Sustainable Supply Chains Webinar:
Auditing/ Monitoring Suppliers beyond Tier 1

2 Oct 2012
15:00 – 16:15 CET
Sustainable Supply Chains, Business and Human Rights
- Collaborative Project –
Collaborative Project Sustainable Supply Chains, Business & Human Rights

Project Goals

- **Leverage expertise** and **synergies** to develop tools that support businesses implementation of human rights
- **Raise awareness** and **foster dialogue** to address the challenges and **identify solutions** towards implementing sustainable supply chains, human rights

Work-stream

**Work-stream 1:**
- **Sustainable supply chains**

**Work-stream 2:**
- **Business and human rights**

Deliverables

**Work-stream 1: Sustainable supply chains**
- **Sustainable Supply Chains webinars** on key topics
- **Issue briefs** based on sustainable supply chain webinars and international developments
- Joint CSR Europe and UN Global Compact **sustainable supply chains portal**

**Work-stream 2: Business and human rights**
- **Business and human rights publication** on grievance mechanisms:
  - UN Guiding Principles and expectations towards companies
  - Mapping of company practice
- **Business and Human Rights Survey**
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Sustainable Supply Chains Webinar:
Auditing/ Monitoring Suppliers beyond Tier 1

2 Oct 2012
15:00 – 16:15 CET
Webinar Objectives

• **Understand the challenges and opportunities** in monitoring/auditing suppliers beyond Tier 1

• **Gather insights into company practice and existing initiatives** related to addressing suppliers beyond Tier 1
## Context Setting

<table>
<thead>
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<th>Challenges</th>
<th>Opportunities</th>
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<tbody>
<tr>
<td><strong>Mapping the supply chain</strong></td>
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<tr>
<td>• Large number of sub-suppliers</td>
<td>Improved supply chain traceability</td>
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<td>• Lack of transparency</td>
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<td><strong>Control and Monitoring</strong></td>
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<tr>
<td>• Cost</td>
<td>Industry initiatives: increase in leverage, cost reduction</td>
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<tr>
<td>• Cascading requirements: Little leverage on Tier 2 and beyond</td>
<td>Collaboration with Tier 1: moving beyond compliance to develop supplier capacity</td>
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<tr>
<td>• Inspection rights</td>
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<td><strong>Follow up and Remediation</strong></td>
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<tr>
<td>• Measuring impact</td>
<td>Risk mitigation</td>
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# Agenda

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<tr>
<th>Time</th>
<th>Agenda Point</th>
<th>Speaker</th>
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<tbody>
<tr>
<td>15:05 – 15:08</td>
<td>1. Context Setting: Addressing suppliers beyond tier 1 in global supply chains</td>
<td>CSR Europe</td>
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<tr>
<td></td>
<td>• Challenges and opportunities</td>
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<td>• Telecommunications</td>
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<td></td>
<td>• The Cocoa Supply Chain</td>
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<td>• Cement Sector</td>
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<td>• Automotive sector</td>
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<td>15:48 – 16:00</td>
<td>3. Cross-sector Perspectives</td>
<td>UN Global Compact, Ethical Trading Initiative</td>
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<td>• UN Global Compact and Supply Chain Sustainability</td>
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<td>• Addressing Global Supply Chains</td>
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<td>16:00 – 16:10</td>
<td>4. Discussion Round, Q&amp;As</td>
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<td>16:10 – 16:15</td>
<td>Wrap up and Closing</td>
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Business Perspective:
Sector-Specific Initiatives, Challenges and Solutions
Business Perspective:
The Telecommunications Sector

Stein Hansen
Senior Vice President, Telenor Group
Monitoring suppliers beyond the 1st tier (on Supply Chain Sustainability)
Webinar with UN Global Compact & CSR Europe, 2 Oct 2012

Stein Hansen, Senior Vice President, Head of Sustainability Operations, Telenor Group
Supply Chain Sustainability activities in Telenor

- Permanent Business Assurance (BA) units in all Business Units of Telenor managing the SCS work locally, handling more than 14,000 suppliers in scope across the world (potentially going towards >20,000).

- Implementation of legal “ABC” agreements with all direct suppliers (having a total of more than 12,000 such agreements in place by end of 2011).

- Yearly supplier self assessments with 1,000-2,000 suppliers, and subsequent systematic follow-up to eliminate every concrete risk element the following year.

- Carrying out 1,500 - 2,500 supplier inspections world-wide locally every year, plus a few large Supplier Audits per year from global level.
Implementation in the supply chain

- Legal ABC agreements with first tier suppliers
- Cascading to next tier suppliers
- Supply chain monitoring beyond first tier suppliers (risk based)

ABC requirements:
1. Implementation & monitoring
2. Cascading
3. Transparency & inspection rights
4. Notification and remediation
5. Sub-supplier termination
6. Sanctions
Monitoring suppliers beyond the 1st tier
(Selected learnings & practical experiences to date)

- In principle, Telenor does monitoring of suppliers irrespective of tier - based on risk.
- Important considerations are actual SCP risk plus degree of association with Telenor.
- Telenor reserves the right to monitor suppliers at any tier through our ABC agreements.
- 1st tier suppliers are accountable to cascade monitoring rights to next tier.
- Our annual SAQs have good response rate also by suppliers from next tiers.
- On-site inspections in the field (also unannounced) of next tiers seem to go smoothly (mostly on our own sites).
- On-site inspections in offices of next tiers are best done announced and in cooperation with 1st tier.
- It shall not be possible to organize out of responsibility!
- Monitoring of very remote tiers will often make no sense – as the impact on the supplier may be limited. In critical cases, it is better to use other methods to make impact.
- A legal agreement provides good leverage!
- Cascading takes time, however, and in practice, sub-supplier inspections to date have often been done based on good will and collaboration with 1st tier.
- Ease of doing 2nd / 3rd tier inspections vary depending on country and size of supplier.
- It should be noted that Telenor in most cases represents an important customer or player in the local market.
Systematic work since 2008
Business Perspective:
The Food & Beverage Sector

Yann Wyss
Human Rights Specialist, Nestlé S.A
Human Rights Due Diligence at Nestlé: Beyond Tier I

Yann Wyss
Human Rights Specialist
8. Monitoring & Reporting

Monitoring our performance to fill the gaps and further strengthen our approach to human rights due diligence

- Nestlé facilities
  - CARE
- Tier-1 suppliers
  - RS Audit Program
  - RS Traceability Program
- Upstream suppliers
- Nestlé Group Audit
- Fair Labor Association
  - Farmer connect: 4C (coffee), UTZ/Fairtrade (cocoa), RISE (dairy) etc.
- Human Rights Risks Assessments
- Human Rights Impacts Assessments (Danish Institute)
8. **Monitoring & Reporting**

Monitoring our performance to fill the gaps and further strengthen our approach to human rights due diligence.

- **Nestlé facilities**: 460 factories
- **Tier-1 suppliers**: 167,000 direct suppliers
- **Upstream suppliers**: 670,000 direct farmers

328,000 employees

+25 mio. people involved in our supply chain
Nestlé Responsible Sourcing Program

Traceability Programme
Material-specific Responsible Sourcing Guidelines (RSGs) for high risk spend categories. 12 categories prioritized for 2010-2012

Audit Programme vs. Nestlé Supplier Code

2010/2011: 2,200 third party audits
2012/2013: 4,500 third party audits

Direct engagement with 670,000 farmers
17,000 supply chain support staff
E.g. coffee, milk, fruits, vegetables

The Nestlé Supplier Code
Direct Procurement & Agri Services
Responsible Sourcing of Cocoa from Côte d’Ivoire

The Nestlé Cocoa Plan enables farmers to run profitable farms, eliminating child-labour, while developing a sustainable supply chain for Nestlé cocoa.

Farm profitability
- Increase yield
- Reward farmers for good quality cocoa

Child labour elimination
- Eliminate child labour from Nestlé’s cocoa supply chain
- Promote and facilitate school attendance

Sustainable supply chain
- Ensure long term supply of good quality cocoa for our business
- Track cocoa source down to farmer group
- Respect the environment and avoid deforestation

Collaboration & Transparency
- Work with recognized and independent partners (such as UTZ Certified or the Fair Labour Association) to improve cocoa farming and tackle the problem of child labour

To be recognised and rewarded as the most permissible confectionery brands and products.
RS Cocoa Côte d’Ivoire: Monitoring and Remediation System

FLA recommendation 6:

Nestlé needs to develop a robust and comprehensive internal monitoring and remediation system that covers all actors (including farmers, métayers, farm workers and their families) in the supply chain. The monitoring should go beyond the monitoring of propagation of plants and include labor standards and premium payments. This by far will be the biggest challenge but also the one with greatest returns. The programs and results should be independently-externally verified.
## RS Cocoa Côte d’Ivoire: Challenges & Opportunities

### Partnerships

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Opportunites</th>
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<tbody>
<tr>
<td>Identify the right partners (FLA, ICI): business and human rights</td>
<td>Benefit from external expertise on a challenging, technical, political issue</td>
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### Alignment and coordination

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<th>Opportunites</th>
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<td>Coordinate inputs from different departments with different objectives and perspectives</td>
<td>Define a common goal with strong management (Board-level) support</td>
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<tr>
<td>Get Tier-1 suppliers buy-in</td>
<td>Agree on what we will need them to do</td>
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### Implementation

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<td>Extend the action plan to the «standard» supply chain, beyond the Cocoa Plan</td>
<td>Full traceability of our entire cocoa supply chain</td>
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<tr>
<td>Address additional labour and human rights issues, beyond child labour</td>
<td>From an innovative to a comprehensive approach</td>
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Business Perspective: The Cement Sector

Maria Alexiou
CSR Manager, Titan Group
TITAN’s way: Taking collaborative action

Participation in Global Compact and CSR networks

<table>
<thead>
<tr>
<th>Global Compact</th>
<th>Group level</th>
<th>Greece</th>
<th>Bulgaria</th>
<th>FYROM</th>
<th>Egypt</th>
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<tr>
<td>WBCSD/CSI</td>
<td>Group level</td>
<td>Greece</td>
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Supply Chain Laboratory (2006 – 2008)
What we have learnt

- Supply chain comprises mostly by SMEs
  i.e. TITAN is multi-regional cement producer working with more than 6,000 suppliers in Europe and Middle – East. More than 5,600 of them are SMEs

- Safety at work, human and labor rights, working conditions and respect for the environment are common issues for both suppliers and buyers

- The single enforcement of a Code of Conduct or any management system like SA 8000 may help as a start.

- No system can accomplish the change of business practices throughout the supply chain

- There is much more to be done....
What we have learnt

There is much more to be done ....

- Increase awareness
- Develop new skills and competencies
- Motivate business associates to engage in continuous improvement
- Learn from others and share what you have learnt
- Integrate ... Change ...
- Create ... Innovate
The challenge:

Construction of a new production facility, capable of producing a total of 1.50 million tons cement per year in Albania.

Implementation of the project with a Chinese Turn – key contractor and a number of local sub-contractors.
Supply chain management in a greenfield project: The challenge
Supply chain management in a greenfield project
Supply Chain & Contractors’ Management

CO-OPERATION WITH KEY CONTRACTORS (1ST TIER) DURING THE CONSTRUCTION PHASE ALIGNED TITAN STANDARDS AND CODE FOR PROCUREMENT

- DEVELOPMENT OF CODE OF CONDUCT FOR CONTRACTORS AND INTRODUCTION TO 2ND TIER SUPPLIERS
- SELF-ASSESSMENT TOOLS ALIGNED WITH SA 8000 FRAMEWORK
- SOCIAL AUDITS AS A PROCESS FOR CONTINUOUS IMPROVEMENT
- SA8000 STANDARDS ARE INTEGRATED IN ALL CONTRACTS
- INDEPENDENT ASSESSMENT BY THIRD PARTIES

EXPERIENCE GAINED DURING THE CONSTRUCTION PHASE SUPPORTS THE DEVELOPMENT AND INTEGRATION OF SA 8000 FRAMEWORK
Following a collaborative approach

“...The ANTEA project is considered and appraised as the advanced project on safety management for 2009... We will do our best to learn from this advanced experience Which we shared with TITAN in the ANTEA project to enhance CBMI rules and standards and improve further...”

Shi Wenlong
Executive Deputy General Manager
CBMI Construction Company

“Social and environmental issues were carefully assessed at an early stage in the project and TITAN sought to address them in an effective, innovative and transparent manner. TITAN has also aimed to use this project as an opportunity to develop the competence of its contractors and ensure a fair treatment of migrant workers and the local community”

Larissa Luy
Senior Environmental & Social Specialist, IFC
Thank you for your attention
Business Perspective:
The Automotive Sector

Jonathan Newton
Global Lead Supply Chain Sustainability, Ford Motor Company
Supply Chain Sustainability

Jonathan Newton
Global Lead
Supply Chain Sustainability
Our vision for the 21st century is to provide sustainable transportation that is affordable in every sense of the word:

*Environmentally, Socially & Economically*

“Improved sustainable performance is not just a requirement, but a tremendous business opportunity.”

- Bill Ford
Company Overview & Supply Chain Profile

- Global vehicle manufacturer
- Revenue of $136 billion in 2011
- 168,000 employees
- 65 plants worldwide
- Supply Chain Profile – Total Global Buy $75+ Billion

<table>
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<th>Production</th>
<th>Nonproduction</th>
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<td>- 1,300+ Tier 1 suppliers</td>
<td>- 11,000+ suppliers</td>
</tr>
<tr>
<td>- 60+ countries</td>
<td>- 600+ commodities</td>
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<tr>
<td>- 4,400+ supplier sites</td>
<td>- 130,000 parts manufactured</td>
</tr>
<tr>
<td>- 500+ commodities</td>
<td>- 500+ commodities</td>
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The automotive supply chain is complex and includes global supply chains from many other industries.
A Three-Tiered Management Approach

+ Supply Chain @ factory-level

+ Supply Chain @ corporate level (ABF)

+ Expansion of Ford Approach through an industry forum
Ford’s sustainability report can be found at:

http://corporate.ford.com/about-ford/sustainability

Jonathan Newton
Supply Chain Sustainability
Ford Motor Company
jnewto38@ford.com

Ford Motor Company: Supply Chain Sustainability

Ford Motor Company has long recognized that treating people with dignity and respect holds a fundamental place in how it conducts business around the world.

In 2000, Ford made human rights core to its sustainability strategy, and in 2003 began implementation of the Ford Code of Basic Working Conditions throughout its $90 billion supply chain. Ford requires suppliers to “ensure that our products – no matter where they are made – are manufactured under conditions that demonstrate respect for the people who make them,” according to Tony Brown, Group Vice President of Global Purchasing. “This is just as important as quality, cost-competitiveness or timeliness of delivery.”

In order to effectively engage suppliers throughout the chain, Ford has a three-phase approach:

**Individual Facilities** Training and capability building is the fundamental basis of Ford’s Supply Chain Working Conditions program, supported by assessments of individual factories.

**Corporate Engagement** Ford seeks supplier ownership at the corporate level to enhance policy, verification systems and supply chain impact.

**Industry Collaboration** Ford is driving collaboration on global supply chain working conditions through the Automotive Industry Action Group (AIAG).

www.ford.com/go/sustainability, email: fwcp@ford.com
Cross-sector Perspective: Addressing Global Supply Chains

Anita Househam
Policy & Legal Advisor, UN Global Compact
The United Nations Global Compact and Supply Chain Sustainability

Anita Househam
Policy & Legal Advisor/Issue Manager, UN Global Compact Office

2 October 2012
Tools and Resources

- Supply Chain Sustainability – *A Practical Guide* for Continuous Improvement
- **Quick Guide**: Supply Chain Sustainability – A Practical Guide for Continuous Improvement for Small and Medium Enterprises
- **Web portal**
  Sustainable Supply Chains – Resources and Practices

- Quick **Self-Assessment & Learning Tool**
The UN Global Compact Advisory Group on Supply Chain Sustainability

...addresses and acts on supply chain sustainability by identifying, implementing, and disseminating best practices globally.

Objectives

- Global reference across sectors on supply chain sustainability.
- Work to ensure the availability of practical tools and resources...
- Inform and advise on common issues and solutions

Approach

- Building on existing work
- Leveraging the experience of the Advisory Group
- Feeding to and receiving feedback from Local Networks to promote best practices regionally
- Engaging with the UN system and other stakeholders
- Integrating across UNGC issue areas
Cross-Sector Perspective:
Addressing Global Supply Chains

Debbie Coulter
Head of Programmes, Ethical Trading Initiative
Addressing Global Supply Chains

October 2012

debbie.coulter@eti.org.uk
What is the new approach?

1. Developing supply chain focused programmes rather than issue focused programmes.

2. Building a holistic picture of specific supply chains

3. Focusing on tackling the root causes, rather than the symptoms, of poor working conditions

4. Working collaboratively to increase leverage, power and influence
The new approach

We have worked with our members to identify suitable product supply chains to work on collaboratively, using these criteria:

- Number of workers in the supply chain
- Level of harm or vulnerability to harm experienced by workers
- Importance of the supply chain to our members
- Our ability to leverage change in this supply chain
- Potential to replicate lessons learned
Programmes

Hard Goods and Household:
- Costume Jewellery, India (North)
- Plastic Toys, China
- Wooden Furniture, Vietnam
- Sandstone, India (Rajasthan)

Apparel and Textiles:
- Garments, Bangladesh
- Footwear/garments, China
- Garments, South India

Food and farming:
- Farmed Shrimp, Thailand
- Edible horticulture, Peru
Example 1 Tamil Nadu Multistakeholder Group

- Exploitative practices exposed
- Multiple stakeholder initiatives
- Limited impact on workers

**ETI role:**
Develop a critical mass of key supply chain players to build and coordinate existing activity

Facilitate MS discussions to promote understanding, local ownership and more collaborative action

Develop a collective industry response and a collaborative, effective and sustainable strategic plan
Example 2 Rajasthan Sandstone Working Group

Progress made at improving labour standards across tier 1 export market

European buyers and Indian exporters collaborate to drive change through the supply chain

RSWG engage with other key stakeholders to build relationships and capacity

3-5 year programme developed aimed at improving the lives of workers in the export sector
Discussion Round: Questions and Answers
Next Steps

• Presentations will be disseminated to all participants in the webinar

• Participate in upcoming activities

Submit your company best practice examples on sustainable supply chains
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For more information contact:
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Lia Talarico: lt@csreurope.org