

UNITED NATIONS
CENTRE FOR TRADE FACILITATION AND ELECTRONIC BUSINESS (UN/CEFACT)
INTERNATIONAL SUPPLY CHAIN PROGRAMME DEVELOPMENT AREA (ISC-PDA)
SUPPLY CHAIN MANAGEMENT AND PROCUREMENT DOMAIN (SC+P-D)

Sustainable Procurement

SOURCE: Sustainable Procurement Project Team

ACTION: Draft for Public review

DATE: 13 June 2018

STATUS: Draft v0.4

Disclaimer (Updated UN/CEFACT Intellectual Property Rights Policy – ECE/TRADE/C/CEFACT/2010/20/Rev.2)

ECE draws attention to the possibility that the practice or implementation of its outputs (which include but are not limited to Recommendations, norms, standards, guidelines and technical specifications) may involve the use of a claimed intellectual property right.

Each output is based on the contributions of participants in the UN/CEFACT process, who have agreed to waive enforcement of their intellectual property rights pursuant to the UN/CEFACT IPR Policy (document ECE/TRADE/C/CEFACT/2010/20/Rev.2 available at http://www.unece.org/cefact/cf_docs.html or from the ECE secretariat). ECE takes no position concerning the evidence, validity or applicability of any claimed intellectual property right or any other right that might be claimed by any third parties related to the implementation of its outputs. ECE makes no representation that it has made any investigation or effort to evaluate any such rights.

Implementers of UN/CEFACT outputs are cautioned that any third-party intellectual property rights claims related to their use of a UN/CEFACT output will be their responsibility and are urged to ensure that their use of UN/CEFACT outputs does not infringe on an intellectual property right of a third party.

ECE does not accept any liability for any possible infringement of a claimed intellectual property right or any other right that might be claimed to relate to the implementation of any of its outputs.

1 **Minimal Sustainability Criteria for Sustainable Procurement Processes**

2 Draft for Public Review v0.4

3

4 **Contents**

5 Minimal Sustainability Criteria for Sustainable Procurement Processes..... 2

6 Recommendation n xx: Establishment of Minimal Sustainability Criteria for Sustainable

7 Procurement Processes 3

8 Introduction..... 3

9 Purpose..... 3

10 Scope..... 3

11 Benefits..... 3

12 Recommendation..... 3

13 Guidelines for Recommendation xx on the establishment of Minimal Sustainability Criteria

14 for Sustainable Procurement Processes 5

15 Introduction..... 5

16 1. Differences between private and public sector procurement..... 5

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

18 performances 6

19 3. Private procurement: towards a green and sustainable procurement..... 7

20 4. Suppliers' evaluation: procurement indicators for a sustainable vendor rating 9

21 5. Conclusions and Recommendations..... 12

22 ANNEX 1: 14

23 Overview 14

24 Labor and Human Rights 14

25 ANNEX 2..... 18

26

27

28

29 **Recommendation n xx: Establishment of Minimal Sustainability Criteria** 30 **for Sustainable Procurement Processes**

31 **Introduction**

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

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

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

47 **Purpose**

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

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

54 **Scope**

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

58 **Benefits**

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

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

66 **Recommendation**

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

- 69 • That the selection of responsible suppliers can only be effective when collaboration
70 exists between different stakeholders along the supply chain;

71
72
73
74
75
76
77
78
79
80

- 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.

81

82 **Guidelines for Recommendation xx on the establishment of Minimal** 83 **Sustainability Criteria for Sustainable Procurement Processes**

84 **Introduction**

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

89 Sustainable procurement is rapidly increasing, as international, regional and national entities are
90 establishing ambitious policy objectives in this regard. In the European Union for example, where
91 public procurement amounts to 17% of countries’ GDP on average, Member States have been
92 required to achieve a share of 50% of public tenders including environmental criteria in more than
93 20 priority product and services categories, including lighting, textile, food, paper, office building
94 design construction and management.

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

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

101 **1. Differences between private and public sector procurement**

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

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

¹ DEFRA, *Procuring the Future*, (2006).

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

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

128 The ECE Standard on a Zero Tolerance Approach to Corruption in PPP (public-private partnerships)
129 Procurement² has developed a standard framework for initiatives undertaken through PPP, calling on
130 governments to put ‘people first’ in their PPP programs and projects ‘People-First PPP’ in that
131 programs and projects:

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

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

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

146 The United Nations Economic Commission for Europe Standard helps to build strong and corruption-
147 free institutions called for by the SDGs³.

148 The overall objectives of the Standard are the following:

- 149 (a) Provide a voluntary set of principles and conditions that governments could incorporate in
150 their regulations or policies in undertaking P4PPP procurement in compliance with the SDGs.
- 151 (b) Assist governments desiring to improve the implementation of PPPs in ways that mobilize
152 their potential and reduce risk and complexity while improving the regulatory response to
153 corruption in PPPs.
- 154 (c) Inform and educate all parties, including civil society, on how PPPs may be entered and
155 operated that are of high quality and not compromised by unethical behavior and defects
156 caused by the lack of integrity or corruption.

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

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

² UNECE Standard on a Zero Tolerance Approach to Corruption in PPP Procurement, 2017

165 significant reduction of inequalities and exclusion. The fulfillment of UNDP’s vision and mandate
166 requires the efficient and effective provision of goods and services, making procurement a strategic
167 function essential to delivering results globally.

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

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

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

181 **3. Private procurement: towards a green and sustainable procurement**

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

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

- 190 (a) Supplier check list. This represents the first tool that should be used to include the identified
191 supplier in the vendor rating process. The supplier company may be incorporated in the
192 buyer’s supplier database as a “qualified supplier” provided that it passes a survey
193 questionnaire as the example provided in the Annex2.
- 194 (b) Round table – Face-to-face meeting with supplier. This phase enables the buyer to assess
195 how the supplier can be included in buyer’s company business processes, and the need for
196 dedicated supplier loyalty management.
- 197 (c) Product offer analysis. This phase identifies and standardizes sustainability criteria for the
198 selected supplier, setting the foundation of the rules that establish the minimum set of
199 requirements. In so doing, many aspects need to be clearly considered given that it is not
200 enough to define evaluation criteria related exclusively to the company or the individual
201 supplier: criteria need to refer also to the goods or services exchanged. It is advisable to
202 differentiate the criteria between goods and services since the means of verification of
203 sustainability requirements are not always univocal. Moreover, the request for tests aimed at
204 certifying the conformity of the required criteria may involve different actors in the supply
205 chain. Lastly, it is advisable to create a registry of suppliers aligned on minimum level of
206 sustainability thresholds.

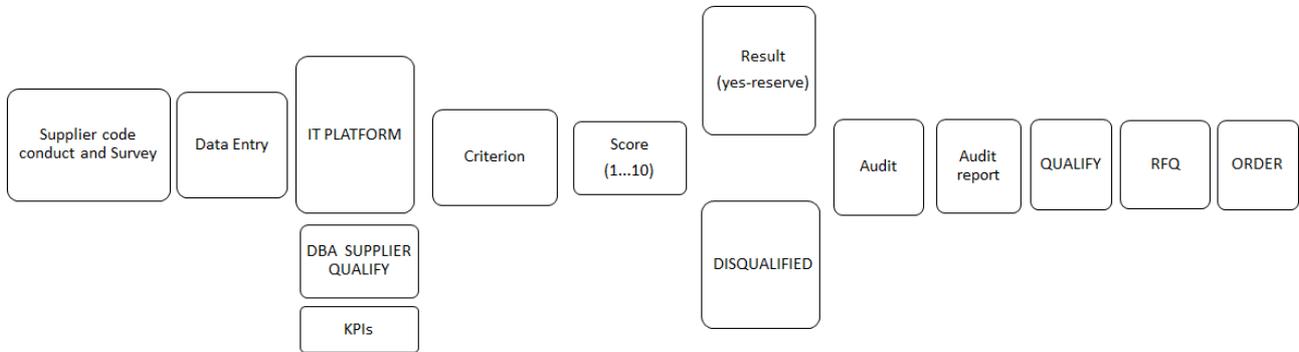
207 In the end, these phases lead to integrate environmental and corporate social responsibility standards
208 into supply chain management, including product design, material sourcing and selection,
209 manufacturing processes, delivery of the final product to the consumers and end-of-life management

210 of the product after its usage. In other words, sustainable supply chain management ranges from
211 sustainable purchasing to integrated life-cycle management.

212 *Internal Case study*

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

215



216

217

218 Legend:

219 DBA: Data Base Administration

220 KPIs: Key Performance Indicators

221 RFQ: Request for Quotation

222

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

228 It is advisable to utilize a dedicated environmental management system to assess and manage green
229 and social performances. The system may use standardized questionnaires and connect to e-
230 procurement platforms, which range in complexity from electronic bulletins, where simple tenders
231 and contract notices are posted, to full e-procurement systems in which the whole procurement
232 process is conducted. Other tools used include internal financial software, online product catalogues,
233 scorecards, or plans and performance reports.

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.

236

237 **4. Suppliers' evaluation: procurement indicators for a sustainable vendor rating**

238 To better understand where the buyer should focus its efforts to make procurement practices greener
239 and more socially-oriented, it is crucial to clarify in which stages of a typical procurement cycle it is
240 most effective to consider sustainable procurement principles. According to a survey by the United
241 Nations Environment Programme (UNEP, 2017), 78% of participants considered the development of
242 requirements and technical specifications as the most effective stage at which to implement
243 sustainability into procurement, followed by needs definition, which was chosen by 69% of
244 participants. Looking at respondents' composition, participants from private-sector companies, large
245 or small, were more likely to choose supplier development, pre-qualification and contract
246 management.

247 Since there are both qualitative and quantitative factors that influence the evaluation and selection of
248 green suppliers, and consequently the creation of a green vendor rating, it is important to consider the
249 selection process as a multi-criteria decision making problem. Hence, it is key to use composite
250 indicators to create reliable performance measures for sustainable supply chains.

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

- 253 - Criteria definitions
- 254 - Rationale and application

255 *4.1 Criteria definition*

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

259 These⁴ include, but are not limited, to:

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

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

4 Public Works and Government Services Canada (PWGSC) - Office of Small and Medium Enterprises – Strategic Engagement (2016).

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

287 1. Generic Indicators⁵:

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

305 2. Specific indicators⁶:

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

314 4.2 Rationale and application

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

⁵ As suggested by: Wilkinson e Kirkup, *Measurement of Sustainable Procurement*, East Midlands Development Agency (2009).

⁶ As suggested by: Wilkinson e Kirkup, *Measurement of Sustainable Procurement*, East Midlands Development Agency (2009).

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

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

336 **5. Conclusions and Recommendations**

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

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

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

361 Sustainable vendor rating and related supporting documents (see and example of Suppliers’ Code of
362 Conduct in ANNEX1) should not be disconnected by other corporate materials referring to
363 responsible performances, which is why it is recommended to integrate sustainable procurement
364 initiatives within tools such as the Ethical Code and the Sustainability Report, or any other non-

365 financial disclosure document, so to provide a complete set of materials aligning corporate efforts for
366 addressing sustainability on the passive and active production cycle.

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

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

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

382

383 **ANNEX 1:**

384 **Example of Suppliers' Code of Conduct**

385 **Overview**

386 1)

387 Company and its subsidiaries ("Company" or the "Other) believe that operating in a socially
388 responsible and ethical manner and in compliance with the laws of those countries in which we
389 operate is fundamental to our long-term success. This means, among other things, that the Company
390 adopts fair employment practices, protects safety in the

391 workplace, supports and fosters environmental consciousness and fully complies with applicable
392 laws. The Company expects its interests and those of its suppliers to be fully aligned in these
393 fundamental respects.

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

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

406 2)

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

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

413 **Labor and Human Rights**

414 *Child labor*

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

418 (ref. ILO Convention n. 138)

419 *Forced labor, Human Trafficking and Slavery*

420 No Suppliers may employ forced labor or engage in any form of human trafficking whether by force,
421 fraud or coercion. All forms of involuntary servitude and slavery as well as any forced labor or sex
422 trafficking or the procurement of any commercial sex act are strictly prohibited.

423

424 Employment must be voluntarily and freely chosen. All Suppliers, including recruitment agencies
425 used by a Supplier, must verify the legal employment eligibility of all persons to work and not use
426 any form of prison, indentured, forced, involuntary, bonded or slave labor.

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

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

431 (ref. ILO Conventions n. 29 and n. 105)

432 (ref. to UN convention against Transnational Organized Crime)

433 3)

434 *Wages and Hours*

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

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

440 *Freedom of association*

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

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

444 *Health and safety*

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

447 (ref. ILO Convention n. 155)

448 *Non-discrimination*

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

454 (ref. ILO Convention n. 111)

455 *Environment*

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

463 An Environmental Management System (EMS), according to international standards (i.e. ISO14001,
464 EMAS), is strongly recommended.

465 *Trade Restrictions/Export Controls*

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

471 *Responsible Sourcing of Minerals*

472 Suppliers shall exercise due diligence, in accordance with the OECD Due Diligence Guidance for
473 Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, on its entire
474 supply chain with respect to the sourcing of all tin, tantalum, tungsten, and gold contained in its
475 products, to determine whether those metals are from the Democratic Republic of the Congo (“DRC”)
476 or any adjoining country and, if so, to determine whether those

477 metals directly or indirectly financed or benefited armed groups that are perpetrators of serious human
478 rights abuses in the DRC or an adjoining country. Countries that adjoin the DRC are Angola, Burundi,
479 Central African Republic, the Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda, and
480 Zambia.

481 *Business Ethics*

482 *Improper Payments*

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

489 *Accurate Records*

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

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

500 *Confidential Information*

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

506 *Conflicts of Interest*

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

510 *Fair Competition*
511 All Suppliers will conduct their business in line with fair competition principles and in accordance
512 with applicable antitrust and competition laws.

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

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

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

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

525 *Monitoring and Remedial Actions*

526 Company monitors adherence of all Suppliers with this Supplier Code of Conduct.

527 Accordingly, the Company reserves the right to request from Suppliers applicable documentation and
528 conduct onsite audits.

529 Company:

530 • may require that any Supplier that materially infringes on the basic principles of the Company Code
531 of Conduct or this Supplier Code of Conduct, implement an acceptable action plan to bring its
532 performance into compliance, and

533 • reserves the right to terminate its business relationship with any Supplier that is unwilling or unable
534 to bring its performance into compliance to the satisfaction of the Company.

535 *Training*

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

538 *Reporting Violations*

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

542

543 **ANNEX 2**

544 The questionnaire should contain at least the following sections:

- 545 • General demographic data (e.g., company name, location)
- 546 • Economic Information (e.g., annual turnover)
- 547 • Commercial Information (e.g., total client number)
- 548 • Contact names
- 549 • List of products
- 550 • Total Number of Workers
- 551 • Workers grouped by age (i.e., date of birth)
- 552 • Work Relationship (e.g., permanent; non-permanent; ratio men/women)
- 553 • Existence of Trade Unions
- 554 • Workers' Training
- 555 • Quality Management System
- 556 • Auditing Processes
- 557 • Main Machinery and Assets
- 558 • Supplier Management (e.g., location of suppliers)
- 559 • Health and Safety in the Workplace
- 560 • Environmental Protection Procedures
- 561 • Social Responsibility and Ethics Procedures

562