Supply chain standards

Mica supply chain
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Our company procures many raw materials, packaging materials, technical products, components, and services worldwide. Our overarching goal is to protect the stability of these supply chains and always provide our customers with the best possible products and services at optimal quality. In our fast-paced world, we believe that secure supply chains are the key to our success.

Our approach to making our supply chains more sustainable

One of the goals of our supplier management is compliance with fundamental environmental and social standards, alongside high quality, delivery reliability, and competitive prices. To achieve this, we’ve introduced relevant strategies, processes and guidelines that we are continuously improving to prevent violations of supply chain standards.

We assign our vendors a risk category, taking into account their country risk, product category and the share of their sales that come from our company. In doing so, we pay particular attention to suppliers from non-OECD countries, as we consider vendors in these countries to be at higher risk of disregarding environmental and social standards.

To further intensify our activities in this area and identify potential sourcing risks early on, our Procurement unit has developed a concept for a comprehensive risk management system that will enable us to consider a wide variety of risk factors that also include sustainability aspects. Such processes will help us avoid errors and respond promptly to new challenges. This risk management process is defined in collaboration with all businesses involved.

How we implement CR standards in the supply chain

Group Procurement is responsible for integrating corporate responsibility (CR) requirements into the relevant stages of our sourcing and supplier management processes. It is a global organization with direct accountability and resources in procurement-relevant local subsidiaries. Our Center of Excellence for Supplier Sustainability coordinates all relevant measures, such as updating our guidelines where necessary, examining processes and coordinating our participation in external initiatives. Our Procurement employees in all countries are kept up to date on these guidelines and processes through internal communication channels such as our company intranet. All new Sourcing staff are trained on sustainability aspects important for procurement. Sourcing employees are responsible for the supplier selection process.

Our commitment: Guidelines and standards

We expect all our suppliers and service providers to comply with environmental and social standards, which are primarily derived from the core labor standards of the International Labour Organization (ILO) and the UN Global Compact.

Moreover, we support the Compliance Initiative of the German Association for Supply Chain Management, Procurement and Logistics (BME) and have endorsed the BME Code of Conduct. In particular, this code sets out rules for combating corruption, antitrust violations and child labor, as well as for upholding human rights, protecting the environment and public health, and promoting fair working conditions.

Our Group Procurement Policy stipulates our expectations of our suppliers and specifies how we monitor compliance with our standards. This policy further reflects both internal and external guidelines, such as our Code of Conduct, our Human Rights Charter, our EHS Policy (Environment, Health and Safety Policy), ISO 14001, and the BME Code of Conduct. In our Responsible Sourcing Principles we set out our expectations for our suppliers in terms of corporate responsibility, and formally oblige them to apply these standards to their own vendors.

Whenever legal frameworks are modified, we incorporate these changes and initiate the appropriate measures where necessary.

Global procurement

In total, the goods and services we purchased from more than 64,000 suppliers in over 145 countries in 2017 amounted to around €7.0 billion. Of these goods and services (including R&D services), we purchased 50% from suppliers based in EU countries and 35% from vendors based in OECD countries outside the EU. The share of goods and services sourced from suppliers based in non-OECD countries outside the EU increased from 14% in 2016 to 15% in 2017.
Share of overall goods and services purchased

15%  Non-OECD countries outside the EU

35%  OECD countries outside the EU

50%  EU countries

Strategy workshop on sustainability within the supply chain

In August 2017 we held a workshop in Darmstadt focusing on sustainability within the supply chain. At this event we worked with external experts to analyze which aspects of supply chain sustainability will become increasingly important to us. The aim was to uncover risks and opportunities within our supply chain and devise appropriate actions.

How we monitor our supply chain

We pursue various approaches to keep track of our suppliers and ensure adherence to our standards and values. These approaches are generally based on the risk they pose, combining the factors of country risk, product category and sales.

- Under the Together for Sustainability (TfS) initiative launched by companies in the chemical industry, we encourage our suppliers to be assessed either on self-reported information or via audits.
- In selected cases we conduct our own CR audits on suppliers.
- Regarding our mica supply chain (p. 106), we engage the global consultancy Environmental Resources Management (ERM) to conduct audits and the Indian organization IGEP to conduct inspections.

TfS supplier assessments and audits

Under TfS, suppliers are assessed either on information obtained during audits, or on the basis of self-reported and publicly accessible information provided by EcoVadis, an independent rating agency. EcoVadis assesses suppliers from 110 countries and 150 sectors across the four categories of Environment, Labor Practices, Fair Business Practices, and Sustainable Procurement. The results of these supplier assessments are shared among TfS member companies in compliance with all restrictions stipulated by competition law. In 2017, the TfS initiative realigned its strategic focus to concentrate more strongly on the initiative’s demonstrable improvements of supplier sustainability standards. We’ve been a member of TfS since 2014.

We now have access to the sustainability checks of more than 730 of our suppliers – 463 of which we initiated in 2017. Based on all the audits and assessments conducted since joining the TfS initiative, in 2017 we focused on risk reduction and risk management. Our priority was the mitigation activities for TfS audit results, with more than five major findings and assessment scores below 30 (on a scale of 1 to 100). In 37 cases, the issues related to environmental impacts, in 100 cases to labor practices and human rights, and in 65 cases to impacts on local communities and society as a whole, while some suppliers were found to have multiple issues.
Conducting our own audits

In 2017 we conducted five of our own risk-based CR audits, assessing vendors according to both environmental and social criteria. The non-conformances identified for two suppliers as having a potential environmental impact were related to air emissions and waste management/ground contamination. In terms of social aspects, the audits found no deficiencies. To correct the ecological shortcomings, we jointly agreed on a corrective action plan and are monitoring our vendors’ progress to ensure that the improvements are being made. The defects identified did not lead us to terminate business ties with any of the suppliers.

Neither our audits nor those of TfS revealed indications of violations of the right of association, the right to collective bargaining, cases of child labor, forced labor or compulsory labor.

Impact on our vendors

In 2017, one of the goals we set was to make a greater impact on our suppliers’ sustainability. To achieve this, we teamed up with vendors relevant to future procurement activities whose audits revealed critical sustainability defects. Together, we identified ways to boost sustainability and then monitored their implementation.

Favoring local suppliers for certain products

We have no internal guidelines stipulating that preference be given to local vendors in allocating contracts, and generally procure our goods and services globally. However, in some cases local vendors do have an advantage: Products bought locally may be less expensive, as proximity eliminates additional transport costs. Country-specific regulations such as import duties and licenses also help us decide whether to source our goods locally or globally. Furthermore, in some countries local laws require contracts to be awarded to regional suppliers.

Mica supply chain

Mica is the primary raw material of our effect pigments, which are used in applications such as automotive and industrial coatings, as well as in the cosmetics and food industries. Although it naturally occurs in many locations around the world, we mainly procure mica from India, where it is mined in the northern states of Jharkhand and Bihar. This region suffers from political instability and poverty with widespread child labor, so we’ve taken special measures to ensure compliance with our social and environmental standards.

We have made a conscious decision to maintain our business relationships in the north of India and are taking on responsibility for this region by safeguarding jobs there. To ensure that we procure mica without the use of child labor, we have completely reorganized our supply chain and now source the raw material exclusively from qualified mines. This formal working environment is the only way to ensure compliance with our standards, since child labor cannot be ruled out if mica is gathered in publicly accessible areas.

Our approach to responsibility in the mica supply chain

Following a study conducted in 2008, we found that the people in Jharkhand and Bihar were gathering mica from the tailings of abandoned mines or off the ground—sometimes together with their children. This constitutes a clear violation of our company values and our Human Rights Charter. We do not tolerate child labor and contractually prohibit our suppliers from employing children.
How we organize our mica supply chain

We maintain direct, regular contact with mine lease holders, mine operators and mica processing plant owners. We have informed our business partners about our social and environmental standards, and they support our efforts to keep the mica supply chain free of child labor. Our Procurement staff in Kolkata, India are in direct contact with these partners; they are present at the mines or processor sites during audits and customer visits and are available to answer any questions or address complaints. Whenever non-compliance with our standards is identified, we work with suppliers to ensure the appropriate and swift implementation of corrective measures. This year we therefore suspended two supplier relationships. A corrective action plan was put forward, and the suppliers are now implementing the rectification measures we required.

The mica supply chain

Our commitment: Compliance with guidelines and standards

As a signatory to the United Nations Global Compact, we are actively involved in working to abolish child labor. Going above and beyond the legal requirements, we are committed to ensuring that our mica supply chain adheres to the same internal and external standards and guidelines that apply to our other supply chains (p. 104).

Auditing our mica supply chain

To ensure that all mines and processing companies adhere to our standards, we monitor our business partners for compliance with our environmental stewardship requirements as well as occupational health and safety regulations. We carry out comprehensive pre-announced audits, as well as unannounced inspections.

Annual audits

Environmental Resources Management (ERM), a global provider of consulting services, conducts annual audits that review the working conditions along with environmental, health and safety standards. Audit reports are compiled to document any identified shortcomings and define corrective actions. Our employees in Kolkata and Darmstadt subsequently make sure that these issues have been resolved.

In March 2017 ERM conducted nine audits. The majority of the corrective measures identified in previous audits had already been implemented at this point, or were underway. Identified defects primarily involved occupational safety precautions and gaps in the implementation of management systems. When violations are discovered, we work together with the suppliers to ensure that these are corrected in a satisfactory manner. When breaches are not rectified through the appropriate corrective action, we freeze relations with the respective company, or even terminate the business relationship altogether.

Following an amendment to Indian legislation, the responsibility for the licensing of mines was transferred from the Central Government of India to the individual states. To support the mine operators in complying with this new legislation, ERM analyzed the relevant processes in the mines between August and October 2017. At a joint workshop we explained the new approval process to the mine operators and mica processing companies.
Monthly inspections

Since 2013, the Indian organization IGEP has been carrying out unannounced monthly inspections of working standards in mines. In 2017 four mica mines and five processing plants were checked by IGEP. During these inspections, IGEP monitors occupational safety and compliance with the ban on child labor, for instance, as well as consistent process documentation. They also check whether our suppliers have held the mandatory training sessions for their employees.

Tracking system for mica sources

We use a tracking system to ensure that the supplied mica comes exclusively from legal mines qualified by our company. All mine owners record the daily extraction volume of their mines in a logbook. The license fees that the mine owners must pay to the government are based on these documented amounts of mica. On a monthly basis, we review the volumes of mica reported in the logbook and supplied to the processing companies. Furthermore, we carry out a cross-check by verifying the relevant transport documentation, known as “challans”.

In November 2017 our employees surveyed the mining activities of our suppliers to document the actual daily output of the mica mines and cross-check the actual output against the documentation provided.

Community outreach in the mica supply chain

The states of Jharkhand and Bihar are among the most impoverished regions in India. Together with IGEP, we are working to improve the living conditions of the families in the mica mining areas. The literacy rate and the number of children who attend school are far below the Indian national average, according to a 2016 study by the organization Terre des Hommes and the Centre for Research on Multinational Corporations. Among our efforts, we are financing three schools run by our partner IGEP in Jharkhand, where more than 500 children and adolescents are enrolled. Moreover, tailoring and carpentry courses are also offered. At a fourth school opened by one of our mica suppliers in 2014, we achieved our goal of providing scholarships for 200 children in 2017.

In addition to our education efforts, we are committed to improving local access to healthcare. To this end, in 2010 we established a health center operated by IGEP to serve the region’s 20,000 residents. Two medical professionals work at the center and also provide regular health services to schools. Previously there was no healthcare of any kind in this region.

Stakeholder dialogue on the mica supply chain

We keep interested customers and other stakeholders regularly informed on our mica sourcing activities. Our employees in Kolkata and Darmstadt also maintain contact with our project partners and other advocacy groups, as well as with local and state authorities.

In November 2017, we attended the kick-off conference for the Responsible Mica Initiative in Delhi. We are a founding member of this initiative, which was established following the Mica Summit 2016. The program is committed to improving the traceability of mica in the supply chain and building sustainable living conditions in local communities. At the summit, a five-year implementation plan was announced to achieve a fully traceable and responsible mica supply chain in India, mainly focused on eliminating child labor and improving occupational safety in India’s mica industry.

New sources of mica

We have found additional sources of mica outside India that meet our stringent quality, social and environmental standards. Part of our mica, for example, is now supplied by Brazilian companies. In this way, we are securing the supply of this raw material over the long term and avoiding potential supply bottlenecks. Furthermore, as an alternative to pigments based on natural mica, we also manufacture effect pigments based on synthetic substrates.