



AHFA Responsible Sourcing Guidance

Sheer Garcia
August 2022

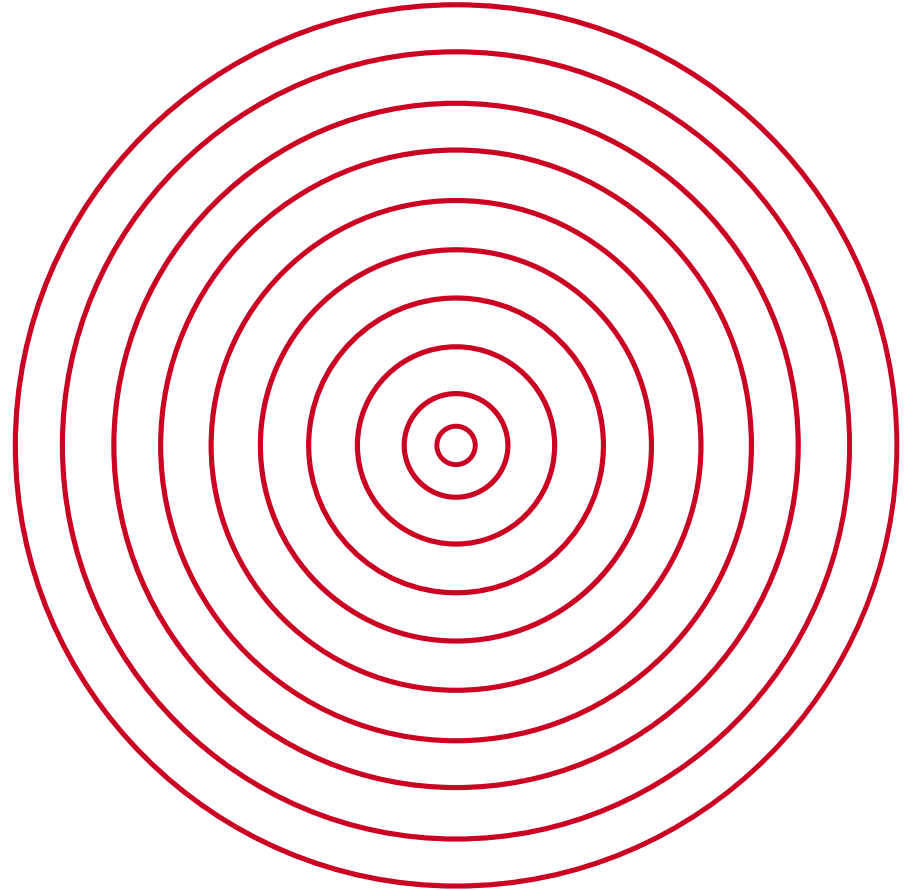
Safety. Science. Transformation.™

Agenda

| | |
|----------------------------------|----|
| AHFA Responsible Sourcing Manual | 03 |
| Country risk | 15 |
| Q&A | 20 |

AHFA Responsible Sourcing Manual

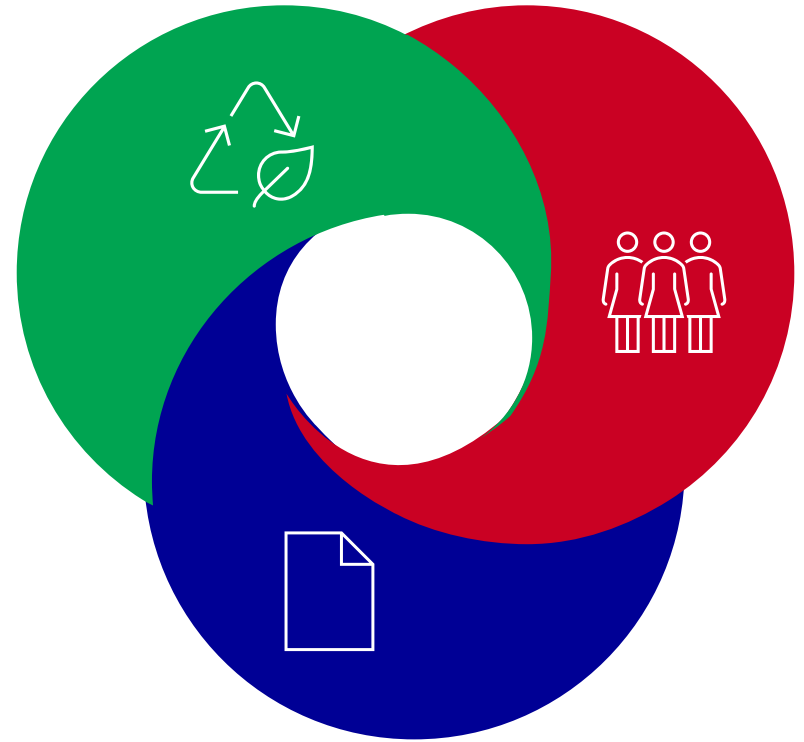
Overview



| | |
|---|----|
| Sustainability and responsible sourcing | 05 |
| Benefits of sustainability and responsible sourcing | 06 |
| Human rights due diligence | 07 |
| Supply chain mapping | 09 |
| Responsible sourcing program components | 10 |
| Uyghur Forced Labor Prevention Act (UFLPA) | 12 |

Sustainability and responsible sourcing

- Sustainability recognizes that people and the planet are interrelated and interdependent and that this requires good governance.
 - ESG is investor language for measuring sustainability.
- Greatest sustainability risks for most companies lie in the supply chain.
 - 90% of emissions and environmental impact.
 - Most complex social and human rights issues.
- Responsible sourcing addresses sustainability issues in the supply chain. Focuses on:
 - Social
 - Environmental
 - Ethics



Benefits

1

Brand recognition
and consumer loyalty

2

Employee
recruitment,
satisfaction and
retention

3

Competitive
advantage and
industry leadership;
holistic approach to
sustainability

4

Regulatory
compliance

UN guiding principles on business and human rights

Protect

State duty to protect human rights

Respect

Corporate responsibility to respect human rights

Remedy

Access to effective remedy

Corporate human rights due diligence

Policy commitment on human rights

Appropriate and relevant – human rights are indivisible.

Informed by expert input.

Approved and owned by leadership.

Publicly communicated.

Human rights due diligence

- Assess actual and potential human rights impacts.
- Integrate and act upon findings.
- Track responses.
- Communicate how they are being addressed.

Remediation

- Actively engage the supply chain to remediate issues.
- Can be done alone or with appropriate partners.

Supply chain mapping

- Helps identify the greatest sustainability risks – the greatest ESG risks are usually farther down the supply chain.
- Allows for proactive risk identification.
- Quicker responses when supply chain disruptions occur.
- Helps meet legal requirements.
- Mapping is the first step toward supply chain traceability through:
 - Identity preservation
 - Segregation



- Map all the way down to raw material level.
- Include service suppliers (labor agents, recruitment agents, etc.)

Responsible sourcing program components



Governance

- Program administration.
- Policies
- Code of conduct.



Risk assessment

- Country/region risk.
- Industry/product type.
- Spend and strategic importance.



Monitoring

- Based on on-site visit.
- Gathers KPI info.
- Should follow industry best practices.



Remediation

- Based on on-site visit findings.
- Create an action plan with clear timelines.
- Commit to continuous improvements.



Capacity building

- Root cause analysis.
- Performance and efficiency improvements.

Grievance mechanisms and worker voice

Grievance mechanisms

Direct channel to workers and community.

Helps companies understand systemic problems and adapt practices and allows companies to remediate individual harms and grievances.

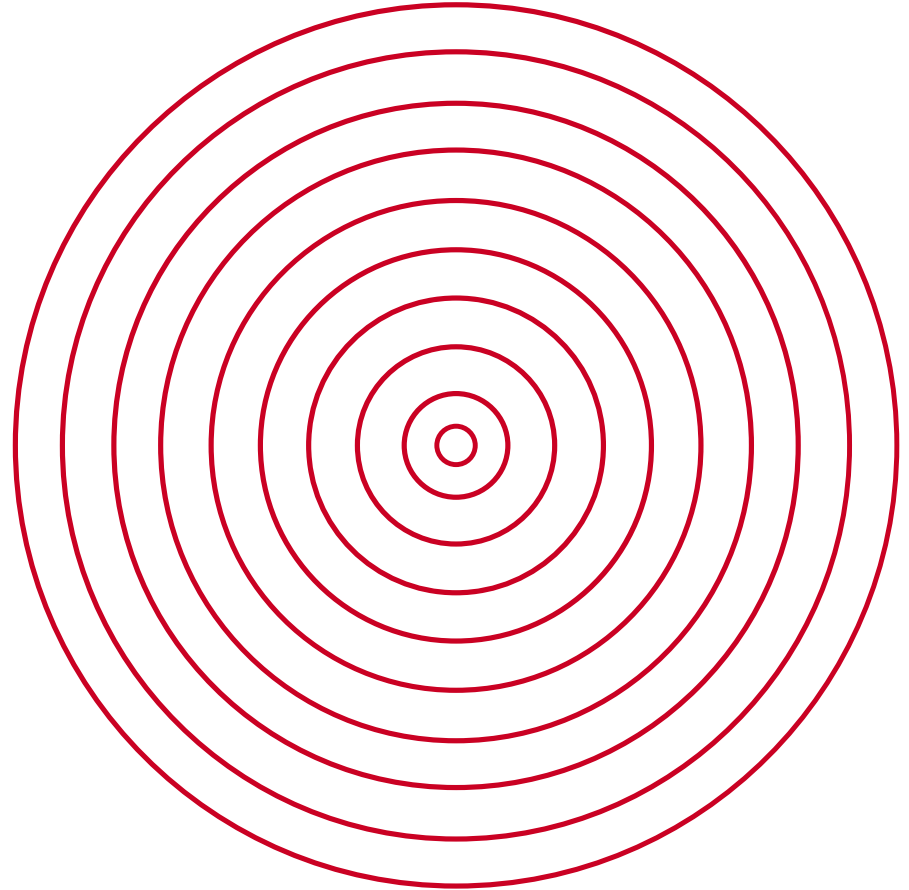
Relevant for United Nations Guiding Principles on Business and Human Rights.

Worker voice

- Captures workers' voices, experiences and needs of workers.
- Channels voices into clear remediation mechanisms.
- Leads to equitable and inclusive solutions.
- More than a worker survey.

Uyghur Forced Labor Prevention Act (UFLPA)

Overview





The UFLPA

U.S. Customs and Border Protection applies rebuttable presumption that all goods, wares, articles and merchandise mined, produced or manufactured wholly or in part in Xinjiang or by entities on the UFLPA Entity List are prohibited from entry into the United States.

UFLPA guidance

Due diligence systems

- Supplier/stakeholders engaged.
- Forced labor risk assessment.
- Supplier code of conduct.
- Training
- Monitoring
- Remediation
- Independent verification.
- Public reporting.

Based on ILO (International Labor Organization) Forced Labor indicators

Supply chain tracing

- Map the full supply chain – up to raw material.
- Who works at each step.
- What work is done at each step.
- Demonstrate chain of custody of goods through the supply chain.

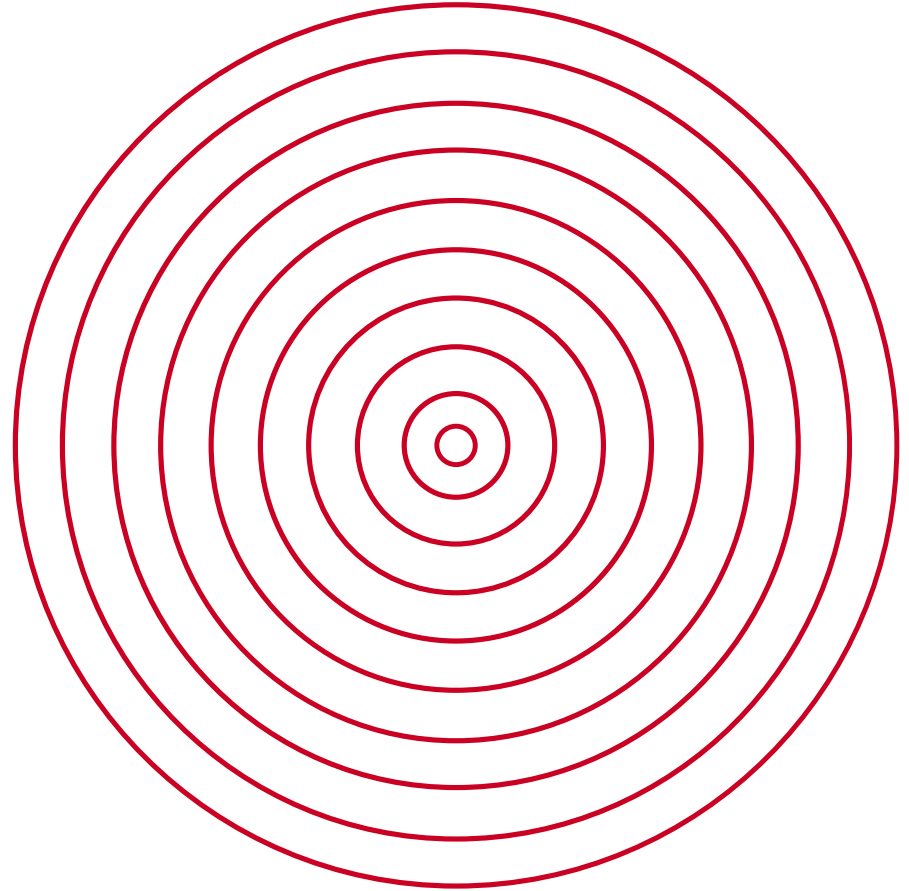
Be aware of the commingled product

Supply chain management measures

- Vetting for forced labor prior to entering a contract.
- Requiring corrective action.
- Outline consequences if no corrective action.
- Access to workers and personnel for verification.
- Appropriate information system to manage supply chain management data.

Country risk

Overview



China country risk

Risk level: **high risk**

- Forced labor and genocide in Xinjiang region.
- No independent trade unions.
- Labor shortages can lead to increased overtime, high worker turnover resulting in non-payment of social insurance, termination pay, outsourced labor, etc.
- Health and safety concerns with smaller accidents.
- Lacking Occupational Health and Safety.



Mexico country risk



Risk level: intermediate risk

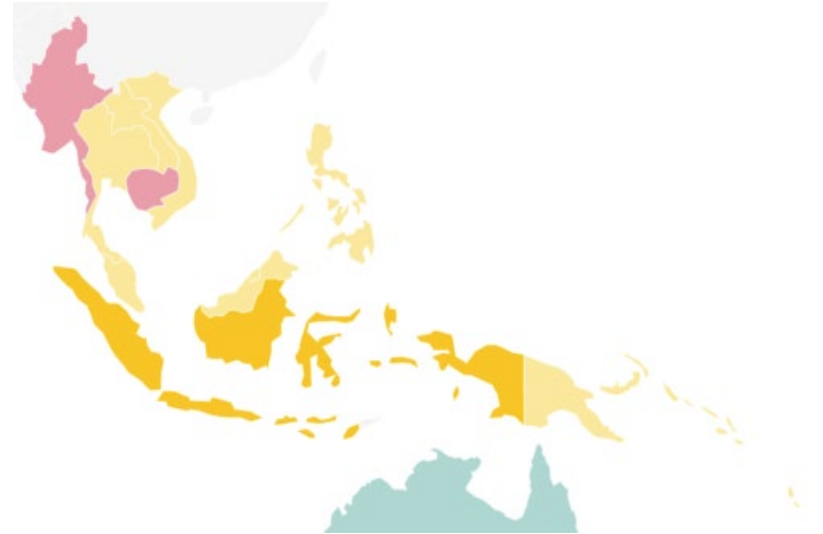
- Weak labor law enforcement.
- About 4% of children aged 5-14 work illegally* (16% in industry, 84% in agriculture.)
- Workers not enrolled in Instituto Mexicano del Seguro Social (IMSS) for medical coverage.
- Challenges to freedom of association.
- Maquiladoras are often tied to exploitative labor.

*Global Estimates of Child Labour report by ILO

Indonesia country risk

Risk level: **intermediate risk**

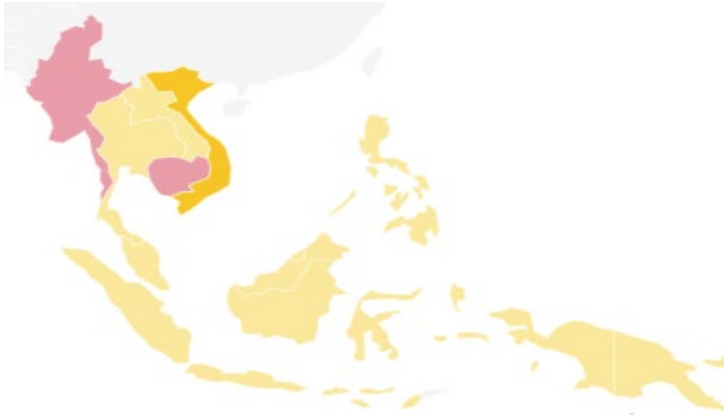
- Omnibus law uncertainty.
- *Approximately 7.23% of children are estimated to work – 40.06% of these working in the agricultural industry.
- Unions under threat of yellow unions and general threats.
- Many factories, even in formal industry, do not pay minimum wage**.
- Elevated Occupational Health and Safety risk.



*Global Estimates of Child Labour report by ILO

**Global wage report by ILO

Vietnam country risk



Risk level: **intermediate risk**

- Informal labor is approximately half of all labor*.
- 5.3% of children work** – 16 products identified, including beds, wardrobes, tables and chairs.
- Previous ban on independent unions ended in 2019, but the effects are still to be seen.
- Excessive overtime common.

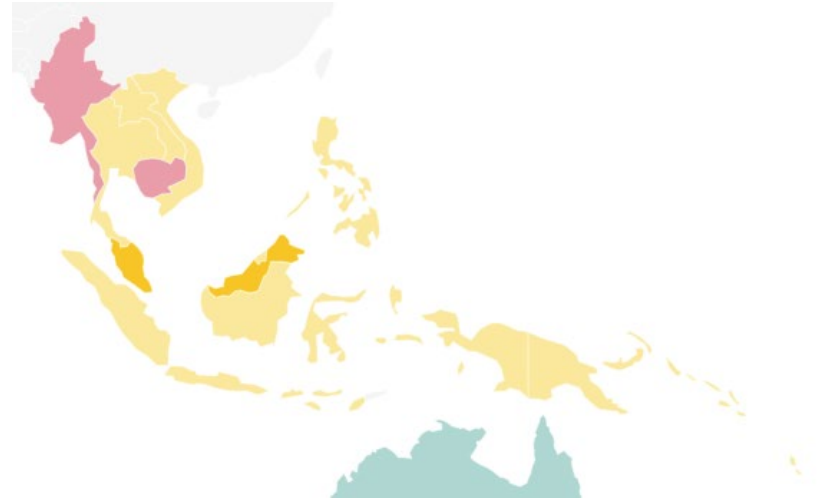
*Global wage report by ILO

**Global Estimates of Child Labour report by ILO

Malaysia country risk

Risk level: **intermediate risk**

- Migrant workers at risk of forced labor
- *Approximately 64.7% of youths aged 15-18 are estimated to work
- Excessive overtime common
- Elevated Occupational Health and Safety risk
- Illegal or unsustainable logging



*Global Estimates of Child Labour report by ILO

Questions



Thank you

[UL.com/Solutions](https://www.ul.com/Solutions)