on social and environmental indicators that need to be adopted for evaluating suppliers’ sustainability performances. Finding a set of minimal sustainability criteria is a crucial goal for simplifying the compliance procedures at a global level, where global supply chains operate and market forces maximize their synergies engaging simultaneously Multinational Corporations (MNCs) and Small and Medium Enterprises (SMEs).

Although the procurement process is only one aspect of selecting more responsible suppliers, it can only be effective when collaboration exists between different stakeholders along the supply chain. Material requesters (users, owners, etc.), specifiers (designers, engineers, etc.), purchasers and suppliers (manufacturers, distributors, etc.), they all need to dialogue to develop viable and meaningful indicators. For instance, purchasers can be part of the R&D team as they have important experience and knowledge to transmit. Overall, hence, the challenge is to be well informed and develop a competitive and collective intelligence related to the main concerns of sustainability along the global value chain. For this reason, it is possible to say that the development of a sustainable vendor rating provides an important opportunity to bring key players together to improve, collectively, the way services and goods are made, bought, used and disposed: designing a sustainable vendor rating is, hence, a participative effort benefiting the entire community.

Resulting from what stated above, sustainable vendor ratings need to keep a flexible structure, as social and environmental impacts evolve over time, and so it is for sustainable criteria resulting from a multi-stakeholder dialogue. If it is true that a vendor rating needs to identify and quantify performances and impacts, it is also true that a certain level of tolerance is recommended to allow buyers and suppliers co-creating indicators and benchmarks. This is most likely to happen for indicators referring to social aspects such as community engagement or voluntary industry activities that imply long-term participation, dialogue and information sharing.

Sustainable vendor rating and related supporting documents (see and example of Suppliers’ Code of Conduct in ANNEX1) should not be disconnected by other corporate materials referring to responsible performances, which is why it is recommended to integrate sustainable procurement initiatives within tools such as the Ethical Code and the Sustainability Report, or any other non-
financial disclosure document, so to provide a complete set of materials aligning corporate efforts for addressing sustainability on the passive and active production cycle.

Following from above, any strategy or operational tool referring to sustainable procurement must be framed within an environmental management system (EMS), so to provide a broader scenario for improvements and management synergies that may positively impact on risk reduction and prevention.

From a policy-making point of view, there is an important challenge to address: the lack of an independent agency that controls the whole supply chain. Indeed, while some environmental measures are linked to clear governmental regulations, many economic and social indicators are not, resulting in weak enforcement and – consequently – compliance, throughout the supply chain. This may reduce the motivation for firms to embark in a project of sustainable vendor rating creation, especially considering global tendencies of commodification of similar products or services that are not sustainable and changes in consumer behavior that are happening fast, as loyalty or fidelity are not easy to stabilize on the long run.

Crucially, sustainable procurement practices cannot be used as tools for limiting free trade and competition dynamics, as sustainability has to be seen as a proxy for more efficient processes along the supply chain and not as a vested obstacle to trade and commerce.
ANNEX 1:

Example of Suppliers’ Code of Conduct

Overview

1) Company and its subsidiaries (“Company” or the “Other) believe that operating in a socially responsible and ethical manner and in compliance with the laws of those countries in which we operate is fundamental to our long-term success. This means, among other things, that the Company adopts fair employment practices, protects safety in the workplace, supports and fosters environmental consciousness and fully complies with applicable laws. The Company expects its interests and those of its suppliers to be fully aligned in these fundamental respects.

Company considers collaboration with its supply chain to be an integral part of its success and, therefore, strives to operate as an integrated team with its suppliers. The selection of the Company’s suppliers is based not only on the quality and competitiveness of their products and services, but also on their adherence to acceptable social, ethical and environmental principles, which is a pre-requisite to becoming a supplier and developing a lasting business relationship with the Company. Any violation of this Supplier Code of Conduct may jeopardize the supplier’s business relationship with Company, up to and including termination of that relationship.

All suppliers must comply with all applicable laws (including, without limitation, laws relating to anti-corruption and competition), as well as the principles set out in the Company Code of Conduct and in this Supplier Code of Conduct. In addition, all suppliers are expected to provide applicable information to the Company or take other actions necessary to allow the Company to fulfil its reporting, disclosure and other legal obligations.

2) This Supplier Code of Conduct applies to all persons and entities who sell goods or services of any type to Company or any of its subsidiaries (each a “Supplier”) and summarizes the standards to be followed in their daily business activities as a Supplier to the Company.

All Suppliers carrying on business with Company are deemed to agree and accept the contents of this Supplier Code of Conduct and such agreement and acceptance is evidenced by the Supplier continuing to do business with Company.

Labor and Human Rights

Child labor

No Suppliers may employ child labor. The term “child” refers to a person who is younger than 15 years old or who has not yet reached the age for completing compulsory education, whichever is greater.

(ref. ILO Convention n. 138)

Forced labor, Human Trafficking and Slavery

No Suppliers may employ forced labor or engage in any form of human trafficking whether by force, fraud or coercion. All forms of involuntary servitude and slavery as well as any forced labor or sex trafficking or the procurement of any commercial sex act are strictly prohibited.
Employment must be voluntarily and freely chosen. All Suppliers, including recruitment agencies used by a Supplier, must verify the legal employment eligibility of all persons to work and not use any form of prison, indentured, forced, involuntary, bonded or slave labor.

Involuntary labor includes the transportation, harboring, recruitment, transfer, receipt, or employment of persons by means of threat, force, coercion, abduction, fraud, or payments to any person having control over another person for the purpose of exploitation.

No Suppliers will require employees to lodge deposits or identity papers, or to pay recruitment fees.

(ref. ILO Conventions n. 29 and n. 105)
(ref. to UN convention against Transnational Organized Crime)

3)

**Wages and Hours**

All Suppliers must ensure that all of their workers receive at least the legally mandated minimum wages and benefits. Working conditions, working time and compensation must be fair, complying with the laws, standards and practices applicable in those countries where the Supplier operates.

Suppliers must maintain required official documentation that verifies an employee’s age, wages, and hours worked. Company reserves the right to review this documentation if necessary.

**Freedom of association**

All Suppliers shall freely allow workers to join associations, and bargain collectively, in accordance with local law, without interference, discrimination, retaliation, or harassment.

(ref. ILO Conventions n. 87 and n. 98)

**Health and safety**

Health and safety in the workplace is a fundamental right of employees. All Suppliers must provide and maintain a safe work environment in compliance with all applicable laws.

(ref. ILO Convention n. 155)

**Non-discrimination**

All Suppliers must treat their workers in a fair and non-discriminatory manner, with the guarantee of equal opportunity and the absence of any policy aimed at, or indirectly resulting in, discrimination toward them on any basis whatsoever, including, but not limited to, race, gender, sexual orientation, social and personal position, health condition, disability, age, nationality, religion or personal belief (in accordance with applicable laws).

(ref. ILO Convention n. 111)

**Environment**

To minimize the impact of production processes and products on the environment, all Suppliers should: (i) make every effort to optimize the use of resources and minimize polluting and greenhouse gas emissions; (ii) design and develop products taking into account the impact they have on the environment and the potential to re-use and recycle them; (iii) properly manage, in compliance with applicable laws, waste treatment and disposal; (iv) avoid the use of potentially dangerous substances (as defined by applicable laws); and, (v) apply logistics management policies that take environmental impacts into consideration.

An Environmental Management System (EMS), according to international standards (i.e. ISO14001, EMAS), is strongly recommended.
**Trade Restrictions/Export Controls**

All Suppliers are either directly or indirectly responsible for the import and export of goods sold to Company, and must be aware of and comply with all applicable laws that govern international trade. Accordingly, Suppliers are expected to, among other things, make accurate customs declarations, not mischaracterize the value or nature of goods in any way that may create liability for Company, and obtain (or assist in obtaining) any required licenses, approvals or other permits.

**Responsible Sourcing of Minerals**

Suppliers shall exercise due diligence, in accordance with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, on its entire supply chain with respect to the sourcing of all tin, tantalum, tungsten, and gold contained in its products, to determine whether those metals are from the Democratic Republic of the Congo (“DRC”) or any adjoining country and, if so, to determine whether those metals directly or indirectly financed or benefited armed groups that are perpetrators of serious human rights abuses in the DRC or an adjoining country. Countries that adjoin the DRC are Angola, Burundi, Central African Republic, the Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda, and Zambia.

**Business Ethics**

**Improper Payments**

Any form of bribery, “kickback”, or improper payments (of cash or anything else of value) to government officials, Company employees, or other third parties, to obtain an unfair or improper advantage are strictly prohibited. In particular, all Suppliers and their employees, agents or representatives are prohibited from directly or indirectly accepting, soliciting, offering or paying a bribe or providing anything else of value (including gifts or gratuities, with the exception of commercial items of modest economic value) to any Company employee or any third party.

**Accurate Records**

All Suppliers will provide the Company with accurate and complete invoices and other transaction documentation and will not assist or engage in any action or inaction that could reasonably be expected to result in the Company’s books and records not being accurate and complete in all respects. Among other things, discounts, rebates, and other credits will be provided to the Company in full and in the applicable period earned or granted, unless otherwise specified in the terms of the applicable agreement with the Company. In addition, the amount and effective date of any price increases must be in accordance with the terms and limits, if any, set forth in the applicable agreement with the Company.

Costs, fees and expenses chargeable to the Company must be clearly and accurately described and actually incurred.

**Confidential Information**

All Suppliers must respect intellectual property rights and safeguard all Company information, including, but not limited to, know-how, trade secrets, financial information, new product or service development plans and other sensitive Company or personal information and limit access to such information only to those Supplier personnel who have a legitimate business need for such information when permitted by applicable law.

**Conflicts of Interest**

All Suppliers must disclose any actual or potential conflict of interest and discuss it with Company Industrial’s management. Any activity that is approved, despite an actual or apparent conflict, must be documented.
**Fair Competition**

All Suppliers will conduct their business in line with fair competition principles and in accordance with applicable antitrust and competition laws.

**Anti-Money Laundering**

No Suppliers may engage or otherwise become involved in any activity involving, or which may give rise to the appearance of, money laundering and shall strictly comply with applicable anti-money laundering laws.

**Supplier Relations**

All Suppliers are expected to assist Company in enforcing this Supplier Code of Conduct and are responsible for communicating the principles contained in this Supplier Code of Conduct to their respective employees, subsidiaries, affiliates and subcontractors.

Company seeks to foster long-term “partnerships” with its Suppliers through specific tools and periodic workshops designed to achieve a smooth integration between the respective business cultures and processes and to work jointly toward meeting market expectations.

Company is committed to supporting small and local suppliers and minority-owned businesses.

**Monitoring and Remedial Actions**

Company monitors adherence of all Suppliers with this Supplier Code of Conduct. Accordingly, the Company reserves the right to request from Suppliers applicable documentation and conduct onsite audits.

Company:

- may require that any Supplier that materially infringes on the basic principles of the Company Code of Conduct or this Supplier Code of Conduct, implement an acceptable action plan to bring its performance into compliance, and
- reserves the right to terminate its business relationship with any Supplier that is unwilling or unable to bring its performance into compliance to the satisfaction of the Company.

**Training**

Company encourages suppliers to establish training programs for their workers to enhance the level of their professional skills.

**Reporting Violations**

Suppliers are responsible for reporting to the Company suspected violations of law, the Company Industrial Code of Conduct or this Supplier Code of Conduct. Among other means, Suppliers may use the Company’s compliance helpline, available at: www………………(your company web site)
ANNEX 2

The questionnaire should contain at least the following sections:

- General demographic data (e.g., company name, location)
- Economic Information (e.g., annual turnover)
- Commercial Information (e.g., total client number)
- Contact names
- List of products
- Total Number of Workers
- Workers grouped by age (i.e., date of birth)
- Work Relationship (e.g., permanent; non-permanent; ratio men/women)
- Existence of Trade Unions
- Workers’ Training
- Quality Management System
- Auditing Processes
- Main Machinery and Assets
- Supplier Management (e.g., location of suppliers)
- Health and Safety in the Workplace
- Environmental Protection Procedures
- Social Responsibility and Ethics Procedures