

Responsible Sourcing In Value Chains & Corporate Sustainability Due Diligence

How can Davy Horizons help you?

Davy Horizons offers a range of services to support organisations develop, implement and report on due diligence and responsible sourcing in value chains to meet regulatory, shareholder and stakeholder requirements. We support organisations to assess risk and maximise the opportunities effective supply chain management brings. Davy Horizons helps clients to:

- Map and risk assess value chain suppliers across tiers and products/services procured to identify risks and opportunities.
- Set up and operationalise a practical Responsible Sourcing System to ensure existing legal obligations and good practice regarding modern slavery, human rights and environmental protection are met.
- Align with supply chain best practice frameworks and benchmarks like EcoVadis, ISO 26000 Social Responsibility Standard and UN Global Compact that customers demand.
- Engage suppliers and gather data on Scope 3 decarbonisation, working conditions and environmental protection.
- Meet the incoming requirements of the EU's Corporate Sustainability Due Diligence Directive (CSDDD) to incorporate sustainability due diligence into governance and procurement practices, plus get buy in across all functions.
- Meet regulatory and customer responsible sourcing and wider sustainability requirements and avoid fines and reputational damage of non-compliance.
- Meet Green Public Procurement (GPP) requirements in tenders for public sector contracts.

Responsible Sourcing System Implementation

The key steps in implementing a Responsible Sourcing System are illustrated.



What is business required to do?

Companies have regulatory, customer and shareholder demands to responsibly source the products and services they procure to conduct their business. These include to combat modern slavery, ensure decent working conditions, equal pay, decarbonisation and environmental protection. Environmental and social impacts in global value chains can be high risk for many sectors. On climate change, over 90% of the carbon footprint for most businesses occurs in the value chain – this is called “Scope 3”. Some examples of current regulatory and stakeholder requirements business face are outlined below:

- Modern Slavery Legislation** - legislation to combat any form of forced or exploitative labour exists in many countries including Ireland, UK, USA, Netherlands, France, Australia and Canada. For example:


- UK Modern Slavery Act 2015** - companies operating in the UK with a turnover over £36 million must take action to identify, prevent and mitigate modern slavery in their operations and supply chains. Companies must also publish an annual statement to report on these actions within six months of their financial year-end.
- The Criminal Law (Human Trafficking) Act 2008 (Amendment) 2013** - combats human trafficking in Ireland with penalties of up to life imprisonment and unlimited fines on conviction for trafficking people for labour exploitation.
- Green Public Procurement (GPP)** - public procurement process applying responsible sourcing practices to ensure goods and services have high environmental or social performance. This is a legal requirement across the EU, UK and Ireland for tenders using public funds.
- UN Global Compact** - best practice framework for business to meet fundamental responsibilities in human rights, labour, environment and anti-corruption.
- EcoVadis** - operates an evidence-based online platform, providing supplier sustainability ratings, allowing


companies to assess the performance of their global suppliers across Environment, Labour & Human Rights, Ethics, and Sustainable Procurement. With a global network of > 100,000+ rated companies, EcoVadis is increasingly used by corporations to provide supply chain traceability.


- Sedex** - a global membership organisation working to improve ethical and responsible sourcing practices in global supply chains. It is an online platform where suppliers and customers can maintain data on their procurement practices, undertake audits and other assessments.
- Climate Change Corporate Strategies and Plans** - best practice and regulation are increasingly requiring Scope 3 value chain emissions to be measured and supplier engagement to drive meaningful decarbonisation actions. For example, Greenhouse Gas Emissions reduction targets to the gold standard Science Based Targets initiative (SBTi), ratings like Carbon Disclosure Project (CDP) and the incoming Corporate Sustainability Reporting Directive (CSRD) require Scope 3 targets.


How should corporations source more responsibly?


A Responsible Sourcing System is a practical approach to meeting legal and stakeholder requirements. The aim of a Responsible Sourcing System is to (1) assess the material environmental & social risks in the supplychain, (2) reduce or eliminate those risks where possible, and (3) unlock opportunities for improving sustainability in the supply chain. The key elements are illustrated below.


-  **Build a Responsible Sourcing Project Team**
- Develop a Responsible Sourcing Policy**
- Develop Supplier Code of Conduct**


-  **Strengthen Buy-In Across Organisation**
- CEO & Board
- Procurement & Buying teams
- Sustainability teams
- Operational & Quality teams

-  **Goods & Services Procured**

-  **Training & Engagement**
- Internal teams
- Suppliers

-  **Integrate Due Diligence**
- Supplier Mapping & Risk Assessment
- Supplier Sustainability Survey
- Audit, Monitor, Remediate
- Database & Traceability

-  **Third Party Alignment (EcoVadis, Sedex, UN Global Compact, ISO 26000 Social Responsibility Standard or similar)**

-  **Reporting**
- CSRD
- Annual Sustainability Reporting



What does the Corporate Sustainability Due Diligence Directive (CSDDD) require?

The EU Corporate Sustainability Due Diligence Directive (CSDDD) legislation will make it a legal obligation for companies to manage their own environmental and social impacts as well as those along their entire value chain. This requires supplier engagement, due diligence on supplier actions and traceability to track compliance and report on progress.

The CSDDD makes in scope companies (as defined in the table) accountable for corporate sustainability due diligence. They will need to identify, prevent, mitigate, and provide traceability for negative human rights and environmental impacts in the company's own operations, their subsidiaries and value chains. To comply with CSDDD:

- A sustainability supply chain due diligence policy must be developed and updated annually.
- Actual or potential negative impacts on the environment and human rights within a company's operations and along the supply chain must be identified.
- A complaints procedure should be established for persons with legitimate sustainability concerns arising from a company's operations or supply chain.
- Group one companies must adopt a plan to ensure that the company's business model and strategy is compatible with limiting global warming to 1.5 degrees Celsius. This is also aligned to the requirements of the EU's Corporate Sustainability Reporting Directive (CSRD) which covers mandatory sustainability reporting for business.
- For companies with more than 1000 employees, performance against the targets outlined in their Climate Transition Plan will be tied to directors' variable compensation.
- Companies should prepare for potential sanctions and supervisory mechanisms for non-compliance. These may include goods being taken off the market or fines as high as 5% of a company's revenue.

Which companies will the new EU rules apply to?

| | LARGE EU LIMITED LIABILITY COMPANIES | NON-EU COMPANIES | SMALL AND MEDIUM ENTERPRISES |
|---------|---|----------------------------|------------------------------|
| GROUP 1 | 500+ employees and more than €150 million of turnover | +/- 9,400 companies | +/- 2,600 companies |
| GROUP 2 | 250+ employees and more than €40 million of turnover, operating in defined high impact sectors such as textiles, agriculture, extraction of minerals. The rules will apply to this group 2 years later than to group 1. | +/-3,400 companies | +/- 1,400 companies |

Micro companies and small and medium enterprises (SMEs) are not directly concerned by the proposed rules. However, the proposal provides supporting measures for SMEs, which could be indirectly affected.

Contact us

Contact us to discuss your requirements on Responsible Sourcing in the Value Chain and Scope 3 Decarbonisation.

Are you ready to take the next step?



Talk to us today.
Email sustainability@davy.ie or visit davy.ie/horizons

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