

Guide

SUSTAINABLE SUPPLY CHAIN MANAGEMENT FOR MEDIUM-SIZED COMPANIES IN THE CHEMICAL INDUSTRY

GUIDE EXPLANATION

This Guide is for companies in the chemical industry that wish to further develop and improve their purchasing management. For the purposes of this Guide, “chemical industry” covers the chemical and pharmaceutical industries as well as large parts of the rubber and plastics processing industries. It was tested in practice as part of the Chemie³ ‘Sustainability in Supply Chains’ pilot project and therefore takes the experiences of the participating companies into account.

Sustainable supply chain management enables companies to better assess their purchasing risks and opportunities as well as the sustainability performance of their suppliers. Such information may be used to minimise risks for the company and make the company’s products more sustainable. In turn, this improves economic opportunities, so that sustainable supply chain management contributes to the future viability of the company.

This Guide considers the interests of medium-sized companies that as yet have little or no experience in enforcing sustainability standards with their suppliers, although companies that already have experience in supply chain management will also find useful proposals here.

Chapter 1 explains why sustainable supply chain management is meaningful and necessary, and which stakeholders represent the driving forces. Chapter 2 contains the actual Guide, which shows six Building Blocks required for building systematic sustainable supply chain management.

The Guide was published in March 2018 (German version) for the first time and is under continual review. The English version was published in September 2018. It can be downloaded at www.chemiehoch3.de.

To facilitate the practical implementation of the Building Blocks, the Guide is supplemented by a [toolbox](#) whose components are available for download in the [members area](#) of the Chemie³ website. The toolbox includes:

- a checklist to inventory the current supply chain management
- a basic Code of Conduct, including an introductory document
- a template for using the pragmatic supplier selection matrix
- a risk tool for performing the pragmatic supply chain risk assessment.

Note on terminology

For simplification, the term “sustainability” is used throughout this Guide to summarize the fields of economic, environmental and social action. Other terms commonly used in practice are “CR” and “CSR” (Corporate Responsibility and Corporate Social Responsibility respectively). It is recommended that you describe the generic term used in your company with regard to the topics relevant to your company, such as occupational standards and safety, CO₂ emissions, or product safety.

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LINKS TO DOCUMENTS IN THE CHEMIE³  MEMBERS AREA ARE DENOTED BY THIS SYMBOL.

The Appendix contains an overview of the available documents.

THE CHEMIE³ INITIATIVE

Chemie³ is a joint sustainability initiative by the German Chemical Industry Association (Verband der Chemischen Industrie e.V., VCI), the Mining, Chemical and Energy Industrial Union (Industriegewerkschaft Bergbau, Chemie, Energie, IG BCE) and the German Federation of Chemical Employers' Associations (Bundesarbeitgeberverband Chemie, BAVC). The three alliance partners work together to promote sustainable development in the chemical industry. Sustainability is understood as a commitment to present and future generations as well as a strategy for the future in which economic success is combined with social justice and environmental responsibility.

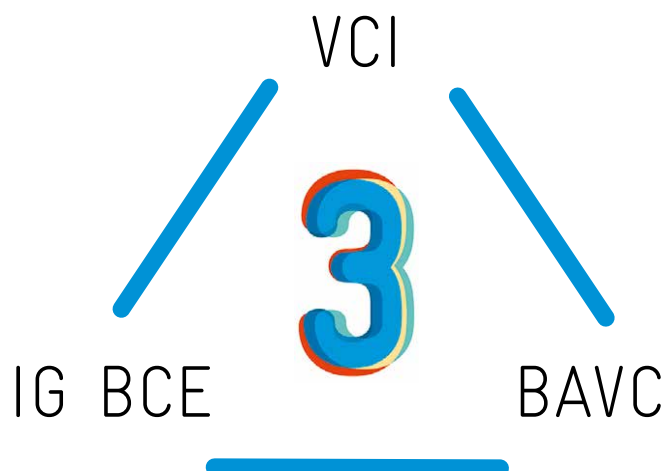
The Chemie³ initiative promotes sustainable action across the chemical industry – from small businesses through to major corporations. After all, shaping a sustainable future requires a commitment from industry. As an innovation driver for German industry, the chemical industry aims to expand its contributions to a healthy future and sustainable development and to sharpen its profile regarding sustainability.

At the core of the initiative are the Guidelines for Sustainability in the German Chemical Industry, which aim to promote sustainability as a guiding principle within the sector. As an industry-specific framework these provide companies and employees in the chemical industry with orientation for their actions.

Chemie³ has developed a comprehensive support package to help companies in the industry apply the Guidelines. These include a specially developed sustainability check for sector companies, good practice examples for implementing the Guidelines, a Guide to Basic Sustainability Reporting, this Guide to Sustainable Supply Chain Management, and further information that can be accessed in the members area of www.chemiehoch3.de.

To provide evidence for the success of Chemie³, a total of 40 indicators were published in 2016 that measure the progress of sustainable development in the industry.

Another pillar of Chemie³ is the dialogue with stakeholders in the spheres of politics, business, science and society. Solutions for sustainable development require an understanding of the concerns of others and identifying conflicts of interest – only then can solutions be found together. Chemie³ therefore continuously enlarges the scope of these dialogues.



PREFACE

Dear Reader,

the world has become more global. The same also applies to companies and their business processes. Following the lead of the United Nations, many countries, including Germany, have expanded the demands made on companies in recent years, especially with regard to the impact of corporate activities on sustainable development and along the entire global value chain. In addition, customers, investors, non-governmental organisations and not least company employees seek comprehensive insights into companies, their global business activities and their effects on people and nature. Meanwhile, social media are increasing transparency globally.

These developments heighten the demand that companies should take responsibility for their compliance with globally recognised human rights, labour, social, environmental and anti-corruption standards – both within and beyond the boundaries of their own business – and to provide transparency in this respect. This demand expressly includes upstream process steps.

Guideline 3 on Sustainability in the Chemical Industry in Germany therefore explicitly recommends that companies engage nationally and internationally and promote worldwide recognition for these demanding corporate environmental and social standards. This requires examining their entire value chain very closely, in particular their own supply chain, with the involvement of their suppliers and employees.

This Guide is aimed especially at medium-sized companies. It gives an overview of the most important foundations, enables them to launch the process and provides instructions for setting up and expanding sustainable supply chain management step by step.

We hope that many companies will take up these proposals and thus contribute to greater transparency and social acceptance of the chemical industry on a national and global scale.



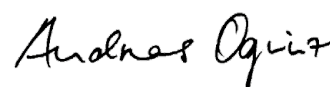
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01 INTRODUCTION, OVERVIEW OF REQUIREMENTS AND DRIVERS

German companies benefit from globalisation due to improved access to sales and procurement markets. However, this also gives them responsibility for improving the enforcement of human rights, labour, social, environmental and anti-corruption standards in global value and supply chains.

At the same time, customers, consumers, banks, NGOs and legislators increasingly ask for information on how to ensure compliance with sustainability standards along the supply chain as well as the entire value chain.

Companies in the German chemical and pharmaceutical industry have been managing the relevant sustainability topics at their own sites for decades. As one 'industry of industries', there is also the challenge of gaining knowledge of the sustainability risks associated with the sector's supply chains and controlling these through an appropriate management approach.

A systematic, effective management approach also offers opportunities. Production processes can be designed more efficiently, product quality can be increased and innovative processes (e.g. closed loops) can be tested. In future, those companies will be more successful that offer products optimized from a sustainability perspective and credibly demonstrate that sustainability standards are met in their supply chains.

Find out in this chapter:

- which global frameworks and laws are relevant to companies
- which stakeholders (can) demand proof of sustainability performance
- which requirements the financial market and B2B customers in particular place on German companies in the chemical industry.

Global frameworks and principles for sustainable development

Sustainable business is firmly on the global political agenda. This is illustrated, for example, by the unanimously adopted resolutions of the United Nations (UN), such as the UN Guiding Principles for Business and Human Rights and the global Sustainable Development Goals (SDGs). The OECD Guidelines for Multinational Enterprises also provide recommendations for responsible corporate action in a global context. Among other things, they call on companies to exercise their duty of care through a due diligence process (see glossary) along the supply chain.

National legislators are guided by these global frameworks and principles, and within Europe by European Union (EU) guidelines for sustainable development, which they implement in national law. As a result, managing relevant sustainability topics is becoming increasingly a legal obligation for companies.

National Action Plan for Business and Human Rights

The German Federal Government's National Action Plan (NAP) for implementing the UN Guiding Principles on Business and Human Rights was formally adopted by the German Federal Government in December 2016.

It is based on the 'Protect, Respect and Remedy' framework devised by Professor John Ruggie, who was significantly involved in the development of the UN Guiding Principles as the UN Special Representative for Business and Human Rights from 2005 to 2011. The framework states that:

- governments have a duty to protect human rights (Protect)
- companies are responsible for respecting human rights (Respect)
- in the event of human rights violations, appropriate and effective remedies must be made available (Remedy).

STAKEHOLDERS DEMAND SUSTAINABLE SUPPLY CHAINS

LEGISLATOR/EU/ OECD/UN

- Global increase in laws related to sustainability
- CSR reporting obligations in the EU and other countries
- National Action Plans for Business und Human Rights
- OECD Guidelines for Multinational Companies
- ILO Core Working Standards
- UN Resolutions, e.g. on Human Rights and Sustainable Development Goals (SDGs)

FINANCIAL MARKET

- Sustainability ratings for loans and insurance premiums
- ESG ratings* and rankings for listed companies
- Demand for evidence of risk management systems
- Demand for regular reporting

B2B CUSTOMERS

- Demand for evidence of systematic sustainability management, e.g. audits and/or reporting
- Use of sustainability seals
- Development of (more) sustainable products

CONSUMERS/NGOS/ CIVIL SOCIETY

- Transparency regarding product/raw material origins and production conditions
- Compliance with sustainability standards
- Demand for evidence of systematic sustainability management
- Demand for sustainable products

*ESG: Environmental, Social, Governance

The German government expects all companies to introduce the process of corporate due diligence described below with regard to respect for human rights in a manner appropriate to their size, industry and position in the supply and/or value chain.

The NAP lists the following core elements of human rights due diligence:

1. Declaration of Principles of Respect for Human Rights.
2. Procedures for identifying actual and potential adverse effects on human rights.
3. Measures to avert potentially negative effects and review the effectiveness of these measures.
4. Reporting.
5. Complaints mechanism.

All five of the NAP core elements also apply to companies' supply chains.

The German government's goal is to get at least 50 percent of all German companies (with 500 employees and more) to introduce an appropriate management approach by 2020. There is an expectation that even small companies will implement suitable due diligence processes. As of 2018, companies with more than 500 employees are required to report on their compliance with human rights standards. With regard to the content and form of the report, the NAP refers to the CSR reporting obligation, which initially only applies to capital market-orientated companies (see the following section). The German government reserves the right to adopt a legally binding regulation if the NAP does not achieve its goal.

However, according to current information, companies will be given more time to implement human rights due diligence processes.

Many countries worldwide have already adopted National Action Plans or are in the development process. The requirements with respect to human rights due diligence in companies are therefore increasing, not only in Germany.

The Appendix to this Chemie³ Guide explains how the five NAP core elements can be implemented in practical terms.

THE UNITED NATIONS AS AN ENGINE OF SUSTAINABLE DEVELOPMENT

The United Nations promotes sustainability in the business context through a variety of initiatives. The Ten Principles of the UN Global Compact, which cover the areas of human rights, labour, the environment, and anti-corruption, deserve special mention. Many companies now see the UN Global Compact www.globalcompact.de as the fundamental standard for sustainability in their own business and in supply chain.

The 17 United Nations Sustainable Development Goals (SDGs, www.un.org) were adopted in 2015 and are another important driver of corporate sustainability. Alongside governments, companies have a crucial role to play in achieving the goals of the Agenda 2030.

CSR Reporting Obligation for large, capital market-orientated companies

The Federal Government's 'Act to Strengthen the Non-Financial Reporting of Companies in their Management Reports and Group Management Reports', also known as the 'CSR Reporting Obligation', applies to capital market-orientated companies with more than 500 employees and an annual turnover of more than 40 million euros. Since the 2017 financial year these companies are required to report annually on environmental, employee and social issues as well as on respect for human rights and the fight against corruption and bribery. This report also includes their main supply chains and associated risks.

Smaller companies are under no such legal obligation but still have plenty to gain by publishing a sustainability report. For example, it means they are better prepared to respond to customer enquiries (e.g. as part of an EcoVadis assessment) and can document targets, measures, and key indicators.

All 28 EU member states have since passed national laws implementing the EU Directive 2014/95/EU.

The EU Regulation on Conflict Minerals and regulations from other countries

In order to prevent the financing of armed groups in conflict areas, the EU adopted a regulation in May 2017 on due diligence in the supply chain for so-called conflict minerals. The Regulation prescribes a binding due diligence process (see glossary) for suppliers, smelters and refiners of tin, tungsten, tantalum and gold, plus the respective ores, within the EU and refers to the corresponding OECD due diligence guidance. In addition, the EU Commission calls on large companies to report in detail on conflict minerals in fulfilling their CSR Reporting Obligation (see previous section). The Regulation will enter into force on 1 January 2021.

The EU regulation was based on the Dodd-Frank Act, adopted by the US government in 2010, and also obliges companies to make their supply chains of tin, tantalum, tungsten and gold transparent. Further, it requires companies to prove that no armed conflicts in the Republic of Congo and the surrounding areas are financed by the extraction and processing of raw materials.

Other countries are also raising transparency requirements in order to improve companies' sustainability performance.

In 2015 Great Britain adopted the UK Modern Slavery Act. This law requires companies with annual turnover in the UK of more than GBP 36 million to submit a statement on how they combat human trafficking and forced labour in their supply chains. This affects all companies that produce and/or sell their products in the UK. Examples of Modern Slavery Act Declarations of Conformity can be found in the register of the Business & Human Rights Resource Centre (www.business-humanrights.org).



CHEMIE³ TOOLBOX

With its practice-orientated Guide to Basic Sustainability Reporting for medium-sized companies in the chemical industry and its other tools, Chemie³ provides tailored support for SMEs with regard to reporting.

The *Devoir de Vigilance* Act (“Duty of Due Diligence”) adopted in France in 2017 requires companies to report on their due diligence process and management approach to compliance with human rights and environmental standards in their supply chains. The law applies to large companies with headquarters in France and more than 5,000 national or more than 10,000 international employees. The law is aimed at suppliers in developing countries, but German companies supplying large French companies may be affected by foreign locations or sub-suppliers.

These laws also directly or indirectly oblige German companies to comply with human rights and sustainability standards in their supply chains.

Financial market requirements

Banks already take the sustainability performance of companies into account when deciding whether to grant loans. Valuation methods designed to make it easier to assess the credit default risk are being applied by banks worldwide – only partly transparently for borrowers – or are currently being tested (in response to the regulations of the Basel III Committee of the Bank for International Settlements (BIS) on the Regulation of Banks, aka “Basel III”, among other factors). The evaluation is based either on publicly available information, for example from sustainability reports, or on data and facts collected using a questionnaire. A high score can lead to lower financing costs.

Insurance companies are also increasingly demanding information to be able to better assess significant sustainability risks at the premises of policyholders or along their supply chains. If companies provide evidence that they can reduce or eliminate sustainability risks through adequate management approaches, they have a better chance of lower insurance premiums.

Listed companies have known the financial market requirements regarding the disclosure of sustainability performance for years. Institutional investors and rating agencies use specific indicators to evaluate the sustainability performance of companies, usually abbreviated as ESG (Environmental, Social, Governance), and to make investment decisions or give recommendations on these.

Many medium-sized companies in the chemical industry are part of the supply chain or partners of listed companies, and as such are increasingly requested by them to submit proof of compliance with sustainability standards.



EXPERT TIP

WHICH LAW APPLIES TO MY COMPANY?

- **UK MODERN SLAVERY ACT:** check whether you generate more than GBP 36 million in sales revenue per year in the UK and are therefore affected by the UK Modern Slavery Act.
- **DEVOIR DE VIGILANCE:** check whether you supply large French companies and procure raw materials from developing countries yourself.
- **DODD-FRANK ACT/ EU CONFLICT MINERAL REGULATION:** check whether you import and/or process the minerals tin, tantalum, tungsten and gold from conflict regions.

B2B customers: good sustainability performance as a condition of business relationships

Customers from all sectors make demands on the chemical industry, including its supply chains, with regard to systematic sustainability management. Good sustainability performance, backed up by goals, measures and key indicators, is increasingly a prerequisite for establishing or continuing business relationships. This demand does not stop short of the supply chain. Industry solutions have proven their value in evaluating and reviewing suppliers together. Examples include the Business Social Compliance Initiative (BSCI), the Roundtable on Sustainable Palm Oil (RSPO), the Initiative for Responsible Mining Assurance (IRMA), and Sedex Global (see Chapter 2, Building Block 4; Appendix).

Major companies in the chemical industry created the Together for Sustainability (TfS) initiative. They require their suppliers to carry out an EcoVadis assessment and/or an audit to assess their sustainability performance and to work on improvements (see Appendix).

Companies that can prove their sustainability performance in addition to quality, price and delivery time increase their chances of surviving in global competition, while companies that do not meet these requirements run the risk of criticism and decreasing or disappearing orders.

SUMMARY

- The legal requirements for companies worldwide to report transparently on compliance with human rights as well as environmental and labour standards are increasing. This includes requirements for the respective management systems.
- The financial market and business customers are also increasingly demanding evidence of compliance with relevant standards along the supply chain.
- Major companies in the chemical industry have founded the Together for Sustainability initiative. They require their suppliers to carry out an EcoVadis assessment and/or an audit to assess their sustainability performance and to work on improvements.
- Transparency requirements specific to large enterprises are also relevant for medium-sized companies, since large enterprises demand proof of sustainability performance from their direct suppliers, also along their supply chains.
- Companies that meet these requirements particularly well increase their attractiveness as suppliers, while those who do not show any improvement even after repeated requests run the risk of persistent criticism and decreasing or disappearing orders.
- Managing relevant sustainability topics along the supply chain is important for future competitiveness and is considered an expression of a modern approach to business.

02 GUIDE TO BUILDING SUSTAINABLE SUPPLY CHAIN MANAGEMENT

Chapter 2 contains the Chemie³ Guide to building sustainable supply chain management. This Guide describes six proven Building Blocks and tools that support primarily small and medium-sized companies in the chemical and pharmaceutical industry in establishing sustainable supply chain management.

It shows methods for creating transparency in supply chains, including identifying and assessing risks. In addition, processes and tools are presented with which companies can develop their purchasing management and select those suppliers whose sustainability performance is demonstrably at the level required.

In this chapter find out how sustainable supply chain management can be systematically developed in your company through six Building Blocks.

Building Blocks for sustainable supply chain management



The Guide to building sustainable supply chain management comprises six Building Blocks that complement each other and should therefore be worked through in the order in which they are presented here.

Companies that have already implemented initial measures and made progress with these can use the Building Blocks to identify any gaps and improve the existing elements, which helps them to continue developing their management approach.



Preparation

To achieve the maximum impact it is recommended to form a working group in which the various functions are represented (e.g. Purchasing, Product Development, Quality Control, Sales, as well as Sustainability, Works Council and Communications, as applicable).

Jointly determine the status quo in your Purchasing Management. For guidance, you can use the supply chain management inventory  checklist available in the  members area, as well as the following questions:

- Which raw materials have the highest purchasing volumes? Which are especially important to your company?
- How transparent are the supply chains for the most important raw materials at present?
- Have there been incidents in the past regarding suppliers' failure to comply with sustainability standards?
- What criteria exist for selecting suppliers?
- How many active suppliers does your company have?
- How have suppliers to date been held to your company's standards (e.g. GTC, conditions of purchase)?
- How are the current Purchasing/Quality Management conditions monitored (e.g. site visits)?
- What requirements are set out by legislation currently in force, the company's customers and other stakeholders, if applicable? Is specific evidence, external assessment or audit required (e.g. EcoVadis assessment or Tfs audit)?

It is best to discuss the responses in a workshop and work out any actions your company needs to take. Determine the status quo of your supply chain management, decide which of the six Building Blocks you should start with, and create a schedule. Coordinate your approach with the executive management.

CHEMIE³ TOOLBOX

You can find a checklist to inventory your current supply chain management in the  members area.

BUILDING BLOCK 1

Identify sustainability topics in supply chains and assess risks

Identify sustainability topics

Identifying the relevant sustainability topics is a prerequisite for establishing effective supply chain management. This applies to all direct suppliers (tier-1) and, in the case of particularly relevant products or product groups, the corresponding upstream suppliers (tier-n) and the entire supply chain where necessary. This requires transparency regarding upstream process steps and potential sources of risk. At the same time, transparent supply chains enable companies to identify opportunities in good time.

A selection of sustainability topics in supply chains can be seen in the diagram below. The Chemie³ initiative's sustainability indicators offer further topics

(🔗 www.chemiehoch3.de).

To identify potentially relevant sustainability topics in supply chains, we recommend the following process:

- Compare the list of topics with sustainability topics known in your company. Consider the issues identified by the Chemie³ sustainability check or an equivalent materiality analysis.
- Ask your colleagues, e.g. in Purchasing, Quality Management, Sales and the Works Council, about known incidents at suppliers or in their supply chains. Think of specific incidents (such as reported incidents, breakdowns, strikes), as well as suspected incidents (such as child labour in small mines in Asia or Latin America).
- Use sustainability reports issued by major companies in the chemical industry to learn from their experience with regard to the relevance of supply chain issues and identify potentially relevant topics for your own company.

SUSTAINABILITY TOPICS IN SUPPLY CHAINS (SELECTION)			
ENVIRONMENTAL TOPICS	SOCIAL TOPICS		ECONOMIC AND PRODUCT TOPICS
	Working conditions	Human Rights	
<ul style="list-style-type: none"> • Biodiversity protection • Conservation of resources • Emissions • Energy use • Land use • Pollution • Waste • Water/waste water 	<ul style="list-style-type: none"> • Fair remuneration • Fire and building protection • ILO-compliant working hours • Occupational health and safety 	<ul style="list-style-type: none"> • Freedom of association and right to collective bargaining • Prohibition of discrimination/legal equality • Prohibition of exploitation of children • Prohibition of slavery, human trafficking and forced labour 	<ul style="list-style-type: none"> • Anti-corruption • Compliance • Plant safety • Product safety • Regional value creation • Traceability • Transport safety

APPROACHES TO ASSESSING SUSTAINABILITY TOPICS AND RISKS IN SUPPLY CHAINS


There are several approaches that can be used in the assessment and prioritisation of sustainability topics and risks in supply chains. We present four of them in the following section, from which you can select the one that best matches your company's requirements.

Four approaches are explained below. Approach III, Pragmatic Supply Chain Risk Assessment, is described in detail as it was developed and tested as part of the pilot project.

- I. Pragmatic Supplier Selection Matrix
- II. Country and Sector Risk Assessment
- III. Pragmatic Supply Chain Risk Assessment
- VI. Extensive Supply Chain Analysis

APPROACHES TO ASSESSING SUSTAINABILITY TOPICS AND RISKS IN SUPPLY CHAINS				
Information at	APPROACH I: Pragmatic Supplier Selection Matrix	APPROACH II: Country and Sector Risk Assessment	APPROACH III: Pragmatic Supply Chain Risk Assessment	APPROACH IV: Comprehensive Supply Chain Analysis
Supplier level	✓	-	✓	✓
Commodity/pro- duct-group level	-	-	✓	✓
Industry level	-	✓	✓	✓
Country level	-	✓	✓	✓
RESULTS	Scoring based on risk sources such as development status of the production country and degree of production automatisisation	Risk overview by country and industry	(Qualitative) overview of key sustainability risks in the supply chain Basis: literature and media reports as well as personal experiences in companies	Detailed (qualitative and quantitative) overview of relevant sustainability risks by topic area, country and supply chain stage Basis: comprehensive literature and media analysis as well as expert interviews

APPROACH I: PRAGMATIC SUPPLIER SELECTION MATRIX

The Pragmatic Supplier Selection Matrix is an Econ-sense tool that is well suited to an initial prioritisation of direct (tier-1) suppliers (see  toolbox). You can use it to evaluate suppliers based on criteria such as purchasing volumes or share of sales, production location (OECD/ non-OECD country), degree of automation, and sensitivity to products among consumers. This allows the identification of suppliers for whom there may be a risk of non-compliance with sustainability standards. You can then plan further measures on this basis, e.g. on-site visits or audits (see Building Block 4).

However, the results do not provide any factual information as to whether a supplier is non-compliant. External sources of information about potential sources of risk at direct suppliers are not taken into account, nor is information about indirect suppliers (upstream steps in the supply chain). More demanding transparency requirements, e.g. a due diligence process within the meaning of the UK Modern Slavery Act, are not sufficiently fulfilled by a pragmatic decision matrix.



CHEMIE³ TOOLBOX

In the Chemie³  members area you will find a template for using the Pragmatic Supplier Selection Matrix.

- **PRO:** an easy to implement, simple to use, pragmatic filter for further supplier assessments
- **CON:** not suitable for complex supply chains due to its focus on direct suppliers; few assessment criteria; does not include external information



ONLINE SOURCES FOR IDENTIFYING TOPICS AND RISKS (SELECTION)

FREE RESOURCES:

- **Business & Human Rights Resource Centre:**
www.business-humanrights.org
- **CSR Risk Check:**
www.mvorisicochecker.nl/en
- **Human Rights Watch:**
www.hrw.org/de
- **ILO Statistics and databases:**
www.ilo.org/global/statistics-and-databases/lang--en/index.htm
- **Transparency International:**
www.transparency.de
- **World Resource Institute:**
www.wri.org

PAID RESOURCES:

- **Maplecroft:**
www.maplecroft.com
- **Reprisk:**
www.reprisk.com
- **Schlange & Co:**
www.schlange-co.com

APPROACH II: COUNTRY AND SECTOR RISK ASSESSMENT

The Country and Industry Risk Assessment allows you to identify and assess sustainability risks in the countries where your company's direct suppliers are headquartered. The aim of the analysis is to find out whether your company obtains (raw) materials from a country and/or industry in which compliance with minimum social and environmental standards is not, or is only partially ensured. The results help decide which topics to focus on when reviewing suppliers in a more targeted way (see Building Block 4) and supporting them in improving their sustainability performance (see Building Block 5). In addition to the direct supplier sector (chemical industry), indirect supplier sectors can also be evaluated, e.g. mining (metal/mineral), or the agricultural sector.

When assessing country and industry risks, use publicly available sources containing country and/or industry-specific information and global rankings as a guide. The Environmental Performance Index compiled by Yale University in the United States provides international information on environmental topics (www.epi.yale.edu). For social topics, sources such as the country-specific Human Rights Reports by the U.S. Department of State are suitable (www.state.gov). The Corruption Perception Index (CPI) compiled by Transparency International (TI) assesses the corruption risk of individual countries and sectors. In addition, the websites of the United Nations and the International Labour Organization (ILO) show which states have already signed which conventions. Not having signed internationally recognised conventions is an indication of non-compliance with standards in a country. Make sure that the sources you analyse are up to date.

- **PRO:** assessment can be made on the basis of publicly available information, provides comparison of risks between countries/sectors and is transferable to other raw materials and product groups from the same country or sector

- **CON:** no assessment of specific risks at raw material/product group level

APPROACH III: PRAGMATIC SUPPLY CHAIN RISK ASSESSMENT

The focus of this Guide is on the Pragmatic Supply Chain Risk Assessment, which was developed especially for small and medium-sized companies in the chemical industry. The analysis focuses on product groups and raw materials from selected countries of origin. Both internal and external information about compliance with sustainability standards is taken into account. The pragmatic supply chain risk assessment creates transparency about upstream process steps up to the raw material level.

- **PRO:** can be carried out by SMEs themselves; takes into account not only internal but also external information; analyses the whole supply chain

- **CON:** requires knowledge about sustainability topics and personnel resources

The Pragmatic Supply Chain Risk Assessment is carried out in four steps (A to D), which are described in more detail following Approach IV.



CHEMIE³ TOOLBOX

RISK-TOOL

In the Chemie³ members area you will find a risk tool (Excel table) that you can use for performing the Pragmatic Supply Chain Risk Assessment.

APPROACH IV: COMPREHENSIVE SUPPLY CHAIN ANALYSIS

Research institutes and specialised consultancy firms offer comprehensive supply chain analyses.

The quantity and depth of information that is analysed and assessed for each topic, phase and country significantly exceeds the scope of the Pragmatic Supply Chain Risk Assessment. It is based on a comprehensive analysis of the literature and sources, including those in the local language. Further, local expert opinions are included in the analysis, e.g. via telephone interviews or online surveys.

An evaluation of internally available, supplier-specific information (e.g. self-disclosure, audit reports) can also take place and be included in the risk assessment.

In addition to building sustainable supply chain management, a Comprehensive Supply Chain Analysis pro-

vides insights that can be used to optimise processes and products and to raise awareness within your own company.

For example, a heatmap, the outcome of the Schlange & Co. Hotspot Analysis, allows you to see at a glance which sustainability topics can pose a risk in which phases of the supply chain (see following diagram).

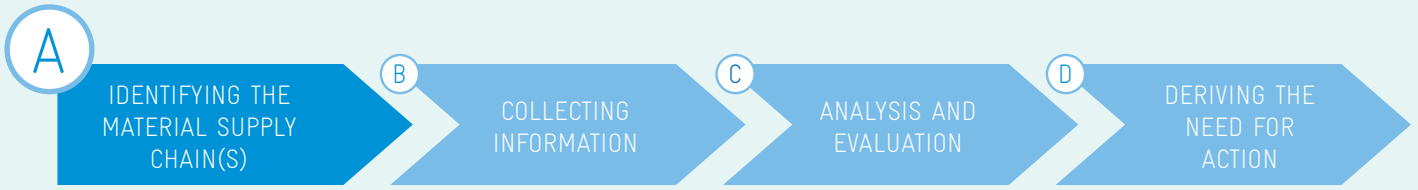
- **PRO** delivers reliable information and the latest findings along the entire supply chain
- **CON**: requires technical and foreign language expertise and a local expert network; time expenditure usually too high for SMEs

THE HEATMAP INDICATES POTENTIAL SUSTAINABILITY RISKS ALONG THE SUPPLY CHAIN (EXAMPLE)

SUSTAINABILITY TOPICS		RAW MATERIAL EXTRACTION	PROCESSING I	PROCESSING II	YOUR COMPANY
Environmental topics	Waste	High	Low	None	None
	Energy use	Medium	Medium	Low	None
	Emissions	High	Medium	Low	None
	...	None	None	None	None
Social topics	Occupational health and safety	High	Medium	Low	None
	ILO-compliant working hours	Medium	Medium	None	None
	Prohibition of discrimination/legal equality	Low	Low	None	None
	...	None	None	None	None
Economic topics and product responsibility	Anti-corruption	High	Low	None	None
	Compliance	Medium	Low	None	None
	Product safety	None	Low	Low	None
	...	None	None	None	None



APPROACH III: PROCESS STEP A OF THE PRAGMATIC SUPPLY CHAIN RISK ASSESSMENT



A Step A: Identifying the significant supply chain(s)
 In addition to the internal inventory, the risk assessment itself should always be preceded by a careful selection process of the raw materials, components and preliminary products to be analysed.

Concentrate on the supply chain(s) for which:

- a) you already have indications of inconsistencies (e.g. outdated certificates, quality problems, stakeholder enquiries, known incidents – including those at competitors)
- b) you have little or no transparency or suspect a risk
- c) there is strategic relevance for your company (e.g. high purchasing volumes, production-critical materials).

Create a two-dimensional matrix, for example on a flip-chart (see below for a possible format), and classify the product groups, preliminary products and raw materials eligible for risk assessment according to purchasing volumes or strategic relevance as well as the potential sustainability risk already suspected. This is not about deriving specific values, but an initial assessment. Supply chains about which you only have little information should be classified as potentially risky.

Use your findings from the internal inventory for the classification (see page 13). A workshop with all relevant departments has proven its value in this process.

For a more in-depth risk assessment, select purchasing materials that either have a high purchasing volume and/or high strategic relevance for the company and/or which carry the potential of high risk.

Initially, select one to three supply chains for the risk assessment. Sketch out the processing steps for each (e.g. raw material extraction, further processing, transport) that you want to investigate as part of the risk assessment.

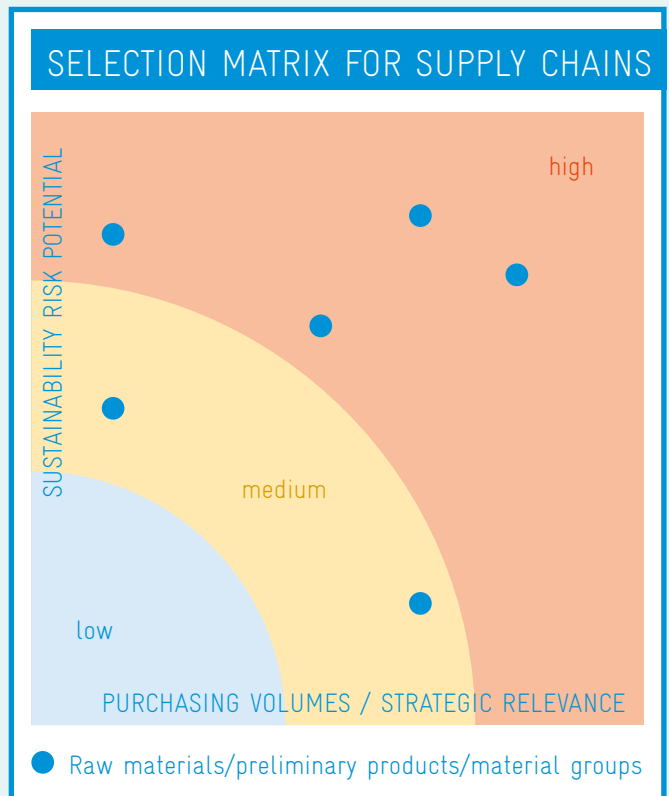
The result of this phase should be an overview of the processing steps to be analysed and the relevant countries of origin per processing step and raw material/material group (see risk tool in the members area). The internal responsibilities for carrying out the risk assessment should also be established.



EXPERT TIP



IN ORDER TO ACHIEVE MAXIMUM TRANSFERABILITY OF RESULTS, CHECK THE SELECTED RAW MATERIALS/ GROUPS OF GOODS FOR COMMONALITIES:

- Do different raw materials/product groups have the same origin, or are they mined or processed together?
- Are the pre-processing stages of different raw materials/product groups similar, so that knowledge can be transferred to other raw materials/product groups if necessary?
- Are there different raw materials/product groups from the same countries – and can certain structural problems be transferred to other raw materials/product groups?




APPROACH III: PROCESS STEP B OF THE PRAGMATIC SUPPLY CHAIN RISK ASSESSMENT

**B** Step B: Collecting information

For information collection and further risk assessment use the Chemie³ initiative's  risk tool, which is available for download in the  members area, to carry out the Pragmatic Supply Chain Risk Assessment. Record possible risk sources for each country and processing step on the basis of the information you gathered during the internal inventory.


Gather more detailed information on sustainability risks that may occur during the processing steps along the supply chain and for each country. Follow the predefined topic list as a guide for your research. Use internal information, e.g. known incidents at your own suppliers, or recurring problems with suppliers from certain countries/industries/companies. Try to shed light even on opaque spots in the supply chain.

To do so, access publicly available information on non-compliance with sustainability standards in the relevant countries of origin, the supplier industry and specific subcontractor companies, where applicable. Also search for reports about relevant sustainability risks in related sectors and in competitors' supply chains. Stakeholders such as non-governmental organisations that deal with the relevant countries or purchasing materials should be consulted as well. In addition to general research using common internet search engines, the databases listed in the information box on page 16 and in the  risk tool are particularly suitable for specific research on countries, sectors and raw materials. If there are still blanks in the overview at the end of your research, external experts from universities, NGOs, industry associations or trade unions can also provide information.

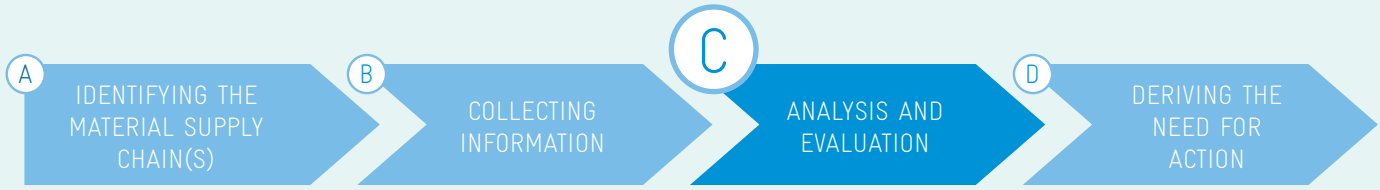
The result of the information collection is a list of potentially risk-prone topics per supply chain level and country for each raw material/product group.



EXPERT TIP

- For your external research, also refer to the sources mentioned in the  risk tool. Some of these contain standardised (i.e. comparable) information at country, sector and raw material level.
- As part of your free-form internet research, look for specific information on non-compliance with environmental, labour and social standards, as well as incidents of corruption.
- Entering keywords such as "child labour in mining for" and multilingual searches can further increase the quantity and precision of hits.

APPROACH III: PROCESS STEP C OF THE PRAGMATIC SUPPLY CHAIN RISK ASSESSMENT



C Step C: Analysis and evaluation

Following information gathering, the collected data need to be analysed and evaluated. A topic’s risk level is assessed by country and processing step and describes the probability of non-compliance occurring in each respective processing stage. A two-step approach is recommended for classifying risk levels on a scale from low to high: firstly, check whether the information collected indicates relevant violations in your supply chains. Then adjust to what extent you can already control and/or exclude identified risks for your company (see risk tool).

Be guided in your risk classification by the criteria of severity and frequency, along with the following key questions:

1. Are there internal or external indications of violations/ structural problems:

- in your own supply chains/at your own suppliers/ sub-suppliers?
- in the supply chains of competitors or of companies in similar sectors?
- with regard to the raw material/product group in general?
- in the relevant countries of origin in general?

2. Does your company have a robust management approach, and do you already manage the identified risks sufficiently? Can you rule out the risks for your supply chains completely?

Use the risk tool developed by the Chemie³ initiative to assess the risk level.

Validate your insights in discussions with people who have local experience, such as buyers, auditors, business partners or consultants.

The result of this analysis and evaluation is an aggregated tabular overview of the sustainability topics and their risk levels (on a scale from low to high) per country and processing level along the selected supply chains. For an example of such a risk overview, also known as a ‘heatmap’, please see page 19.

THREE CASE STUDIES SHOW THE RECOMMENDED RISK LEVEL

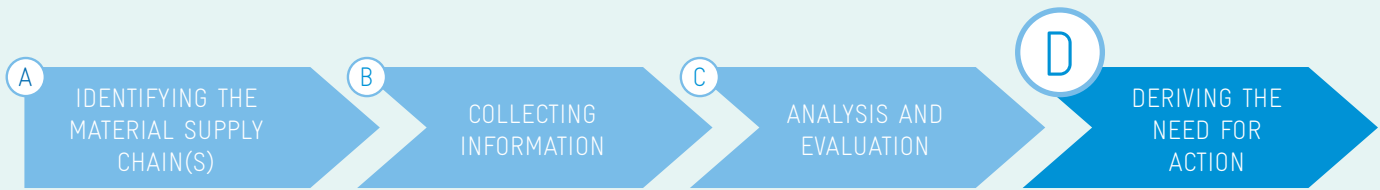
- **EXAMPLE 1:** You have information that a particular supply region is a water stress area. It is also well known that the chemical industry produces a lot of waste water locally. Your suppliers have not yet been checked for sustainability aspects, e.g. there is no evidence of an environmental management system. The risk should be classified as medium to high as long as no additional information is available.
- **EXAMPLE 2:** Your direct supplier is not willing to disclose information about its supplier network. However, it is well known that mineral resources of the required quality are only mined in three regions. Various sources, including a local NGO, confirm that child labour is a structural problem in two of the three regions. This risk should be classified as high.
- **EXAMPLE 3:** According to an NGO report, the extraction of renewable raw materials in a country bordering on one of your supplier countries for vegetable tanning agents repeatedly leads to violations of international labour standards. There are no indications that these accusations also affect your supply country, but also no indications that this is not the case. The risk is classified as low to medium.



EXPERT TIP

Globally positioned companies are increasingly in the public eye and there is sometimes very specific information on their sustainability performance. Check whether your suppliers are named there as well (see e.g. Corporate Human Rights Benchmark: www.corporatebenchmark.org; Aktiv gegen Kinderarbeit: www.aktiv-gegen-kinderarbeit.de/firmen/firmenliste).

APPROACH III: PROCESS STEP D OF THE PRAGMATIC SUPPLY CHAIN RISK ASSESSMENT

**D** Step D: Deriving the need for action

Determine the need for action on the basis of your risk assessment. Use the results to prioritise the next steps. Give priority to the topics, countries and processing stages that have been assessed with medium to high relevance. The following steps are recommended for topics with medium or high risk:

- Internal awareness (especially for buyers)
- Review of the rules and regulations and, if necessary, inclusion of the topics in the Code of Conduct and the description of the requirements (see Building Block 2)
- Prioritisation of affected suppliers for next steps (e.g. discussions with suppliers, on-site visits, supplier assessments by means of self-disclosure or audit), including the upstream processing stages or indirect suppliers if necessary (see Building Blocks 3 and 4)
- If required, set up crisis management for particularly critical issues.

Keep an eye on topics, countries and processing stages with low risk or little information and monitor future developments continuously. The risk assessment should be repeated at regular intervals and extended to other commodity groups.


For detailed information on the individual steps, please refer to the following Building Blocks 2 to 6. Ensure that all relevant decision-makers in the company are aware of the results of the risk assessment. In addition, the next steps and the need for further action should be coordinated. By carrying out a Pragmatic Supply Chain Risk Assessment you have created a solid basis for the development of a company-specific supply chain management system.

**EXPERT TIP**

Present the results of the risk analysis to a larger internal audience and involve management representatives in the discussion on actions needed at an early stage.

BUILDING BLOCK 2

Develop a policy framework

Once you have identified the critical issues in your company's supply chains, you and your colleagues should determine, with the involvement of management, which rules suppliers need to follow. A Code of Conduct is an instrument for anchoring core values, compliance and company-specific requirements (including those relating to sustainability) within the company and with suppliers. In the Chemie³ members area you will find a basic Code of Conduct which you can use or edit for your own company (see  toolbox).

Structure and contents

Proven Codes of Conduct follow a tripartite structure:

1. Introduction

- Your company's overall objectives and expectations
- Company values
- Reference to company strategy and internationally recognised guidelines and standards.

2. List of topics and rules

- Basis: Employee Code of Conduct (where this exists), existing purchasing rules, and identified critical sustainability topics in supply chains (see Building Block 1)
- Also: Chemie³ basic Code of Conduct and customers' Codes of Conduct
- Contents: expectations, prohibitions, obligations, proposals.

3. Implementation and requirements

- Implementation information
- Reference to monitoring and sanction mechanisms for violations
- Request to pass on the Code of Conduct to upstream suppliers and monitor them.

IMPORTANT: as before, a working group with representatives of the relevant functions (e.g. Purchasing, Environmental department, Human Resources, Works Council, Sales, Legal department) should develop the Code of Conduct; executive management should of course also be involved.

Implementing the Code of Conduct

All suppliers must know and adhere to the Code of Conduct. It should therefore be available on your website and be an integral part of purchasing contracts. There is no binding legal basis for Codes of Conduct, but various approaches exist to ensure its legal validity:

- The Code becomes an integral part of the contract when it is agreed. A corresponding clause should be included in the contract, e.g. in sales confirmations or orders.
- The Code is signed off by your supplier's top management (normally their Executive Board).




EXPERT TIP

- The supplier Code of Conduct should be based on the rules/Code of Conduct for your own employees to increase acceptance by your suppliers. If your company does not yet have an internal Code, one should be implemented.
- Codes of Conduct remain mere paper tigers unless acceptance and/or compliance are monitored (see Building Blocks 3 and 4).
- If suppliers have their own Code of Conduct, it should be recognised after comparing the most important issues. On the initiative of the VCI, industry has developed a joint model agreement for the mutual recognition of supplier Codes. For further information and sample texts for dealing with Code violations, please see www.vci.de.



CHEMIE³ TOOLBOX

BASIC CODE OF CONDUCT

In the Chemie³  members area you will find a basic Code of Conduct for suppliers to the chemical industry as well as an introductory document for using this template and implementing the Code. If your company already has a Code of Conduct, you can check it against the template and add any missing content.

BUILDING BLOCK 3

Inform and prioritise suppliers

You have reached an important milestone with the creation of the Supplier Code of Conduct. The next step is to communicate its content, ideally through dialogue, and to review suppliers' compliance.

Inform suppliers

Inform the suppliers of:

- how your company defines sustainability
- why your company is making (new) demands on suppliers
- what is expected of suppliers
- what happens if the expectations are not met (escalation process, see Building Block 5)
- what support your company offers, if required
- which advantages result for suppliers (point out the business case: rewards, e.g. 'Preferred Supplier' status, long-term perspectives, awards, etc.).

A letter from your company management, the Executive Board or the Purchasing Manager to the suppliers, is recommended. You can also include a brief explanation on your company website or in the Purchasing portal (if available). The requirements described in the Code of Conduct and the monitoring system (see Building Block 4) should also be addressed in regular purchasing discussions with suppliers. Larger companies use events for and with suppliers, e.g. a Supplier Day, to provide information on sustainability objectives, the business case for sustainability, and the Code of Conduct.

Important: suppliers will ask questions. You should therefore establish organisational conditions for dealing with these and/or feedback (contact persons, processes, etc.). For strategic suppliers who do not yet comply with the standards, problem-solving in partnership can make sense. Depending on the size of the company, you may consider providing support material, e.g. a frequently asked questions (FAQ) document (more on this in Building Block 5).

Sustainable supply chain management is successful if it is based on trust. Sustainability must not be used as an argument for pushing prices down. Rather, your company should demonstrate that it lives up to its own sustainability objectives. Aim to get your suppliers on board in this effort as partners.

Two processes need to be distinguished in communicating with suppliers:

1. Inclusion of existing suppliers: they must be informed about your sustainability requirements. Carry out a step-by-step review of sustainability performance based on your prioritisation (see Building Block 4).
2. Inclusion of new suppliers: the selection process for new suppliers should be supplemented with criteria for assessing sustainability performance. You can give them the Code of Conduct when you first contact them, or provide it for download on your company's website.

Prioritise suppliers

While all existing and new suppliers must know your Supplier Code of Conduct, only selected suppliers should be reviewed more closely. Many companies filter and prioritise their direct suppliers (tier-1) according to the following criteria:

- **Sustainability risk potential** by supplier or product group: due to country or sector risks, due to insights from risk analysis (see Building Block 1), or due to known or suspected violations of the Code of Conduct
- **Supplier type**: distributor, importer, manufacturer etc. and degree of automation where applicable
- **Strategic relevance of the supplier**: purchasing volumes, exclusivity, innovative power, options for substituting the (raw) material etc.

The following diagram gives an example overview of the possible prioritisation of direct suppliers depending on the specific criteria and possible options for action.

Suppliers with high priority (A) should be verified during on-site visits or audits, in addition to a self-disclosure. For suppliers with B priority, it is generally sufficient to obtain self-disclosure (see Building Block 4). If your direct supplier is a distributor, it is a good idea to ask for certificates.

Dealing with indirect suppliers (tier-2 to tier-n)

Companies that want to make a product more sustainable, or reduce specific sustainability risks for a product group, must also know and involve upstream suppliers along the supply chain. This is particularly important if the direct supplier is based in Germany, for example, but purchases goods from countries or industries that present risks.

Knowing the upstream suppliers (tier-2 to tier-n) and obliging or monitoring them for compliance with sustainability standards is a challenge and requires intensive cooperation with direct suppliers.

Address the problem in discussion with your direct suppliers, ask them for more detailed information about their compliance with sustainability standards in other upstream process stages, and ensure that your set of rules obliges your suppliers to pass the requirements into their supply chain (cascade effect). Work to gain the support of your direct suppliers in order to gradually bring more transparency into your upstream supply chain and receive the necessary information. If necessary, find out more about cross-industry solutions.

PRIORITISING DIRECT SUPPLIERS (EXAMPLE)

Assessment Criteria

	SUSTAINABILITY RISK POTENTIAL	PURCHASING VOLUME	IMPORTANCE FOR PRODUCTION	...	PRIORITY	OPTIONS FOR ACTION
Direct Supplier 1	high	high	high	...	A	<ul style="list-style-type: none"> • Producer: self-assessment and audit/local visit • Distributor: self-assessment, ask for certificates
Direct Supplier 2	high	low	low		A	Check whether supplier can be replaced
Direct Supplier 3	medium	medium to high	medium to high		B	<ul style="list-style-type: none"> • Producer: self-assessment • Distributor: self-assessment, ask for certificates
Direct Supplier 4	low	low	low to high		C	No other measures

The following Building Blocks 4 and 5 provide more detailed information on the various options for action and on dealing with suppliers with different priorities.

BUILDING BLOCK 4

Assess and monitor suppliers

From policy framework to monitoring

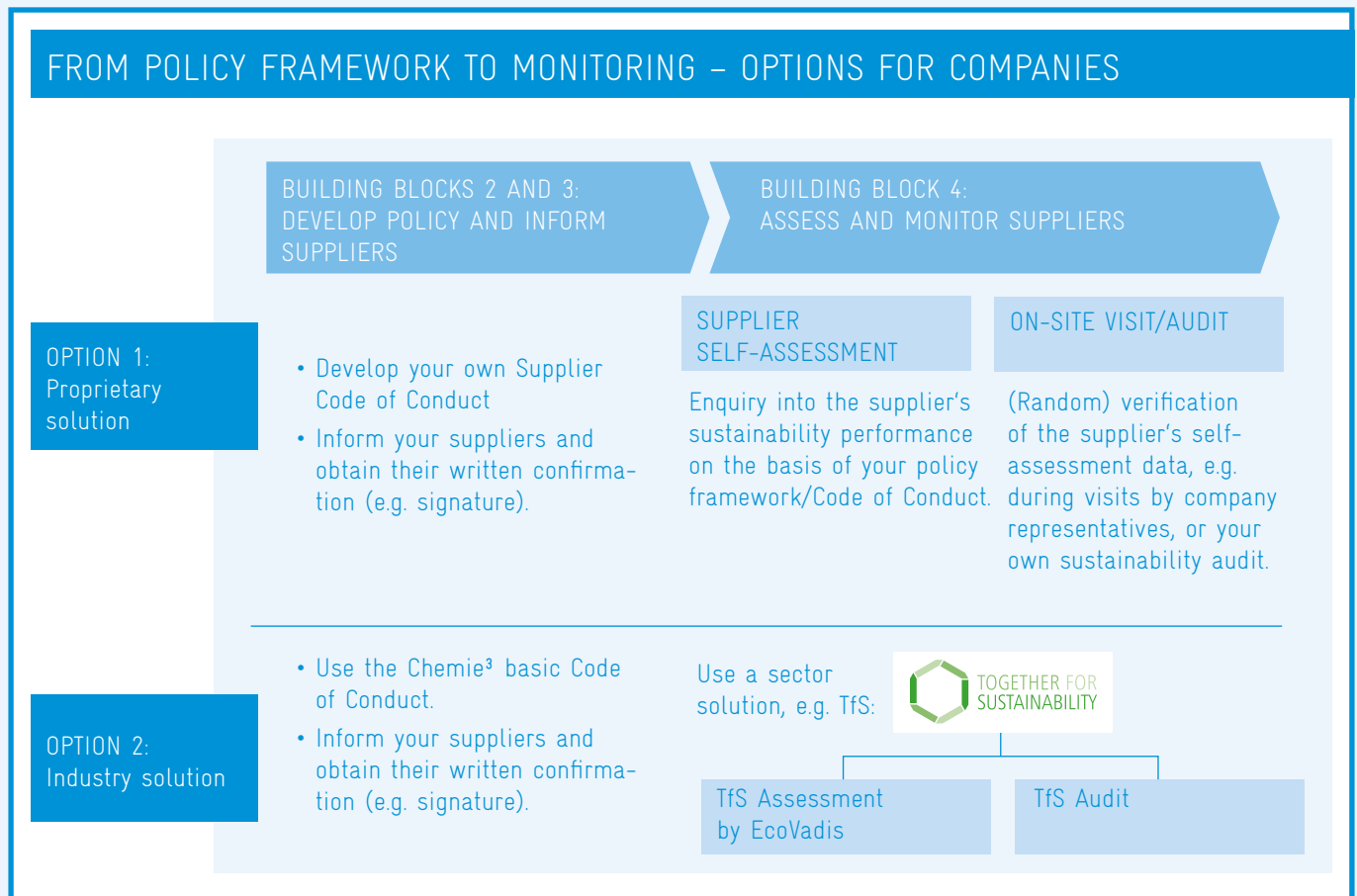
Two of the most important steps in establishing supply chain management are supplier assessment* and monitoring** based on your company's rules and regulations. This is the only way to measure the actual sustainability performance of relevant suppliers, confirm their compliance with rules and regulations (Supplier Code of Conduct), and thus assess their risk potential for your company.

Two evaluation approaches have proven their worth: supplier self-assessments and on-site meetings. Both approaches are presented below along with the advantages and disadvantages in the event that your company wishes to implement these methods on its own (see diagram, option 1).

We will then present the advantages and disadvantages of the use of an industry solution, e.g. within the Together for Sustainability (TfS) framework (see diagram, option 2).

The procedure described can also be used for selecting new suppliers if you make adjustments. Potential suppliers should provide the required proof before the first order is placed.

*Assessment: determining sustainability performance at a defined time
 **Monitoring: tracking supplier development based on recurring assessments



Supplier Self-Assessment

A supplier self-assessment should be obtained from all prioritised high and medium risk suppliers. It is usually based on your company's Code of Conduct, or on defined (sustainability) standards for an industry. A questionnaire is used to determine the degree to which the defined sustainability standards are being met.

The objective is to ask for descriptions of management approaches to compliance with the required sustainability standards, as well as concrete evidence such as ISO certificates, quality seals or sustainability reports. We do not recommend asking only yes/no questions, as experience has shown you will not gain many insights this way. Ask for this information both for the supplier as a whole (management approaches) and at site level (e.g. certificates). Initially, such a survey should take place every two to four years, but the trend is towards an annual cycle.

If you are already assessing your supplier's quality management you can supplement this with social and environmental criteria, for example. Especially in the case of distributors and processing companies, it can be useful to request information and documentation, for example sustainability certificates for raw materials and products. You should also ask your direct suppliers how they (intend to) monitor sub-suppliers (tier-2 etc.).

As already mentioned in Building Block 3, you need to inform suppliers sufficiently to explain the objective of the self-assessment and to raise supplier awareness. You should also emphasise that deviating from the regulations will not necessarily have immediate negative consequences for the supplier.

PROS (SUPPLIER SELF-ASSESSMENT)

- Pragmatic initial assessment of suppliers' sustainability performance.
- Raising suppliers' awareness of sustainability topics.
- Decision support for subsequent inspection instruments, e.g. on-site visits or audits.

CONS (SUPPLIER SELF-ASSESSMENT)

- Preparation and translation effort: questionnaires should be written in the local language. Replies will often be given in the local language.
- Capacities and experience are required to evaluate supplier self-assessments.
- If responses are incomplete or implausible, additional work is required.

The results of the supplier self-assessment should be taken into account in the selection of new suppliers and/or the evaluation of existing suppliers. Suppliers should receive some feedback on their results and next steps. If an active supplier does not yet meet relevant requirements, if questionnaire responses seem untrustworthy, or if suppliers refuse to answer the questionnaire, an escalation process should be triggered (see Building Block 5).

On-site visits and audits

For selected suppliers with higher risk potential, an on-site check may be useful or necessary in addition to the supplier self-assessment (see Building Block 3, Prioritising Suppliers).

An initial check on your supplier can be carried out by employees of your company during on-site visits, e.g. as part of product demonstrations or quality audits. The information provided by the supplier self-assessment should be spot-checked on this occasion. Even if no comprehensive sustainability audit is possible for reasons of time and qualifications, you can gain an impression of the working conditions and management practices. In this case, it is necessary to prepare or train your own employees for the on-site visit and avoid conflicts of interest between purchasing negotiations and the sustainability review. If you have a QM organisation that regularly performs supplier quality audits, you can use them to also check compliance with sustainability aspects.

If your company does not have the necessary capacity to carry out on-site visits or own audits, suppliers may be requested or obliged to have an audit performed by an independent auditor and submit an audit report or certification. This measure is suitable for certification of the environmental management system, for example.

Audits in particular are usually time-consuming and costly, so especially those suppliers or production sites that present a higher risk should be subjected to an on-site inspection (for further information, see also Building Block 1: Risk analysis as well as Building Block 3: Inform and prioritise suppliers). For suppliers with lower risk, it may be sufficient to have your own employees carry out on-site inspections as part of planned supplier visits. In any case, it is necessary to define responsibilities clearly for the evaluation and documentation of the results.

PROS (ON-SITE VISITS AND AUDITS)

- On-site inspections can be carried out in combination with a planned supplier visit.
- Personal impressions help to verify the results of the self-assessment and obtain evidence of good or insufficient supplier performance.
- Observations can form the basis of awareness-raising during face-to-face meetings.

CONS/LIMITS (ON-SITE VISITS AND AUDITS)

- An on-site visit cannot replace an audit.
- Expert knowledge is required to perform audits correctly.
- An audit only represents a snapshot of the situation on the ground; there is a danger that it does not illustrate routine, everyday processes.
- Audits carried out by your own company employees tend to be viewed as less credible by external stakeholders.
- Time and cost-intensive: resources are required for preparation, performance and evaluation.
- For audits: corrective action plans need to be written and their implementation monitored; this can be too high a workload for SMEs.

Industry solutions

Companies can carry out their own supplier evaluations, but the effort required is high: they have to work out assessment criteria and develop a questionnaire, which should be in the suppliers' own languages wherever possible. Execution is time-consuming, and the evaluation and interpretation of results require experience.

Instead of an independent supplier evaluation, it can also be performed as part of an industry solution or with the aid of a cross-industry supplier platform.

PROS (INDUSTRY SOLUTIONS)

- Evaluation criteria, methods and processes are defined that apply to the industry; these are then continuously developed.
- The results of supplier assessments that are part of an industry solution can be compared, and suppliers can make their results available to several customers. This increases suppliers' willingness to participate, since it avoids the time and resources needed for multiple evaluations and multiple audits.
- Suppliers and customers receive valuable information about suppliers' sustainability performance: opportunities for improvement are identified, and sustainability risks in the supply chain are minimised.
- The exchange of sustainability data and goals helps to strengthen mutual trust and the business relationship.
- For suppliers, the visibility of their sustainability performance, as well as any improvements made, could open up new business opportunities.
- The costs of setting up and maintaining the supplier assessment and monitoring systems are shared across the member companies.

CONS (INDUSTRY SOLUTIONS)

- Assessment criteria and evaluation methods are developed together with other companies, sometimes including other stakeholders. This means that some company specifics cannot be taken into account.
- Due to the need for agreement between all participating companies and/or members, the (reaction) time for taking decisions and ongoing development is slower.
- Some industry solutions only aim for a minimum standard, so that as many companies as possible can take part. Stakeholders may criticise this, and it can also discourage companies with good sustainability performance and high standards from joining such an industry solution.
- Industry solutions that do not include representatives of other stakeholder groups, or that have a strong predominance of the private sector, may be criticised by NGOs.
- If a member of an industry solution is in the public eye due to breaching sustainability standards, other members may also be exposed to critical questions.
- An industry solution also requires capacities from participating companies to regularly assess its effectiveness and continue developing the system.
- Industry solutions may have defined requirements for member companies, e.g. that X new audits must be submitted each year.
- Joining an industry solution implies costs.

You should consider which approach best suits your company – also with a view to the medium and long term. An exchange with customers who may already be members of an industry solution, or who use cross-industry supplier platforms and supply chain initiatives, helps here. Examples of these are Achilles, Business Social Compliance Initiative (BSCI), EcoVadis, NQC and Sedex Global.

The chemical industry initiative, Together for Sustainability (TFS), is presented as an example in the Appendix.

Assessment of supplier audit results

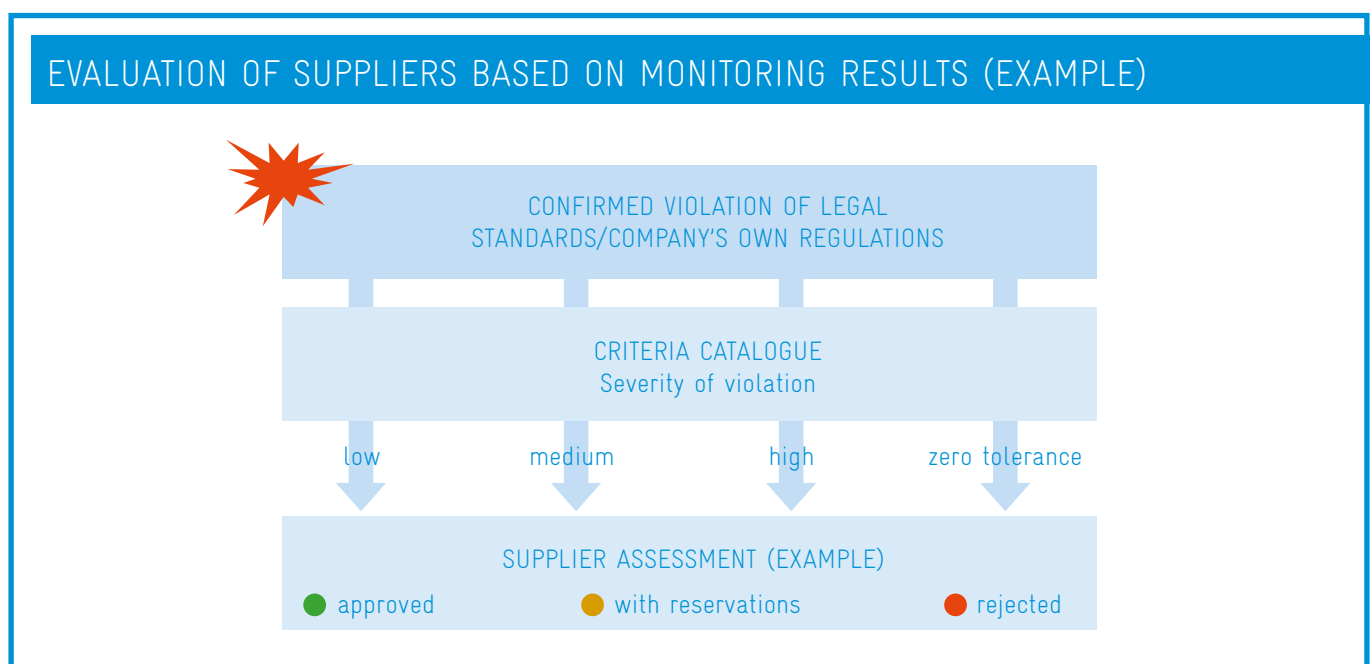
The results of the supplier audit should influence supplier evaluations and purchasing decisions. You can derive any deviations from the required rules and regulations on the basis of the results and findings from self-assessments and audits. Set up a criteria catalogue for these deviations so that you can define different degrees of severity. Serious violations could include working conditions that threaten life or health (e.g. lack of fire protection), serious environmental impacts, or serious violations of human rights. Less significant deviations could be a lack of documentation or expired certificates, for example. Define a zero-tolerance area, i.e., deviations

which if proven will cause your company to terminate the business relationship and to take (legal) action as required. Such zero-tolerance areas could be the detection of child labour or bribery attempts, for instance.

In general, take into consideration whether a supplier is unwilling to implement the measures, or whether they lack the required resources to do so ('not willing or not able') (see also Building Block 5 for Escalation Processes).

Based on the severity of violations, suppliers should be classified into categories such as 'unproblematic', 'critical' and 'highly critical'. In every case, you must determine the consequences that result from the evaluation, i.e. which corrective measures are stipulated for the supplier, or whether they are to be excluded entirely from your supply chain (see Building Block 5).

The advantage of many platform or sector solutions is that the criteria catalogue has already been defined and supplier classification is done for you. For example, as part of the EcoVadis assessment, suppliers are assigned Gold, Silver or Bronze levels: this can serve as the basis for your own supplier evaluation.



BUILDING BLOCK 5

Support corrective measures, develop suppliers

Supplier self-assessments and/or on-site visits may have revealed where your suppliers do not adhere to your Supplier Code of Conduct. Now it is important to find out how significant the deviations are and what measures need to be put in place. You also need to decide how much time to give suppliers to remedy the situation.

One of the most common problems is that suppliers are unable to provide documentation for how they manage sustainability topics. They may lack targets and Key Performance Indicators (KPIs), as well as the required human resources. Insufficient occupational safety measures, such as protective clothing or barriers, are also often observed. Finally, they may lack documented training plans for occupational safety, environmental protection, energy saving, etc.

Suppliers in emerging and developing countries are frequently faced with the challenge that their governments have not yet established standards regarding labour, fire protection, building safety, human rights or the environment, or that enforcement of these by the state is inadequate. They may also lack implementation rules and/or practical examples. Therefore, greater responsibility lies with the suppliers themselves to provide evidence of their compliance with globally recognised standards regarding human rights, labour, social, environment, and anti-corruption.

Set and accompany corrective measures

If suppliers have undergone an external audit, they and the auditor will draw up a corrective action plan together and schedule a follow-up audit. The action plan is generally sent together with the audit report.

If this is not the case, you should ask the supplier to set up a corrective action plan, or develop one together. At the same time, set deadlines for completing the corrective measures.

Individual measures should be ordered by priority and scheduled with enough time for the supplier to realistically complete them. Keep track of whether these are implemented as agreed. Consider whether you can additionally give your supplier any active support to help them implement the action plan (see page 33, Develop suppliers).

Define escalation processes

There are suppliers who are neither willing nor able to meet the requirements set out in the Code of Conduct. Violations of the law or obvious fraud are particularly serious, and rapid action will be required here. It could also happen that a supplier refuses to provide a self-assessment or take part in an audit.

To be prepared in case of non-compliance, it is sensible to develop an escalation process. Define the escalation steps for the severity of deviations, along with resulting consequences. These could be meetings with the supplier, temporary purchasing stops, penalty payments or similar.

Decide which decision-makers in your company need to be involved.

Your company may already have an escalation process for contractual infringements, e.g. if products are supplied in inadequate quality, or with regard to confidential product formulations and solutions. You can complement this process with manageable effort.

When developing an escalation process you should bear the following questions in mind:

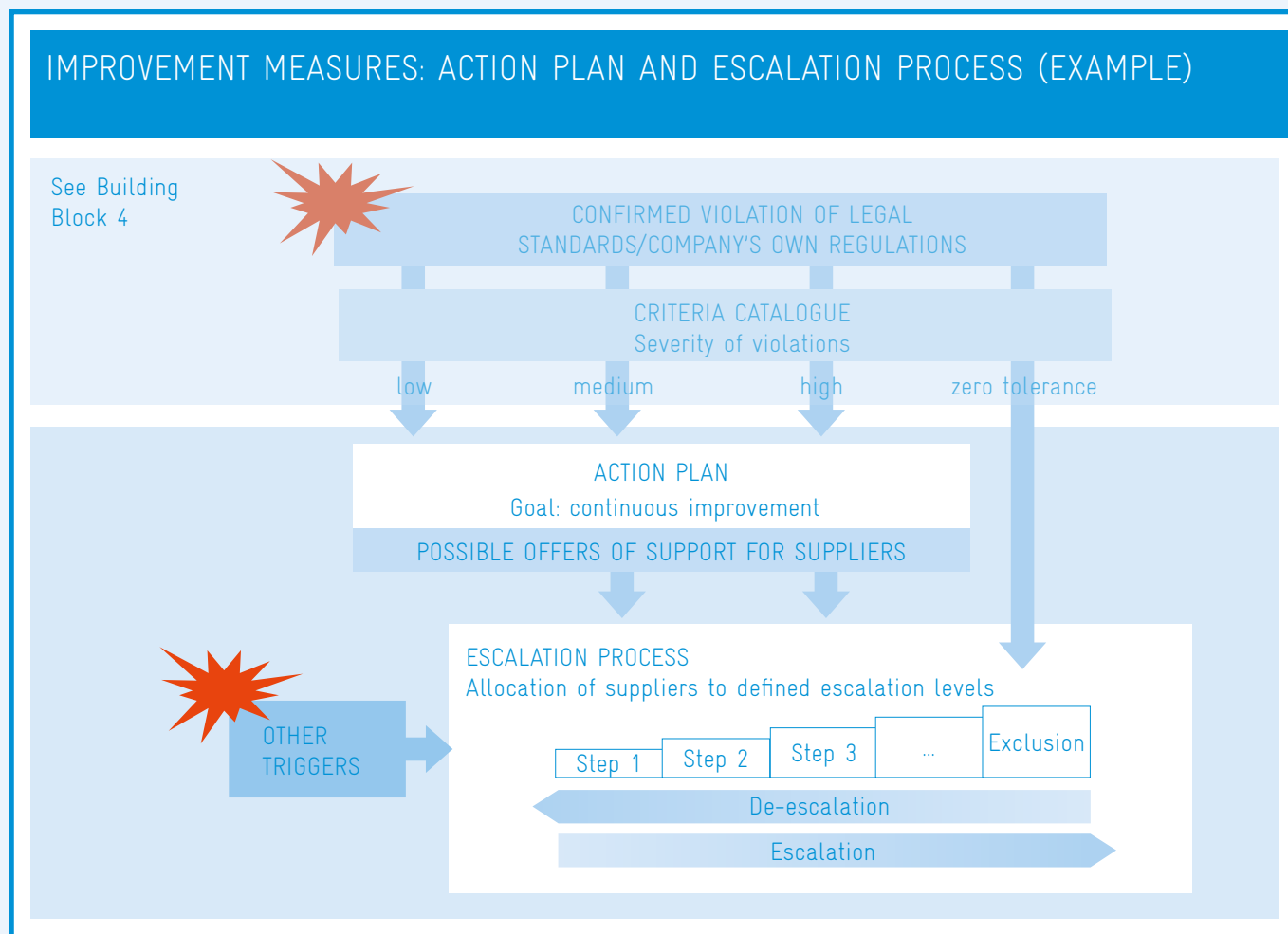
- What direct consequences and potential risks result for your company?
- How critical would an incident be in the view of your customers and/or other stakeholders?
- How quickly can/how urgently should corrective measures be implemented?
- What other decision-making processes and responsibilities need to be defined?

Make it clear that although your company will give time for improvements to be made, severe violations will not be tolerated.

Develop suppliers

Most suppliers are willing to improve their own sustainability performance in order to meet your company's Supplier Code of Conduct or sector standard.

However, many lack the knowledge and experience regarding proven methods or solutions for managing sustainability topics. They face a dilemma if they are required to deliver their products at the lowest prices possible, yet also undertake efforts towards optimising social and environmental performance, the costs of which are hard for them to estimate.



OFFERS OF SUPPORT FOR SUPPLIERS

Unlike large companies, SMEs usually have low staffing capacity for actively supporting their suppliers in improving sustainability performance. But even with manageable effort, you can show suppliers that they are not on their own when implementing corrective measures.

CHECK:

- Which free information materials you could make available to your suppliers, or what internet sources you can pass on to them.
- Whether you can pass on training materials from your company, e.g. for hazardous materials handling, to your suppliers.
- Whether your company could provide training on specialist topics (e.g. energy efficiency or occupational safety) with selected suppliers. It may also be possible to involve external experts.
- Whether you can organise meetings to discuss technical solutions (e.g. for emissions reduction).
- Whether you can offer your suppliers further information and support, e.g. by pointing them towards (local) networks, experts and NGOs.

Create incentives

In general, suppliers are interested in long-term business relationships.

A 'Preferred Supplier' status in exchange for meeting quality standards, pricing requirements and good sustainability performance will provide an incentive for suppliers to take corrective action or initiate an improvement process.

Furthermore, an award for above-average performance is a proven incentive to better suppliers' sustainability performance.



EXPERT TIP

- For training or further measures select suppliers of particular strategic relevance to your company, as well as those with whom you already have a long-standing supply relationship.
- Building long-term supplier relationships with a limited number of suppliers facilitates monitoring and the joint further development of sustainability performance. This will probably not be possible for all raw materials you purchase but should nevertheless be considered.

BUILDING BLOCK 6

Measure and report on progress

Measure progress

After you have gone through Building Blocks 1 to 5, it is time to evaluate what progress has been made in your company and with your suppliers, and whether the management approach you have developed is having the desired impact.

ORIENTATE YOURSELF USING THE FOLLOWING QUESTIONS:

- Have all direct suppliers received and signed the Supplier Code of Conduct (if required)?
- What feedback have you received from your suppliers?
- Have you gained sufficient insight into your most important supply chains?
- How many suppliers have been able to demonstrate very good sustainability performance on the basis of the information in supplier self-assessments, or during on-site visits and audits?
- How many suppliers have been able to improve their sustainability performance?
- Have your buyers been trained, and are they able to make well-founded decisions based on self-assessments, site visits and audit reports?

Define key indicators to make progress measurable and comparable now and in the future. Recommended key indicators:

- Quantity/proportion of suppliers
 - Who can show that they have environmental, occupational safety and/or quality management systems
 - Who manufacture in at-risk countries
 - Who are contractually bound by the Code of Conduct
 - Who have submitted a supplier self-assessment
 - Who have been visited by your employees and have a higher awareness of sustainability aspects
 - Who have completed TFS audits and/or another sustainability audit (with major or minor deviations).
- Number of business relationships terminated due to non-compliance.
- Proportion of the company's buyers who have been trained in supply chain sustainability.

Discuss the results and findings in your working group. Which of the measures implemented worked well and which did not? Which goals and processes should be adjusted?

CHEMIE³ PROGRESS INDICATORS

Chemie³ Progress Indicators enable us to measure the progress of sustainable development in the industry. Indicator 3 measures the proportion of companies that take sustainability criteria into account when selecting suppliers in addition to the classic purchasing criteria of price, quality and delivery conditions (🌐 www.chemiehoch3.de).

Report on progress

Now it is time to inform your company’s stakeholders about the management approach implemented and the progress achieved.

Your reporting procedures should be specific to the target group, i.e., content and format should meet the requirements of your company’s relevant stakeholders.

Selection of content

Give a brief description of the most important raw materials, goods or components that your company procures. You could also publish (selected) supply countries or regions and their respective shares of the purchasing volume. Check whether a relevant supply chain can be outlined to address the identified sustainability risks. Naturally, no details of competitive relevance should be made public.

You should also describe the management approach to implementing sustainability in supply chains: what processes and responsibilities do you use to ensure that sustainability standards are met by your suppliers?

What goals do you want to achieve, and by when? Add in key indicators to make the report more credible, as well as measures for reaching your targets.

Format

If your company has not yet published a sustainability report, you could consider one of the following five options for reporting on your sustainable supply chain management:

1. A factsheet with the most important supply chains, your management approach, goals, measures and key figures (around one or two A4 pages)
2. A pragmatic sustainability report based on the Chemie³ Guide to Basic Sustainability Reporting (see 🔧 toolbox, approx. 20 A4 pages)
3. A declaration of compliance based on the German Sustainability Code (Deutscher Nachhaltigkeitskodex, DNK)
4. A sustainability report, or a chapter in your annual report, with focus on meeting the NAP for Business and Human Rights and/or your CSR reporting obligation
5. A sustainability report compliant with GRI (Global Reporting Initiative) standards (approx. 30 to 50 A4 pages).

If your company already publishes a sustainability or CR/CSR report, you should check which chapter you can use to report on the management approach you have developed. For the time being, it is advisable not to create a separate supply chain chapter, as in many cases the data situation is not yet sufficient and no or few successes can be reported. Supply chain topics can easily be integrated in chapters on Sustainability Management or Product Responsibility.



EXPERT TIP

USE OTHER COMPANIES’ REPORTING AS GUIDANCE.

Examples of credible reporting on sustainable supply chain management:

- BASF SE
- Evonik Industries AG
- Merck KGaA
- Worlée-Chemie GmbH



CHEMIE³ TOOLBOX

CHEMIE³ GUIDE

The practice-orientated Chemie³ Guide to Basic Sustainability Reporting in Medium-sized Companies in the Chemical Industry is available for download in the 🔧 members area.

APPENDIX

The Appendix contains the following additional information:

- Guidelines on Sustainability for the Chemical Industry in Germany
- Together for Sustainability (TfS): a sector solution for the chemical industry
- The five core elements of the National Action Plan for Business and Human Rights (NAP): Anchoring in the Supply Chain
- Glossary
- Additional links
- Overview of supporting documents in the Chemie³ members area

GUIDELINES

ON SUSTAINABILITY FOR

THE CHEMICAL INDUSTRY IN GERMANY

1 Integrating sustainability into the corporate strategy

Enterprises in the chemical industry make sustainability an integral part of their corporate strategy. Sustainability is relevant to all areas of business. The setting of individual targets prompts each company to adapt to the principles of sustainable development gradually and consistently. The employees are actively involved in this process. Ideas and suggestions put forward by members of the general public, politicians, the business community and academia are noted and evaluated.

Enterprises anchor all three dimensions of sustainability in their strategies – economy, environment, and society:

- Long-term economic targets, global competitiveness and sound financial health of the enterprises are the basis for jobs, innovations and investments. Enduring business success benefits the employees, the owners or shareholders, and the economy.
- The protection of people and the environment and the responsible use of resources are firmly anchored in the companies and are supported and continuously further developed through the implementation of programmes such as Responsible Care.
- The enterprises see themselves as part of society and stand for active social responsibility. In Germany, this translates into commitment to the country's social market economy ("Soziale Marktwirtschaft") and their engagement in the unique social partnership within the chemical industry.

Chemical industry enterprises respect and uphold human rights worldwide. Compliance with laws and regulations is a basic obligation for all companies and a prerequisite for sustainable business.

2 Achieving sustainable investments and value creation

The companies in the chemical industry design their business policies for long-term value creation. Maintaining and improving global competitiveness and securing jobs are of paramount importance. The companies actively work to create sound business structures and establish internal incentive systems designed to promote long-term success. When investing, they combine efficiency with safety, environmental protection, optimised

energy and resource use with social responsibility, while applying comparable standards all over the world.

3 Promoting economic stability and global cooperation

Through their economic success, enterprises in the chemical industry create regional and global development opportunities and thus contribute to economic stability in the local areas where they operate. They show their commitment on a national and international level as partners for sustainable development and as responsible role models. They work to ensure that high environmental and social standards are applied in their value chains around the world.

4 Driving sustainability through innovation

Enterprises in the chemical industry develop innovative solutions to meet global and national challenges. Through significant investments in research and development they create added value for business and society. When developing new products and processes, they consider sustainability issues at an early stage.

5 Implementing sustainability in operational processes

Enterprises in the chemical industry establish their own individual procedures and structures to ensure clear allocation of responsibilities for implementing their sustainability measures and continuously improving their processes and products. They integrate measures in their corporate processes to abolish child and forced labour as well as to fight corruption.

6 Securing decent work and an active social partnership

Enterprises and employees in the chemical industry believe in collaborating as social partners and in decent working conditions as a prerequisite for sustainable development. They see the unique chemical industry social partnership as the best way to balance the interests of employers and employees to their mutual benefit. This is also achieved by applying these principles and collaborating as partners on the enterprise level. Through collective agreements and commitment to such agreements, social partner agreements, co-determination and other forms of collaboration, employers' associations,

trade unions, corporate management and works councils establish an atmosphere of security, participation and transparency while ensuring decent and competitive working conditions in Germany. The enterprises actively include their employees and encourage them to become involved and assume responsibility. They shape sustainable development in a spirit of partnership and endeavour to promote good social standards nationally as well as internationally.

7 Managing demographic change and securing skills

Enterprises and employees in the chemical industry see managing demographic change as a shared responsibility. Social partners, management and works councils are further developing their collective agreements and socio-political activities in this area. Enterprises and their employees are committed to promoting professional and vocational training, life-long learning, and assuring the availability of skilled employees as well as establishing work arrangements that are compatible with different phases in life and are family-friendly. Employers and employees rely on good education, a high skill level, and reaching the full potential offered by diversity in the workforce.

8 Protecting people, the environment and biodiversity

Enterprises and employees in the chemical industry are committed to protecting people, the environment and biodiversity around the world. In a continuous improvement process, they take into consideration not only their own processes but the entire lifecycle of their products. They place a high priority on product and plant safety as well as continuous process optimisation and act according to the principles of the Responsible Care initiative. By assessing risks at an early stage, the companies help to ensure that potential safety risks relating to their products and processes will be detected and can be avoided. Companies seek ways to strike a balance between economic, environmental and social impacts when using biological diversity for purposes of biotechnological and pharmaceutical innovation.

9 Promoting resource efficiency and climate protection

With highly energy-efficient production facilities, resource-friendly processes and innovative products for their customers, enterprises in the chemical industry make a significant and indispensable contribution to global climate protection. They continuously improve efficiency with regard to feedstocks and energy use, for economic as well as environmental reasons. In doing so, they consider the overall product lifecycle. The businesses utilise renewable and recyclable raw materials wherever it is technically feasible and economically, environmentally and socially useful or desirable to do so. Respect for natural habitats when sourcing raw materials is of major importance.

10 Engaging with communities as good citizens

As good citizens, enterprises and their employees promote sustainable development in the local communities where they do business at national and international level. They are active partners to the regional actors, engaging in activities and encouraging volunteering so that people in their region can live well. In particular, they help to create educational and other opportunities to empower young people.

11 Creating transparency and showing integrity

Enterprises in the chemical industry ensure that their efforts to promote sustainability are communicated in a transparent and understandable way to employees, customers, and the general public. When doing so, they use recognised standards and indicators as orientation. Companies and their employees behave with openness, credibility and integrity in their dealings with policymakers and the general public.

12 Fostering a dialogue and enhancing participation

Enterprises of the chemical industry seek a dialogue with their stakeholders in politics, society, academia and the business community in order to include their knowledge, values and interests in their business decision processes. In addition, they encourage involvement and participation of their employees in the decision-making process and maintain a dialogue with the communities they operate in.

TOGETHER FOR SUSTAINABILITY (TfS): A SECTOR SOLUTION FOR THE CHEMICAL INDUSTRY

The Together for Sustainability (TfS) initiative was founded in 2011 by six leading chemical companies and currently has around 20 corporate members, including BASF, Bayer, Brenntag, Evonik, Henkel, Lanxess, Merck and Wacker Chemie. The goal of TfS is to develop an assessment and audit program that enables the measurement and continuous improvement of sustainability performance in the chemical industry's global supply chains.

TfS uses two mutually complementary tools: the TfS Assessment and the TfS Audit.

TfS Assessment by EcoVadis

TfS works in partnership with EcoVadis, the CSR assessment platform, to generate supplier assessments. EcoVadis uses an online questionnaire adapted to the supplier's industry, size and business reach to request information and documents about sustainability from the suppliers. The responses and documents provided are then analysed by EcoVadis experts and supplemented with publicly available information about the supplier. A Scorecard is then created, a Corrective Action Plan derived, and both made available to the supplier. The evaluations can be viewed by all TfS members on the TfS-specific EcoVadis online platform – provided the supplier has consented to this at the outset. The effort required from individual member companies and suppliers for information collection and evaluation is reduced by having one central point of enquiry. The Scorecards are globally usable, and can be compared with each other and across sectors. Every supplier assessed can share their results outside TfS with other customers. Suppliers are individually selected and nominated by each TfS member company.

TfS Audit

The TfS approach also includes performing supplier audits locally. Audits are based on a questionnaire developed by TfS, which takes into account the specific concerns of the chemical industry. The following fields of action are reviewed:

- 1) Management
- 2) Environment
- 3) Health und Safety
- 4) Labour and Human Rights
- 5) Governance

Information at a glance:

- Selection of audited suppliers: TfS members make their own selection of suppliers to be audited. TfS has no specifications for this.
- Performance: currently there are four independent audit companies accredited to perform TfS audits: DQS, ERM, Intertek and SGS.
- Duration: depending on the size and complexity of the site, an audit takes about one or two days.
- Costs: the use of EcoVadis is chargeable, both for the suppliers and the purchasing company. The supplier also covers the costs of the audit and negotiates these with the audit company. The costs for an audit are higher than for an EcoVadis assessment (supplier evaluation) due to the higher effort involved.
- Audit results: these are summarised in a report which also contains a detailed action plan for improvement. Its implementation is checked in a follow-up audit. The results of the supplier audit are made available to TfS members on a web-based platform (provided the supplier has consented to this beforehand).



USEFUL SOURCES

For more information about TfS, for example its membership conditions, please see the TfS website: www.tfs-initiative.com



Joint insight into supplier results

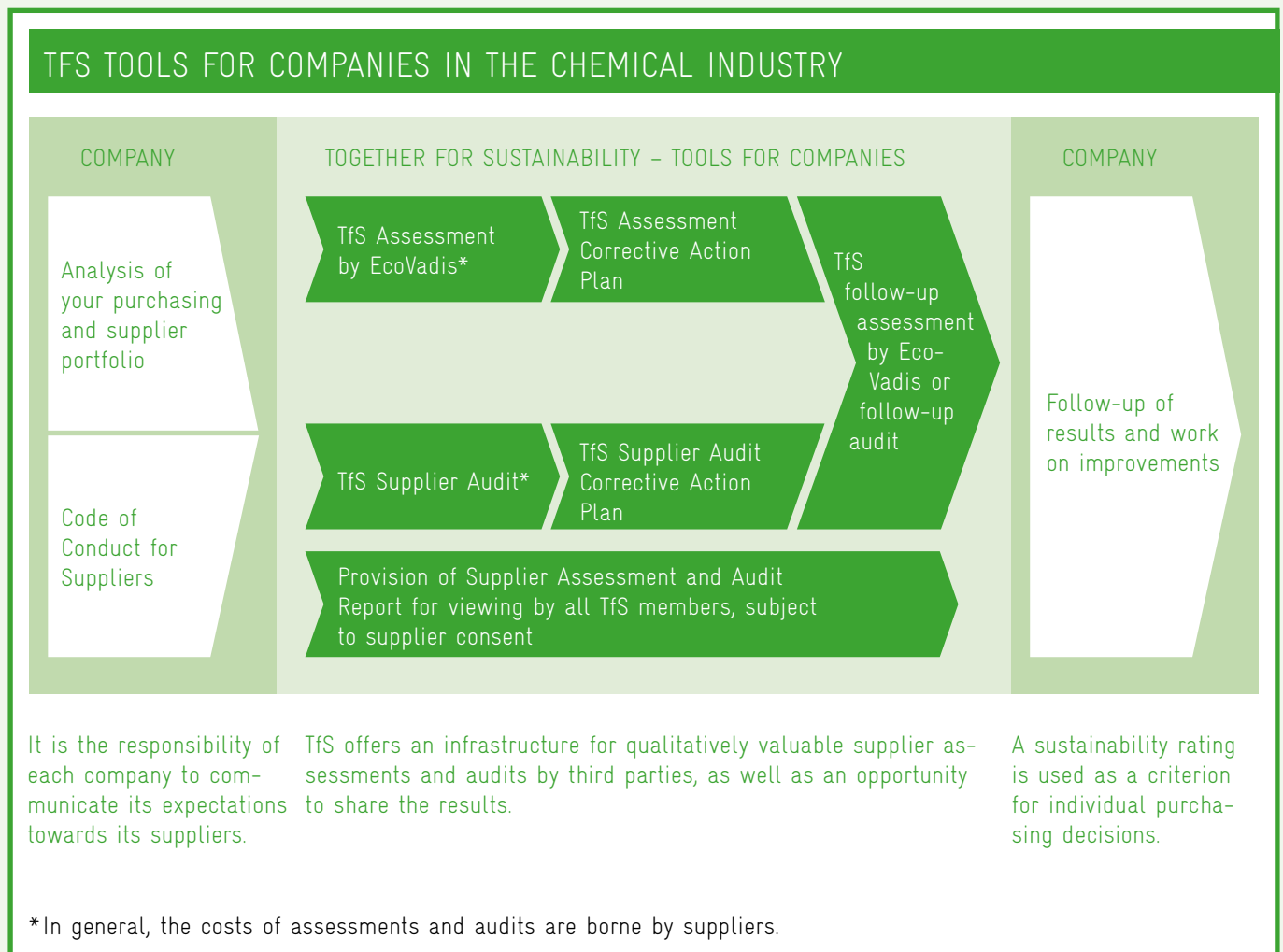
Every supplier is initially asked whether they wish to make the results of the TfS Assessment (EcoVadis Score-card) and/or the TfS Audit available to all TfS members. Only if the supplier explicitly consents will his results be made available to all TfS members.

Since no competition-relevant information is passed on – neither during the evaluation process (Assessment and Audit), nor by sharing the results – competition/anti-trust concerns do not arise.

TfS for SMEs

Chemie³ cooperates with TfS as part of a pilot project started in 2017 on sustainability in supply chains. Small and medium-sized companies in the chemical industry have the option of using the TfS methodology without being TfS members themselves: they can request a supplier evaluation from selected suppliers via EcoVadis, or have them reviewed on-site as part of a TfS audit.

TfS, Chemie³ and SMEs all gain experience through this pilot project, while at the same time contributing to the wider application and development of the TfS methodology.



THE FIVE CORE ELEMENTS OF THE NATIONAL ACTION PLAN FOR BUSINESS AND HUMAN RIGHTS (NAP): ANCHORING IN THE SUPPLY CHAIN

The five core elements of human rights due diligence in the National Action Plan for Business and Human Rights (see Chapter 1) relate to a company's own business activities as well as its supply and value chains.

The following provides an overview of the recommendations on implementing the five NAP core elements in the supply chain, as well as a reference to the relevant contents in this Guide. Further links are available on page 44.

NAP core elements of human rights due diligence	Implementation recommendations	Reference to Chemie ³ Guide
(1) Declaration of Principles for Respect for Human Rights	Commitment to and inclusion of requirements regarding compliance with working conditions and human rights in the Supplier Code of Conduct and, where appropriate, in other company guidelines.	Building Block 2: Develop a policy framework
(2) Procedures for identifying actual and potential adverse impacts on human rights	Inclusion of labour and human rights in an analysis of potentially relevant sustainability topics and risks in the supply chain.	Building Block 1: Identify sustainability topics in supply chains and assess risks
(3) Measures to avoid potential negative impacts and review the effectiveness of these measures	<ul style="list-style-type: none"> • Provide information and raise awareness in Purchasing and among suppliers regarding potential human rights violations in relevant industries and/or countries, e.g. through personal interviews or training courses. • Assess and monitor suppliers as part of self-assessments, on-site visits or audits with regard to their working conditions and compliance with human rights • Define an escalation process in case of human rights violations • Support the suppliers in corrective measures and continuous improvement, e.g. with supportive measures such as training documents • Purchase certified raw materials that also meet social criteria (e.g. palm oil certified to the RSPO standard) • ... 	Building Block 3: Inform and prioritise suppliers Building Block 4: Assess and monitor suppliers Building Block 5: Support corrective measures, develop suppliers
(4) Reporting	Internal communication and external reporting on measures and progress to anchor human rights due diligence in the supply chain, e.g. in the sustainability report or on the company's website.	Building Block 6: Measure and report on progress
(5) Complaints mechanism	<p>The objective of the complaints mechanism is to recognise violations of human rights and sustainability standards at an early stage. In addition to a complaints mechanism for their own employees, workers at suppliers' production sites and local community members should also have an opportunity to report violations by the employer to the client. Large companies therefore establish complaints hotlines in conjunction with an independent ombudsman, for example. For SMEs, the first step is to include a contact address (e-mail) or an external ombudsman in the Code of Conduct for suppliers.</p> <p>The complaints mechanism should generally be appropriate to target groups and accessible (i.e., without linguistic or technical barriers), fair, balanced, predictable and anonymous, and at the same time as transparent as possible for the parties involved.</p> <p>In the coming months and years it is expected that practical solutions will be developed for complaints procedures that SMEs can introduce as well.</p>	(Building Block 2: Develop a policy framework)

GLOSSARY

Assessment

Identifies sustainability performance at a defined time.

Due Diligence Process

Or ‘due diligence’ for short, this is a risk review carried out ‘with appropriate care’ that analyses the strengths and weaknesses of the object under investigation, as well as the corresponding risks.

With regard to sustainability in supply chains, the German government’s National Action Plan that implements the UN Guiding Principles for Business and Human Rights and the UK Modern Slavery Act, for example, calls for the establishment of a due diligence process to review potential and actual human rights violations within a company and in its supply chain.

Management Approach

A management approach describes the way in which a company systematically manages a (sustainability) issue relevant to its business activities. It should document (strategic) objectives, measures and metrics, and monitor target-achievement as well as responsibilities and processes.

Human Rights Due Diligence

Human rights due diligence is one of the three United Nations Guiding Principles for Business and Human Rights. Human rights due diligence means implementing ongoing processes that, for example, identify and prevent risks relating to non-compliance with human rights. In Germany, human rights due diligence was enshrined in 2016 in the Federal Government’s National Action Plan for Business and Human Rights.

Monitoring

Tracking supplier development on the basis of recurring assessments.

Risk

The term “risk” as used in this Guide is based on the classic business risk definition – extent of damage multiplied by the probability of occurrence – but does not claim mathematical accuracy. Rather, the term is based on a qualitative and subjective assessment of the two variables, which is made on the basis of internal and publicly available information. The amount of damage reflects the severity of the negative impacts (externalities) on people and the environment caused by business activities along a supply chain. The probability of occurrence is based on the frequency with which the negative impacts actually occur. A distinction is made between one-off cases, multiple instances, and structural problems.

Tier-1, Tier-2, Tier-n Supplier

The value chain covers the entire lifecycle of a product (or service), from the extraction of the raw materials and the production process, through delivery to the end consumer, to final disposal. Depending on the complexity of the product, value chains can include just a few companies or global networks of suppliers. As part of corporate responsibility, companies are also obliged to assume responsibility for compliance with globally recognised human rights, labour, social, environmental and anti-corruption standards in the value chain.



ADDITIONAL LINKS

INITIATIVES AND ORGANISATIONS

Chemie³

www.chemiehoch3.de

German Sustainability Code

www.deutscher-nachhaltigkeitskodex.de

Econsense

www.econsense.de

Global Reporting Initiative

www.globalreporting.org

United Nations Global Compact (UNGC)

www.globalcompact.org

OECD Guidelines for Multinational Companies

www.oecd.org/corporate/mne

www.bmwi.de (A German translation is available in the 'Downloads' section)

Responsible Care

www.vci.de/nachhaltigkeit/responsible-care

Together for Sustainability (TfS)

www.tfs-initiative.com

EcoVadis

www.ecovadis.com

UN Sustainable Development Goals (SDGs)

www.sustainabledevelopment.un.org/sdgs

GUIDELINES

BMUB: Step by step to sustainable supply chain management

www.bmub.bund.de

ECONSENSE: Process steps for sustainable supply chain management

www.econsense.de

Sustainability Compass

www.kmu.kompass-nachhaltigkeit.de

UNITED NATIONS GLOBAL COMPACT: Sustainability in the Supply Chain

www.globalcompact.de

INFORMATION ON THE NATIONAL ACTION PLAN FOR BUSINESS AND HUMAN RIGHTS

German Federal Ministry of Labour and Social Affairs: National Action Plan for Business and Human Rights

www.wirtschaft-menschenrechte.de

German UNGC Network:

Human Rights Due Diligence Information Portal

www.mr-sorgfalt.de

German UNGC Network, German Institute for Human Rights: Determining Human Rights Risks and Impacts – Perspectives from Business Practice

www.institut-fuer-menschenrechte.de



THE CHEMIE³ MEMBERS AREA

ONLINE SOURCES FOR IDENTIFYING TOPICS AND RISKS (SELECTION):

Business & Human Rights Resource Centre
www.business-humanrights.org

CSR Risk Check
www.mvorisicochecker.nl/en

Human Rights Watch
www.hrw.org/de

ILO Statistics and databases
www.ilo.org/global/statistics-and-databases/lang--en/index.htm

U.S. Department of State
 (including Human Rights Reports)
www.state.gov

Transparency International
www.transparency.de

World Resource Institute
www.wri.org

Yale University: Environmental Performance Index
www.epi.yale.edu



CHEMIE³ ALLIANCE PARTNERS

German Federation of Chemical Employers' Associations
 (Bundesarbeitgeberverband Chemie, BAVC)
www.bavc.de

Mining, Chemical and Energy Industrial Union
 (Industriegewerkschaft Bergbau, Chemie, Energie, IG BCE)
www.igbce.de

German Chemical Industry Association
 (Verband der Chemischen Industrie, VCI)
www.vci.de

This Guide was published in March 2018 (German version) for the first time and is under constant review. The English version was published in September 2018. It can be found at www.chemiehoch3.de.

It is supplemented with a  **toolbox** whose components are available for download in the  **members area** of the Chemie³ website:

- a checklist to inventory the current supply chain management
- a basic Code of Conduct including an introductory document
- a template for using the Pragmatic Supplier Selection Matrix
- a risk tool for performing the Pragmatic Supply Chain Risk Assessment.

These tools are available to members free of charge. Registration is required at the first login.

In addition, the members area contains further information to help Chemie³ members get started in the field of sustainability. This includes:

- a Sustainability Barometer
- the Chemie³ Sustainability Check
- Good Practice examples
- guidelines in practice
- Chemie³ Guide to Basic Sustainability Reporting
- a data table for basic reporting
- a template for the preparation of a basic sustainability report.

DISCLAIMER

Chemie³ assumes no responsibility for the likelihood of sustainability risks occurring, the completeness of sustainability topics or for external content (including links).

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German Federation of Chemical
Employers' Associations

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GERMAN CHEMICAL INDUSTRY

