RESPONSIBLE SOURCING PRINCIPLES

IMPLEMENTATION GUIDANCE

PHILIP MORRIS INTERNATIONAL

CONTENTS

INTRODUCTION

The Responsible Sourcing Principles (RSP) set expectations for everyone in the PMI supply chain, and reflect our commitment to the Ten Principles of the United Nations Global Compact[1] and the United Nations Guiding Principles on Business and Human Rights[2].

The RSP are organized around three focus areas: Human Rights, Environmental Management and Business Integrity. In each of these areas we have set out the principles that suppliers need to take into account when running their business operations.

The purpose of this document is to help suppliers understand what is expected and how a supplier can demonstrate alignment with the RSP.

We understand that suppliers may not all be in a position to demonstrate their alignment with the RSP in day one. Our approach is one of continuous improvement, and suppliers can use the guidance in this document to develop a roadmap for their operations.

This document, although it is guidance, is based on international standards and best practice. As PMI's Sustainability Program advances, we will use this document as the basis for designing the systems that will monitor and assess suppliers' alignment with the RSP.

Certain fundamental beliefs about business conduct unite and guide us at PMI which are at the heart of our Code of Conduct, known as our Guidebook for Success. These fundamental beliefs formed the basis of the Business Integrity section of the PMI Responsible Sourcing Principles. For further guidance on the Business Integrity principles of the RSP, please refer to the Guidebook for Success which can be found at www.pmi.com.

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[1]The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labor standards, the environment and anti-corruption: https://www.unglobalcompact.org/what-is-gc/mission/principles

[2]UN Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework: http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf
FAQ: http://www.ohchr.org/Documents/Publications/FAQ_PrinciplesBussinessHR.pdf
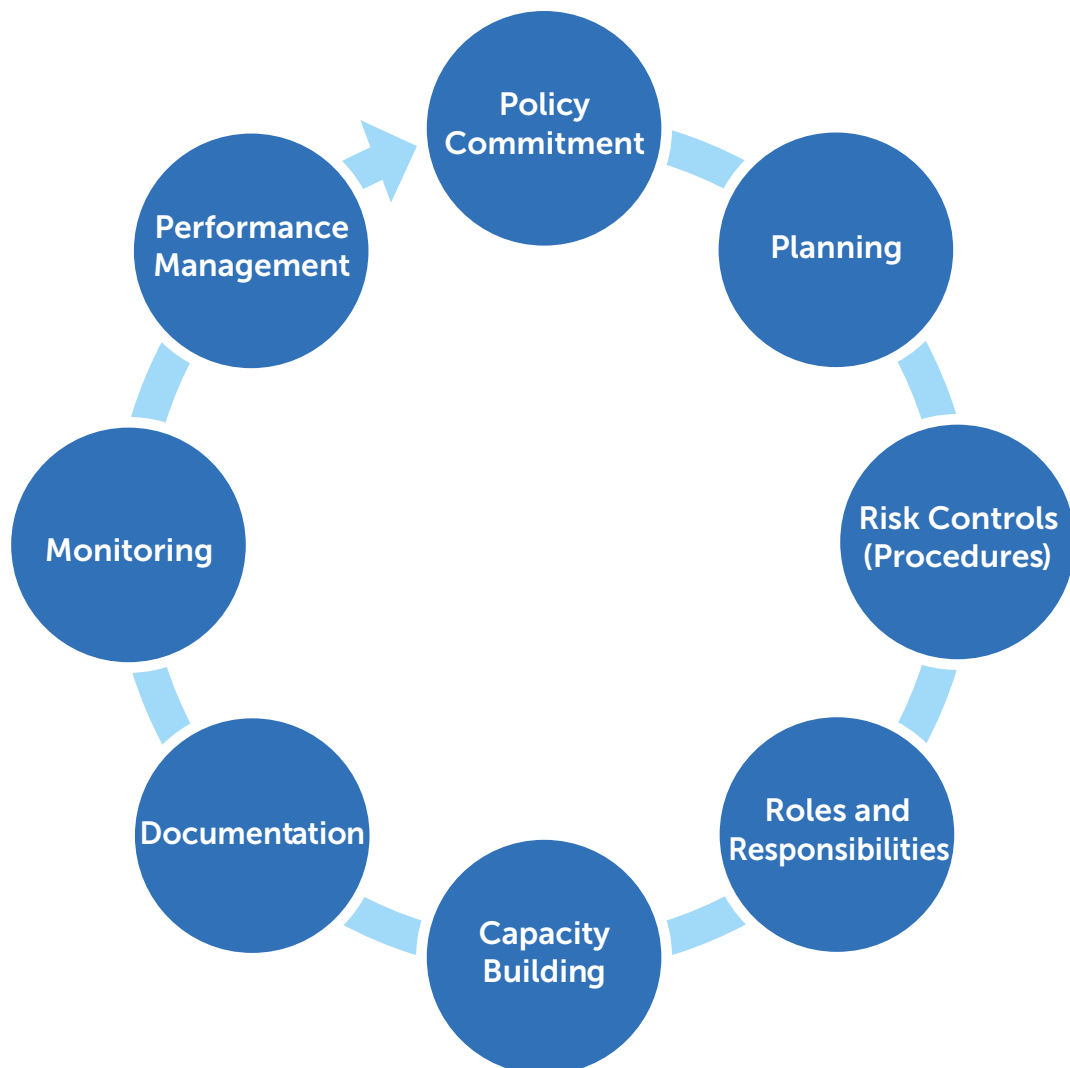
What are the benefits of respecting the RSP?

Respecting the RSP and working to meet its requirements through a process of demonstrable continuous improvement will align you with internationally recognized standards, and help you meet the requirements of PMI. Most importantly, it will enable you to avoid and/or mitigate potential risks that might have an impact in your productivity, performance, and reputation.

A systems approach for implementing the RSP

You can best meet standards by using a systems approach, commonly known as "Plan, Do, Check, Act" (as shown here).

This means:

1. Putting a **policy commitment** in place that aligns with PMI's RSP and **communicating the policy** internally and externally (including to your own suppliers).

2. **Planning** how to achieve the RSP Principles, by identifying and assessing risks in your operations and supply chain; identifying applicable legal and other requirements; and establishing priorities, improvement objectives and plans to manage the identified risks

3. Designing and implementing the procedures and other **risk controls** that embed the policy commitments into the day to day business operations, including **controls to the processes** that you already use to run your business, to ensure that the procedures are followed.

4. Defining clear **roles and responsibilities** and assigning staff to ensure that policies and procedures are carried out effectively.

5. Building of **internal capacity** through awareness, training and communication.

   a. Train all employees, including new hires to the company. Regularly refresh the training.

   b. Training programs should cover policies and procedures as well as local legal requirements.

   c. Communicate the company's grievance procedure and how workers can confidentially report issues.

   d. Prominently display company policies and procedures and make them readily available for employees in print or online.

6. Documenting your procedures and keeping records to be able to demonstrate that the policies and procedures are being followed and to show how corrective action has been taken to address gaps.

7. **Monitoring** of the effectiveness of the company's efforts to implement the policies and procedures. Establish KPIs, perform audits of your operation and your suppliers, and track trends and statistics to measure effectiveness and identify actual and potential problems.

8. **Managing performance** by addressing gaps and risks when they are identified, with priority being given to the most serious issues first.

HUMAN RIGHTS

FORCED LABOR AND HUMAN TRAFFICKING

CHILD LABOR

WORKING TIME

WAGES AND BENEFITS

FAIR AND EQUAL TREATMENT

WORKPLACE SAFETY

FREEDOM OF ASSOCIATION

LAND RIGHTS

SOURCING OF MINERALS

PMI suppliers are expected to identify, avoid and address negative impacts on all internationally-recognized human rights, including those highlighted in this Implementation Guidance.

Depending on the sector, location, and context in which PMI suppliers or third parties operate, suppliers may need to consider additional human rights, namely those related to local communities and vulnerable groups that require particular attention, and conduct due diligence to identify, prevent, mitigate and account for human rights impacts on these groups.

To achieve this, our suppliers must have policies and processes in place which are appropriate to their size and circumstances, including:

• A policy commitment to respect human rights;

• A human rights due diligence process to identify, prevent, mitigate and account for human rights impacts; and

• Processes, including grievance mechanisms where possible, to enable the remediation of any adverse human rights impacts they may cause or contribute towards.

FORCED LABOR AND HUMAN TRAFFICKING

Do not engage in or condone the use of forced or trafficked labor. Be diligent to identify and address any form of modern slavery in operations and the supply chain, including prison, indentured, bonded, enslaved or any other form of forced labor. Loans or salary advancements must be based on fair terms, clearly explained to the worker, mutually agreed, and do not require the worker to remain with the employer until repayment is completed. Do not retain or confiscate the personal papers of any worker including their passports. Do not allow workers to pay recruitment, processing or placement fees, and agree with all workers on the terms of their employment in writing at the point of recruitment.

What does this mean?

Forced labor is defined by the International Labour Organization (ILO) as "all work or service which is exacted from any person under the menace of any penalty and for which the person has not offered himself voluntarily." The ILO estimates that more than 21 million people around the world are in a situation of forced labor[1]. It is a serious violation of a fundamental human right.

Work **is voluntary** when workers give consent to work and they have the freedom to quit their job at any time without penalty, with reasonable notice.

Work **is not voluntary** and is considered forced labor when a person has entered into a job against their will and cannot leave that job without facing a penalty or a threat of penalty of any kind.

Penalties can include actual or threats of physical violence, withholding of identity documents or wages, threats of deportation, and imposing fees that are impossible to repay.

[1]http://www.ilo.org/global/topics/forced-labour/lang--en/index.htm

There are several forms of forced labor, as defined below:

- **Human trafficking** is a process of bringing workers into a situation of exploitation through a series of actions, including deceptive recruitment and coercion.

- **Debt-bondage** is when workers must continue to work in order to repay a debt to a labor broker, their employer, or another third-party.

- **Indentured labor** is when workers are bound to their employer with or without an employment agreement and are not able to leave at will. Slavery is a form of indentured labor.

- **Slavery** is a situation where an employer or a labor broker exercise (perceived) power of ownership over a worker.

- **Forced overtime** is when workers cannot refuse to work overtime without fear of penalty.

- **Limited freedom of movement** means confinement or not allowing workers to leave the facility grounds and dormitories.

- **Prison labor** is when prisoners are used as part of the workforce.

> **A company's policies and procedures should always allow workers to resign (after suitable notice) or leave the premises without being penalized for doing so.**

HOW TO MEET THIS PRINCIPLE

Procedures (practices)

Recruitment, selection, hiring, and other human resources procedures should include:

- Ways to track and understand laws and regulations on **forced labor and human trafficking**.

- How to ensure that workers are not required to pay **recruitment and placement fees**, or make **deposits** for their jobs as part of the recruitment, selection and hiring process.

- Job advertisements state the company's "no fees" policy.

- Make sure that original copies of worker identity documents, such as birth certificates, national identity cards, or passports, are not held by the company or recruitment agents, except as needed to obtain or renew visas and work permits.

If foreign contract workers are hired, you should make sure that:

- The labor broker or recruitment agency complies with legal requirements in the workers' home country as well as the country where the workers will be employed.

- The labor broker establishes and implements forced labor prevention policies and procedures that align with the PMI RSP.

- Workers are not required to make monetary deposits as a condition for being hired.

To safeguard against unethical recruitment practices, it is important for companies to exercise effective **due diligence** in the selection of prospective labor brokers. This will ensure that applicable requirements are in place, such as: business licenses, certificates, and permits for all of their operations. A summary of due diligence actions is listed in the chart below.

WHO	WHAT	HOW
Receiving country agent	Legal compliance	Due diligence review
Sending country agent	Business ethics	Self-assessment
Housing and transportation providers	PMI RSP	Pre-selection and ongoing audits

Service agreements with recruitment agents must state:

- Workers are not required to pay recruitment fees or make deposits.

- Job advertisements/postings include the "no fees" policy.

- The agency will reimburse workers for any recruitment fees paid by workers to sub-agents or others during the recruitment process.

- Workers are provided a full explanation of the terms of conditions of the job in their home country before they are asked to sign the employment agreement.

The terms and conditions of the employment must be provided in writing and made clear to the worker.

- All workers are informed of their legal rights and the terms and conditions of employment at the time of recruitment in their native language.

- A copy of the written contract (employment agreement), in their native language, should be provided to the worker at the time of hire. Both the verbal agreement and the written contract should contain the following information:

    – Nature and type of work, including specific job function(s)

    – Duration of contract, including terms of resignation and termination

    – Regular work hours, anticipated overtime work hours, base wages and premium paid for overtime, holiday work and shift work, pay cycle and benefits

- The employment agreement is signed by the worker at the time of hire and always before they begin work or before they leave their home country, whichever occurs first.

- The contents are clearly explained to the worker before signing.

- Workers are provided with their own copy of the original agreement and another copy is kept on file in the worker's personnel records.

Workers have freedom of movement and are never physically prevented from leaving the workplace or housing (where provided). Procedures should include:

- Freedom of the workers to leave the workplace during work hours and worker housing (e.g. dormitories) including non-work hours without penalty or unreasonable restrictions.

- Security guards may not take disciplinary action against workers.

- Workers are not required to live in employer or recruiter-operated residences.

- Exit doors cannot be locked or blocked to prevent workers from leaving the workplace or dormitory.

- Workers are provided with access to toilets and to clean drinking water at all times and do not require permission to do so.

- Workers are free to return to their home country during paid leave, without penalty.

Documentation and Records

You should keep the following on file:

- All worker employment agreements.

- Agreements with security agencies, recruitment agencies and providers of worker accommodation.

- Worker grievance reports related to recruitment practices and records of how they were resolved, including grievances against recruitment agents.

- Records of disciplinary action.

- Records of pre-departure and arrival training for migrant workers.

- A list of all contract workers (domestic or foreign) that includes the following information:

  – Name of contract worker
  – Country of origin
  – Date of hire and length of contract
  – Recruitment agency

- A database of reputable recruitment agencies.

Monitoring

Monitor trends and statistics to identify actual and potential problems, including:

- Establish and track simple KPIs to measure program effectiveness on an ongoing basis, such as:

  – The number of new migrant workers required to pay recruitment fees.

  – Percentage of new hires who understand their employment agreement.

  – Grievances made against recruitment agents for unethical recruitment practices.

- Regular review and assessment of worker grievance to determine how well your recruitment, selection and hiring requirements are being followed.

- Engage workers (e.g. interviews, focus groups, surveys) to understand if ethical recruitment practices were followed.

- Regular evaluations (audits) of the performance of recruitment agencies in meeting company and legal requirements.

- Regular self-audits against legal requirements, company requirements, and the PMI Responsible Sourcing Principles.

Investigate problems and analyze why they occurred. When a situation arises that it doesn't follow your company's forced labor policies and PMI Responsible Sourcing Principles, you should investigate and address the root causes of the problem to put in place sustainable solutions to prevent a recurrence.

> **Best Practice:** Conduct regular surveys or interviews of newly arrived migrant workers to determine if ethical recruitment practices were followed and to measure workers' awareness and understanding of their rights related to forced labor and freedom of movement. Results of the survey can be used both to improve worker awareness and to address workers' concerns.

FREQUENTLY ASKED QUESTIONS

Why are foreign contract workers more vulnerable to abuses of forced labor?

Unlike domestic workers, the threat of deportation hangs over the heads of all foreign contract workers. Monitoring foreign contract labor issues should be handled with sensitivity to their special circumstances. Foreign contract workers tend to be less vocal because of the high cost of losing their jobs to them and their families.

How can you make sure your company is not employing workers who are debt-bonded?

Hire workers directly, not through a labor broker. Brokers can take advantage of workers. Workers who have fewer employment alternatives and are economically desperate might be forced to bond themselves to these brokers as their only way of getting a job. The interviewing and selection process can give you an idea of whether job applicants are under any financial obligation to a third party or paying fees in order to get a job.

How can you prevent those in charge of recruitment and hiring from accepting bribes or 'under the table' deals in exchange for a job?

- Establish and communicate policies against such practices, including procedures to investigate and address reports of violations and penalties for confirmed violations.
- Make sure workers have an effective, confidential grievance procedure for raising such issues.

Can foreign contract workers join unions?

Yes. Both the ILO and the United Nations recognize freedom of association as a "core labor standard," meaning that it is a basic right at the workplace that all workers must be able to enjoy without interference. Freedom of association includes workers forming or joining unions or any other representative organizations of their choice, and negotiating their terms and conditions as a group. This is called collective bargaining. However, the right to freedom of association for foreign migrant workers may be limited by law in some countries. Where this is the case companies should establish alternative worker organizations to ensure effective worker-management communication.

What situations/practices could result in debt-bondage?

- Requiring job applicants to pay excessive recruitment fees to recruitment agents or the company.

- Asking workers to pay a deposit for their employment and using the loss of the deposit as a disciplinary measure or to keep workers from leaving the company.

- Refusal to return workers' savings or earned wages at the end of the contract, or upon termination or resignation.

- Where loan repayment amounts are such that a large portion of a workers' salary is used to repay the debt. In such cases, workers may end up working just to pay off existing debts.

In some countries, the law requires the employer to collect savings for foreign contract workers. What can the company do so it does not violate standards on forced labor?

- The amount of savings must be within the prescribed legal limits and is collected with the written consent of the workers.

- Savings must be placed in individual worker's savings accounts. Workers should be able to monitor and access their accounts at any time. The facility must make sure that savings are returned to workers when they leave the job.

What are some examples of violations of workers' freedom of movement?

- Preventing workers from leaving their dormitories except when a curfew is agreed by residents to be reasonable for personal safety.

- Limiting access to toilets by implementing a system of toilet passes or any other form of restrictions.

- Unreasonable delay in granting reasonable requests of workers for permission to leave the workplace or accommodation.

CHILD LABOR

Do not use child labor. Minors can be employed in limited circumstances, provided that they are at least 15 years old, of legal minimum age for employment or of age for the completion of compulsory education, whichever is higher. Workers below 18 cannot do work that may compromise their health, safety or emotional development, or work that involves the marketing and sales of tobacco products.

What does this mean?

A child is a person under the age of 18. Children are highly vulnerable to exploitation and abuse and thus require special protection.

This problem exists in all countries and is usually invisible; with children toiling as domestic servants, working behind the walls of factories and workshops, and hidden from view on farms and plantations.

The worst forms of child labor are the most harmful, and include: slavery, trafficking, selling of a child's services for money, and other forms of forced labor involving children in hazardous work.

A young worker is a worker that is between the ages of 15 and 18, and is allowed to work, according to the country's law.

Companies can employ young workers (also known as juvenile workers), but only with restrictions on the type of work performed and the hours of work to protect their health, emotional wellbeing and development. This typically includes restrictions on hazardous work, working at night, and overtime work.

Every company should consistently follow clearly defined and effective methods to identify and screen out job applicants who are underage and to ensure that young workers do not perform hazardous work.

HOW TO MEET THIS PRINCIPLE

Procedures (practices)

Recruitment and other human resources procedures and practices should include:

• Ways to track and understand laws and regulations on child labor and young workers.

• Formal processes to screen out underage workers:

– Job postings clearly state the minimum hiring age.

– Review and verification of official proof-of-age documents.

– Requirements for recruitment agents to follow your policies on recruitment and hiring of young workers.

• Training for those responsible for hiring, including recruitment agents, on how to verify whether identity papers are valid and how to use interviewing and other techniques for confirming the age of job applicants.

• Protections for young workers.

– Review all jobs in the facility for health and safety hazards and identify those suitable for young workers.

– Provide young workers with initial and periodic health checks to make sure their work does not endanger their health or physical development.

– Ensure employment contracts for include job and working hours' restrictions and educational needs, and are signed by the worker's parents.

– Register young workers with the local labor authority if this is a legal requirement.

• Written procedure to resolve the discovery of child labor in the workplace in the best interests of the child. The procedure should include:

– Removing the child from the workplace and ensuring the child is in a safe place

– Contacting the parents or guardian, whenever possible, to understand why the child was working and to agree on situation-specific remediation options, that may include:

• Facilitating the child's completion of compulsory education

• Sponsoring alternative vocational training

• Providing a stipend or income replacement for the family until the child reaches legal working age

• Hiring an adult family member in place of the child

• Re-hiring the child when the child reaches legal working age.

– Investigating how the situation occurred and making any necessary changes in the recruitment process to prevent a recurrence.

> **Effective and humane remediation of the discovery of a child in the workplace requires understanding the specific circumstances of each child, including the family's economic situation.**

Documentation and Records

You should keep the following on file:

- Copies of verified proof-of-age documents in the worker's personnel file (national identity card, birth certificate, local school records, etc.). Do not retain original documents.

- A register of young workers currently employed.

- An inventory of departments and jobs that are approved for young workers.

> **Good Practice: Keep copies of the typical types of falsified proof-of-age documents. Be sure recruitment staff members are familiar with them and use them on-going basis as a screening tool by comparing them with the documents submitted by applicants.**

- Copies of reports of the discovery of child labor and how the incidents were resolved.

Monitoring

Monitor trends and statistics to identify actual and potential problems.

- Establish and track simple KPIs to measure program effectiveness on an ongoing basis, such as:
  - Percentage of job applicants found to be underage;
  - Number of young workers found in unacceptable jobs (hazardous work, night shift, overtime, etc.)
  - Number of underage workers found working in the facility.

- Regularly review recruitment procedures to determine if they are effective in preventing the hiring of underage workers.
  - Include random age verification checks
  - Review the practices of external recruitment agencies.

- Regularly review job assignments for young workers to verify that they do not endanger their health and safety, or emotional development.

- Periodically review complaints and grievances from workers related to the administration of your child and young worker labor procedures.

Investigate problems and analyze them for why they occurred. When a situation arises that it doesn't follow your company's child labor policies and PMI Responsible Sourcing Principles, you should investigate and address the root causes of the problem and put in place sustainable solutions to prevent a recurrence.

- For example, if you discover an underage worker in the facility, after taking appropriate action to remove the child from the workplace, investigate how this occurred. Was there a gap in your age verification procedure? Did a labor broker not follow your requirements?

> **Good Practice: Often, more than one department might be responsible for violations of your company's child labor policies and PMI Responsible Sourcing Principles. In the case of child labor, Human Resources and Production must work together to find an appropriate solution that meets standards and is in the best interests of the child.**

FREQUENTLY ASKED QUESTIONS

How can you avoid hiring child workers?

A common risk for child labor is when a child's services are sold to labor brokers by parents or another family member who, very often because of extreme poverty, are unable to feed and provide for them. These agents often transport the children to distant work sites and present them as older than they are.

You should always require job applicants to provide government authenticated proof-of-age documents. If you use a recruitment agent or labor provider, require that they have such a system in place and periodically monitor it for effectiveness.

How can I verify an applicant's age during an interview?

An interviewer can ask questions such as, "In what year were you born?" or, "How old are your siblings?" Then ask a follow-up question such as: "Where do you fit in the age order of your siblings?" These kinds of techniques may help determine the accuracy of information from young applicants who may be coached to say they are older than they really are or are unable to verify their age with correct documentation.

What if the legal minimum working age is lower than the PMI Responsible Sourcing Principle, or the mandatory age for schooling?

In both cases, PMI's policy is that the higher age requirement should be followed.

Also, in most countries, the minimum working age and the mandatory age for completion of compulsory schooling is the same. However, there are countries where the minimum age is lower than the age for completion of compulsory schooling. In this case, it is PMI's requirement that you do not to hire workers under the mandatory age for completion of compulsory schooling even if they are above the minimum age for employment (except in cases where school and training are legally combined, such as apprenticeships).

What else can a company do to help address child labor in the workplace?

In spite of good anti-child labor policies and procedures, it may still be possible to discover underage workers on the premises. This is because underage workers may not want to be discovered and lose their jobs. They – and their parents – may depend on the income. In such cases you should remove the child from the workplace and encourage the child to return to school and complete his or her compulsory education.

What if there are young workers doing hazardous work?

Those young workers should be reallocated to other non-hazardous work in the company and there should be some sort of verification to determine whether there were any negative consequences from the workers having done that hazardous work.

WORKING TIME

Allow workers rest time. Regular working hours are in compliance with the country's laws and do not exceed 48 hours per week on a regular basis. Give workers one day off, at least 24 consecutive hours, every seven days. Give workers holidays and leave. Including overtime, limit the working week to 60 hours, and get voluntary consent from workers for overtime.

What does this mean?

Limiting working hours helps ensure that workers have adequate rest. Working too many hours in a day or for too many days in a row without a break can result in fatigue and inattention, increase the risk of accidents, lower productivity, and cause damage to workers' physical and mental health.

> **Laws that limit overtime and require that workers are given at least one rest day a week and other time off (like public holidays and vacation) recognize the importance of rest and providing time for other aspects of a worker's life — family, leisure, educational and vocational pursuits. This contributes to the worker's safety and productivity on the job, and overall well-being.**

HOW TO MEET THIS PRINCIPLE

Procedures (practices)

Working time and other human resources procedures should include:

- An accurate time recording system in which all workers record their own work hours ('clocking in and out').

- Making sure that supervisors and security guards do not record hours worked for employees, to ensure accuracy and transparency.

- A payroll system that provides workers with payslips indicating the number of regular and overtime hours worked for the pay period.

- An overtime scheduling and approval process that makes sure that workers are free to refuse overtime (unless prescribed in employment contracts and collective bargaining agreements).

- A work scheduling process that makes sure all workers are given a least one day of rest (24 consecutive hours) per seven days worked.

Documentation and Records

You should keep the following on file:

- Accurate records of hours worked for each employee, such as worker payslips and summary reports generated from the timekeeping and payroll systems.

- Records of any complaints related to inaccurate recording of working hours, or inaccurate wage payments based on recorded hours.

- Employee agreements that show what regular and overtime hours are expected and what rates will be paid.

- Any documented worker-management agreements on overtime hours, such as in a Collective Bargaining Agreement (CBA).

Monitoring

Monitor trends and statistics to identify actual and potential problems.

- Establish and track simple KPIs to measure program effectiveness on an ongoing basis, such as:
    - Total number of overtime hours worked per week/month/year
    - Percentage of workers receiving at least one 24-hour rest day per week
    - Time lost due to absenteeism or lateness relative to the total hours worked
    - Time lost due to sickness/injury/accident relative to total hours worked.

- Monitor and evaluate trends in hiring, production capacity planning, working hours and other functions and data to help you meet requirements on regular and overtime hours.

- Perform random checks of the working hours listed on worker payslips against timekeeping system records to make sure that hours are being recorded properly.

Investigate problems and analyze why they occurred. When a situation arises that it doesn't follow your company's working time policies and PMI Responsible Sourcing Principles, you should investigate and address the root causes of the problem to put in place sustainable solutions to prevent a recurrence.

• For example, if you find that some workers did not get a day off every week, or worked more than the legal limit for overtime, find out the root cause(s) of why this happened. Was it because of unexpected circumstances like a rush order or broken equipment, or due to a larger problem, like high worker turnover?

• Work with other departments to identify reasonable solutions. Take care to develop solutions so that the problem does not recur and the solution itself does not create other problems. For example:

  – Respond quickly to problems you can fix immediately, like repairing broken machines or bringing workers from another line or area to help meet an order with limited lead time.

  – Use your analysis of why problems occur to plan longer-term solutions with other departments or functions. This might mean hiring more workers to meet increased demand, or rearranging shifts and production schedules.

FREQUENTLY ASKED QUESTIONS

How can a company evaluate and address the problem of excessive overtime?

Excessive overtime is a very common problem. You can ask the following questions to investigate and identify both the causes and the effects:

  • When does excessive overtime happen? What days of the week, months, part of the production process? What departments are involved?

  • How many workers are usually involved? What jobs do they do?

  • What are the common causes of overtime? Is it changes in orders, late or poor quality materials or supplies, or machine breakdowns?

  • What are the common impacts? You should check:

    – attendance/time records for increased lateness, absenteeism during and immediately after periods of excessive overtime;

    – medical records for any increase in injuries, accidents and/or other physical complaints during and after periods of excessive overtime;

    – production departments for trends in production quality problems during peak seasons or during periods of excessive overtime or night work.

Answers to these questions will give you an idea of how to approach the problem. Solutions can take the form of any or a combination of the following:

  • Improving workers' skills through training, mentoring or coaching so that mistakes and rework does not contribute to overtime.

- Improving production flow and processes so that delays do not result in overtime.

- Improving capacity planning so that enough workers are available to manage demands.

- Hiring additional workers or adding another shift.

- Reviewing the reliability of, and possibly replacing, suppliers.

Companies usually make decisions based on cost-benefit analysis. You should make sure that all costs are factored into your analysis on overtime, including, for example: the cost of medical expenses, time lost due to illness, injuries, and accidents, and rework could all be caused by workers' tiredness due to long working hours.

How can I minimize excessive overtime?

Overbooking, poor capacity planning, unanticipated client demands, production mistakes, high absenteeism, and a lack of flexibility in workers' skills are typical contributors to the need to work excessive overtime.

Suggestions from production managers to reduce the need for overtime include:

- **Set reasonable production targets and schedules based on realistic labor efficiency rates.** Measures of worker productivity form the basis for setting targets and schedules. If the efficiency rate is unreasonably set, the timetable is naturally affected and workers will have to work overtime to complete their targets. Make sure that labor efficiency rates consider set-up time, and allow sufficient time for workers to eat, rest, stretch, and go to the toilet.

- **Closely coordinate Human Resource plans and production targets.** Production planning should consider past client demands, the complexity of the production process and workers' skills.

- **Continually upgrade workers' skills through training, mentoring and coaching.** Having workers with skills that match their jobs reduces the amount of rework, which often leads to the need for overtime. Having multi-skilled workers who are competent in more than one operation allows more flexibility and efficiency in the production process, which in turn increases productivity.

- **Improve communication with supervisors and line managers, and between line managers and workers.** Make sure work instructions are clear and easy to follow. Reduce errors that could cause costly delays by holding work team meetings and giving clear instructions. Listen to worker feedback on how to improve processes.

- **Establish and maintain a sense of teamwork and high worker morale.** Workers who work under conditions of fear and intimidation, who are dissatisfied due to low wages and long hours, who are exposed to unsafe or unhealthy conditions, are not the most productive workers. On the other hand, workers who take pride in the organization they work for and are treated well by their supervisors and co-workers are in a better position to meet delivery deadlines.

WAGES AND BENEFITS

Pay workers appropriately. Compensation must be enough to meet workers and their families' basic needs and generate discretionary income. Wages meet at least the minimum legal standards or the appropriate industry benchmarks, where there are no legal wage requirements. Pay wages regularly and in full, and allow workers the benefits and leave that they are entitled to by law. Do not use wage deductions as a disciplinary measure.

What does this mean?

Workers' wages should be enough to meet basic living needs and leave some discretionary income. Where the legal minimum wage or local industry benchmark is not enough to cover workers basic needs, the employer should strive towards paying a living wage.

A **base wage** is what is paid for regular work hours. This is usually a legal minimum wage set by law. If there is no legal minimum wage, workers must receive the local industry benchmark wage.

Overtime wages are paid for any work beyond normal work hours, and must be at the premium rate required by country law or by the local industry benchmark.

A **living wage** means wages are enough to meet workers' basic needs for food, shelter, and education for their children, with some money left over after basic needs have been met.

> Some countries may not set a legal minimum wage. In such cases, companies must follow the local industry benchmark on base wages. This means making sure that wages paid by the supplier are comparable to those paid by similar businesses in the area.
>
> Where the law does not stipulate the rate for overtime wages, workers should receive at least 125% of their base wage[1].

[1]ILO, Hours of Work Convention (C001), Article 6, Paragraph 2: "These regulations shall fix the maximum of additional hours in each instance, and the rate of pay for overtime shall not be less than one and one-quarter times the regular rate."

HOW TO MEET THIS PRINCIPLE

Procedures (practices)

Your wages and benefits and other Human Resources procedures should include:

• Ways to track and understand laws and regulations on wages and benefits.

• Employment agreements that clearly state the wage rates workers will earn for regular and overtime work, the pay period and frequency of payments, and any legally allowed deductions.

• Accurate and transparent recording of working hours and calculation of wages.

• Providing payslips to workers every pay period.

• Ways to regularly monitor the practices of a third party or labor provider who holds workers' contracts or is responsible for paying their wages and benefits.

• Strict limits on the length of time workers can be kept in trainee/probationary or apprentice positions before they are paid the wages and benefits of regular workers.

• A process that makes sure that workers are paid on time – no more than two weeks after the end of the pay period.

• Payment methods that include cash, check, or by direct transfer into the worker's bank account. If bank accounts are set up by the company for workers, only the workers may access and control the accounts.

• Ways to ensure provision of all legally required social security, insurance or medical benefits.

• Disciplinary procedures that ensure punitive wage deductions or fines are not used.

> **Best Practice:** The Payslip or Paystub
> **The payslip provides the workers with a record of payment for the work they perform – both regular and overtime work. It allows workers to determine whether they were paid the correct amount for all the hours they worked. Even if the company pays workers using direct deposit into workers' individual bank accounts, pay slips are still provided to workers.**

• Ways to ensure that piece rate workers are paid at least the legal minimum wage, whether or not production quotas are met.

• Process to ensure that the wages are properly calculated for:

  – Regular and overtime wages

  – Work performed on a rest day and/or legal holiday)

  – Shift differential (e.g. higher wage rate for night shift).

Documentation and Records

You should keep the following on file:

• Payroll registers (preferably computer-generated) based on an accurate recording of hours worked for all workers who are paid on an hourly or piecework basis and/or are eligible for overtime pay. This typically includes all production workers in manufacturing agriculture, and those who work for on-site services providers, such as cleaners and cafeteria staff.

• Payslips showing timely wage payment provided to workers that detail regular and overtime hours, regular and overtime wages, benefits, and deductions.

• Payroll registers containing, at a minimum, the following information:
- Pay period
- Regular hours worked
- Overtime hours worked
- Regular wages
- Overtime wages
- Shift differential
- Benefits
- Bonuses
- Gross earnings
- Deductions
- Net wage

• Specify the base wage and overtime rates, as well as the schedule of wage payments in the employment agreement for all workers.

An electronic payroll register that automatically calculates payroll entries based on hours of work is preferred over manual or handwritten payroll registers, because it:

• **Minimizes the possibility for errors in wage and benefits calculation and reduces the time spent addressing worker complaints and correcting errors.**

• **Helps to make your pay practices more credible to workers. Calculation errors create suspicion and dissatisfaction among workers, even if errors were not intentional.**

• **Eliminates human involvement and increases impartiality and transparency in the calculation of wages and benefits.**

• Keep a record of all changes in workers' employment status and corresponding changes in wages and benefits in workers' individual files.

• Copies of payslips containing the following basic information:
- Regular hours and wages (including any shift differential)
- Overtime hours and wages
- Benefits and deductions (e.g. social insurance, retirement, etc.)
- Bonuses

Monitoring

Monitor trends and statistics to identify actual and potential problems.

- Establish and track simple KPIs to measure program effectiveness on an ongoing basis, such as:

    – Frequency and nature of worker complaints related to errors in the calculation of wages, benefits and deductions.

    – Turnover rate (high turnover may indicate low worker satisfaction with wage rates).

- Regularly review the local cost of living and adjust your wages as needed to ensure you are paying workers a living wage.

> **Best Practice:** Regularly survey workers to find out if they have enough money for basic needs, like food and housing, and if they are able to save a little money after each pay period. This will help you understand if the company is paying a living wage.

Investigate problems and analyze why they occurred. When a situation arises that it doesn't follow your company's wages and benefits policies and PMI Responsible Sourcing Principles, you should investigate and address the root causes of the problem to put in place sustainable solutions to prevent a recurrence.

Problems related to wages and benefits generally fall under three categories:

- Wages and benefits administration, including errors in documentation, records keeping, or calculation on the part of the payroll clerk or payroll department staff.

    Solutions can include improving payroll systems, pay practices, and/or improving the skills of administrative staff.

- Low worker awareness or lack of knowledge on wage and benefits policies and procedures.

    Solutions may take the form of worker training to improve worker knowledge of policies and procedures, and worker skills in calculating their wages and understanding their payslips.

- Worker dissatisfaction with wages and benefits, including that wages are not enough to meet their basic needs.

    Solutions can include reviewing the wage and benefits package according to job function, skill level, tenure, etc.

FREQUENTLY ASKED QUESTIONS

Is it acceptable to pay certain workers at rates below the legal minimum wage?

In some countries, there might be a different minimum wage for apprentices, casual workers and trainees.

The company must make sure that all conditions required by law regarding the employment of apprentices or trainees are met. You should avoid the following practices for these workers:

- Delaying promoting trainees to permanent status beyond the time prescribed under local law.

- Regularly dismissing temporary workers to avoid promoting them, then hiring new ones to meet production requirements.

- Hiring casual/temporary workers on short-term contracts and not upgrading them to permanent status, even if they have been employed beyond the period prescribed by law for casual/temporary workers.

- Keeping workers on a temporary or apprenticeship status to avoid paying legally required benefits that they would be entitled to if they were permanent employees.

It is important to note that even if the law allows certain workers to be paid less, all workers should still earn a living wage with some discretionary income.

Is it legal to pay foreign workers at less than the minimum, living wage?

Migrant workers are entitled to the legal minimum wage rate of the country in which they work. Paying foreign workers less for the same work as local employees is discrimination on the basis of nationality. Migrant workers should also be paid a living wage, the same as other workers.

How often should workers be paid?

Wages should be paid at regular intervals and as often as required by law. Usually this means paying workers at least once per month. Workers must receive their pay no more than two weeks after the end of the pay period.

Can workers be paid by other methods rather than money (for example, in products, food or clothing)?

No. Workers must be paid by cash or check, or by direct deposit to the workers' bank accounts. The company may not pay workers with promises of future payment, The company may not pay workers with promises of future payment, vouchers, coupons, gift checks, or in goods., vouchers, coupons, gift checks, or in goods.

Can workers be paid through a third party such as a labor broker or labor provider?

Companies may use third parties to recruit workers. Once the worker is hired and signs an employment agreement directly with the company, the worker should receive wages directly from the company.

Although it is PMI's preference that all workers be paid directly by you, subcontracted workers who work for a labor provider may be paid by the labor provider. In those cases, you should regularly review the labor provider's wages and benefits records to ensure that workers are properly compensated.

Can the business make deductions from workers' wages for meals, housing, and clothing?

Deductions can be made subject to certain conditions – that the goods or services that the workers are paying for are adequate, of good quality, and that the cash value of the goods or services is not inflated. The company must properly account for these deductions and must explain them to workers, who must provide full written consent to such deductions in advance and understand how they will impact income earned.

How can the company know if it is paying a living wage?

Living wages vary from country to country and even region to region. Information from sources like the government, NGOs, and community organizations might help a company better understand what a living wage should be in its community. While money and savings are a problem for many, the situation is different when a person cannot afford to eat. Ask workers (maybe as part of a confidential survey) and listen to what they say about their day-to-day challenges of meeting the needs of themselves and their families.

How can the company know if workers are earning discretionary income?

Talking with or surveying workers is a good way to understand if workers have a little money left over after each wage payment. Workers should be able to save for unexpected situations (like illness) after basic costs for food and housing are met. Survey workers and gather and maintain data on the actual cost of living in the local community.

Can the business make deductions from workers' wages for payment of cash advances/loans?

Some companies offer workers cash advances or loans that are then charged against future wages. When this occurs, the business should make sure that the maximum amount allowed for advances is within the ability of the worker to pay back. Cash advances should not be of amounts that might keep workers from leaving the company when they wish to, which can create a condition of debt bondage.

FAIR AND EQUAL TREATMENT

Maintain working practices and a working environment that is inclusive and professional. Do not tolerate offensive, demeaning or abusive behavior, or discrimination of any kind. Provide equal hiring and employment opportunities and do not discriminate based on personal characteristics. Make employment related decisions objectively based on merits.

What does this mean?

Fair and Equal treatment means that there is no distinction, exclusion or preference based on a personal or physical characteristic which deprives a person access to equal opportunity or treatment in any area of employment.

Discrimination occurs when a person is treated either favorably or unfavorably due to their religion, age, disability, gender, race, sexual orientation, caste, marital status, or union or political membership or affiliation. Discrimination can be deeply rooted in some countries or cultures, and can lead to an underclass of workers who lack opportunities to develop and improve.

PMI expects its suppliers to not discriminate against any individual or group of individuals in any process or in any area of workplace operations. This includes hiring, the assignment of wages and benefits, promotion, discipline and termination, and/or retirement practices.

> **All workers should be given the same wages for the same work and be given equal opportunities for training, promotions, wage increases, and benefits.**

Discrimination might occur in the recruitment, selection and hiring process, whether knowingly or unintentionally. It is important to make sure that a job applicant is only evaluated on his or her ability to do the job.

Disciplinary actions may also be discriminatory if not applied equally to all workers. Because of this, make sure that there is a clearly defined discipline procedure that is applied consistently and fairly.

Finally, there should be a confidential grievance process in place that allows workers to voice their concerns and complaints about workplace fairness and discrimination to management without fear of retaliation.

> An effective and confidential grievance procedure provides the company with a built-in method to monitor problems related to the implementation of company policies and procedures.

HOW TO MEET THIS PRINCIPLE

Procedures (practices)

Recruitment, selection, hiring, and all other human resources procedures should include:

- Ways to track and understand laws and regulations on discrimination, discipline and grievance.
- Objective recruitment, selection and hiring criteria to ensure that workers are selected solely on their ability to perform the job, including:
    - Job postings and advertisements include only objective job performance requirements
    - Objective selection criteria – knowledge and skills testing, objective interview questions, etc.
    - No medical testing unless part of an objective job requirement (e.g. "ability to lift xx kilos") or where legally required.
    - Prohibiting asking women applicants about their pregnancy status and conducting pregnancy tests to determine the hiring or continued employment of female workers.
- Basing wage increases, bonuses and promotions only on clearly defined, objective performance criteria.

> **Best Practice:** Use objective criteria to determine the value of a job, and evaluate worker performance as the basis for merit increases, promotion, bonuses, and job security.

- Documented discipline and termination procedures that are applied equally to all workers.
- Disciplinary procedures that prohibit the use of verbal or physical abuse or other inhumane practices.
- Confidential process for workers to report a workplace grievance without fear of retaliation.
- Process to investigate and resolve all reported grievances.

• Appeal process for workers to contest a disciplinary action or resolution of a grievance.

Documentation and Records

You should keep the following on file:

• Employment applications, interview forms, job applicant skills tests.

• Documentation of decisions to hire (or not hire), transfer, promote or dismiss an employee.

• Copies of employment documents such as performance evaluations, disciplinary actions, transfers, promotions, annual leave applications or pregnancy benefits in employee files.

• Records of disciplinary actions taken.

• Records of worker grievances, and how they were investigated and resolved, which should include the following:

  – Time and date grievance was filed

  – Name of supervisor/person who first received the grievance or complaint

  – Analysis of the facts in the grievance

  – Affirmation or denial of the allegation(s)

  – Identification of the remedies or adjustments, if any, to be made

• A summary of issues gathered from the grievance process, as well as management's response(s) to the issues raised, should be posted in areas accessible to the workers, such as on notice boards and in the cafeteria

Monitoring

Monitor trends and statistics to identify actual and potential problems

• Establish and track simple KPIs to measure program effectiveness on an ongoing basis, such as:

  – Percentage of grievances addressed within two weeks

  – Percentage of grievances filed for the same issue

  – Percentage of disciplinary actions appealed by workers

  – Comparison of workforce demographics to local community demographics

- Regularly review worker feedback related to the administration of your company's fair and equal treatment policies.
- Regularly review and revise policies and procedures to keep them relevant and up-to-date.
- Determine if workers are comfortable using the existing grievance reporting methods.
- Periodic review and analysis of disciplinary actions taken to make sure that discipline is applied in a fair, consistent and non-discriminatory manner.

> **Best Practice:** Provide guidance for supervisors and managers to take disciplinary actions in private and in such a way to preserve the worker's dignity.

- Review the results of exit interviews to determine if employees left the company because of unfair or unequal treatment.

Investigate problems and analyze why they occurred. When a situation arises that it doesn't follow your company's fair and equal treatment policies and PMI Responsible Sourcing Principles, you should investigate and address the root causes of the problem to put in place sustainable solutions to prevent a recurrence.

- Make sure there is a procedure for investigating all grievances, and for taking action within a certain time frame after it is determined the grievance is justified.
- Review and analyze common violations of disciplinary rules to identify why they are being broken, and address them, for example, with worker awareness training or changes to the rules.
- Do grievance reports show the same issues being reported over and over again? How long does it take to resolve a grievance?

FREQUENTLY ASKED QUESTIONS

When does discrimination occur in hiring?

Discrimination occurs when a decision to hire or not to hire an applicant is based on qualities that are not relevant to the job being applied for. In order to ensure non-discriminatory hiring practices, selection criteria should be based solely on job functions and competencies outlined in the job description. Objective selection and hiring policies help assure the employer that it hires employees most suited to do the job, and avoids hiring workers who lack the competencies required for the job.

What if pregnancy testing is legal under the local law?

Regardless of whether the law allows pregnancy testing or not, the company should ensure that results of that test are not used to prejudice the decision to hire an applicant.

How can an employer make sure that it avoids discrimination on the basis of pregnancy and maternity?

Examples of positive actions include:

- Establish and communicate policies against such practices that include penalties.

- Ensure that all legal protections meant for pregnant women are implemented.

- Ensure that workers returning from maternity leave get their former jobs back or an equivalent position at the same rate of pay.

- Transfer pregnant women working in jobs that present health hazards to other less-hazardous or light work. Transfer should be agreed by both parties with no reduction in pay.

- Make sure workers have an effective grievance procedure for raising issues regarding discrimination in the workplace.

How can a company guarantee that worker grievances are kept confidential?

It is important that workers feel safe from reprisal or punishment when they report a grievance.

Make sure that all records of grievance proceedings are kept confidential. The company should appoint someone to keep such records and control access.

Make sure that those responsible for investigating grievance reports respect the confidentiality of the proceedings, including disciplining anyone who violates worker confidentiality.

Provide a variety of ways to report so that everyone will feel free to come forward (especially those who do not want to be identified). You can set up suggestion boxes located in areas that workers are comfortable approaching. The company can also post contact information of designated staff or worker representatives who workers can contact confidentially to put forward a grievance.

How can a workplace guarantee the objectivity of its performance evaluation tools?

A company can guarantee the objectivity of its performance evaluation tools by ensuring that tools:

- have both qualitative and numerical ratings.

- actively use a two-way feedback process where workers have the opportunity to explain reasons for any possible negative results of an evaluation to an impartial Human Resources officer before an evaluation is made final.

How does the company make sure that disciplinary actions are reasonable and that procedures are fair?

The company should establish specific penalties for all areas covered in the rules of discipline. It should be clear to all employees what type of behavior will be subject to disciplinary action and what kind of disciplinary action will be taken.

Involve workers when establishing rules and standards. For disciplinary rules and procedures to be effective, they should be accepted as reasonable to both workers and managers. Involve your workers and all levels of management when formulating or revising rules and procedures.

Make sure that, **except for gross misconduct, no worker is dismissed for a first offense. Disciplinary actions should be progressive**, increasing in severity over time (verbal warning, written warning). Start if possible (for minor misconduct or poor performance) with informal advice, coaching and counselling rather than through a formal disciplinary procedure.

Make sure your employees understand what needs to be done, how their performance and behavior will be reviewed and over what period, and what will happen if they fail to improve. These informal actions should not be recorded in the employee's personnel records.

Make sure that disciplinary action is not taken until the case has been carefully investigated. Employees must have the chance to state their case and to respond to allegations that have been made. If the facts of the case call for formal disciplinary action, formal procedures should be followed.

Why do companies need to document disciplinary actions?

Disciplinary actions form part of an employee's record of performance in the company. When these disciplinary actions are properly documented, the company eliminates the risk of being accused of illegal or improper discipline, up to and including dismissal.

Some companies rely on having dismissed workers sign a resignation letter to avoid legal challenge of the dismissal. However, when a company has properly documented a worker's performance, there might not be a need to do this.
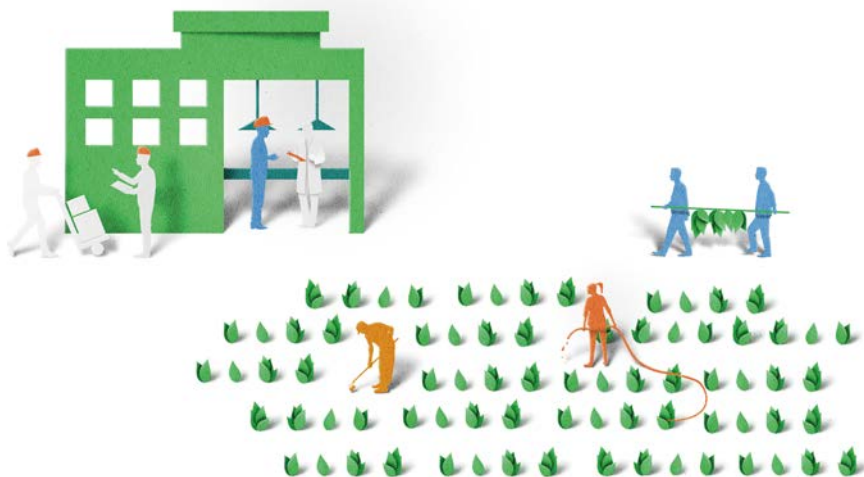
WORKPLACE SAFETY

Provide a safe and healthy work environment to prevent accident and injury. Identify, evaluate and control occupational health and safety hazards. Where hazards cannot be controlled effectively at source, ensure workers have and use appropriate personal protective equipment. Train workers regularly on health and safety and keep appropriate records. Accommodation, where provided either directly or through a third-party, is clean, safe and meet the basic needs of the workers.

What does this mean?

Protecting the health and safety of workers is an essential management responsibility and a regulatory requirement in most countries.

A workplace Health and Safety Management System is how a company routinely identifies and controls health and safety hazards to protect workers from work-related injury and illness, monitors the effectiveness of its procedures, and takes corrective and preventive action whenever necessary.

HOW TO MEET THIS PRINCIPLE

Procedures (practices)

Human resources, production and facilities procedures should include:

• Ways to track and understand health and safety laws, regulations, and customer requirements.

• A process to regularly screen your operations and work practices to identify, evaluate and control health and safety hazards.

• Pre-start up hazard evaluation for all new and modified processes and equipment.

• Documented safe work procedures for all jobs with identified health and safety hazards.

• The design, installation, and maintenance of engineering controls such as ventilation, barrier guards, and interlocks to minimize the risk of injury and illness.

• Procedure for the use, maintenance and replacement of personal protective equipment where hazards cannot be adequately controlled by other means.

> **A system is 'self- correcting'. It will enable to you make sure that all requirements are being consistently met.**

• A formal way to identify training needs and deliver appropriate safety and health training, based on legal requirements, customer requirements and job-specific assessments of safety and health hazards.

• Process and procedure to investigate all work-related accidents, injuries, illnesses, incidents, and "near misses," and to take corrective and preventive action based on the investigation findings.

• Emergency preparedness and response procedures for fire, medical emergency, and other types of possible emergency situations (e.g. flood, storm, earthquake, chemical spill, etc.)

• Inspection and maintenance procedures for fire suppression and alarm systems, fire extinguishers, and exit facilities.

• A formal process for workers to report safety and health concerns without fear of intimidation or reprisal.

Documentation and Records

You should keep the following on file:

• Register of all laws, regulations and customer requirements for health and safety.

• Records of health and safety hazard assessments.

• Health and safety procedures, such as emergency evacuation, electrical safety, use of personal protective equipment, industrial hygiene, and others as needed based on regulations and the company hazard assessment.

- Health and safety committee meeting minutes, action items, and attendance records.

- Log of work-related accidents, injuries and illnesses.

- Records of emergency evacuation drills, chemical spill cleanup drills, and other tests of emergency preparedness.

- Internal and third party audit reports, workplace inspections, accident investigation reports, and compliance inspection reports by regulatory agencies.

- Health and safety corrective action plans and reports, including documented evidence of hazard control improvements made.

- Records of training attendance and assessment of knowledge and/or skills (quizzes, tests, skills demonstrations).

- Inspection and maintenance records for machinery, machine safeguards, local exhaust ventilation, and other health and safety hazard control systems.

Monitoring

Monitor trends and statistics to identify actual and potential problems.

- Establish and track key performance indicators (KPIs) to measure program effectiveness on an ongoing basis, such as:

    – Accident and injury rates

    – % of workers trained on specific safety topics

    – % of audit/inspection issues corrected on time

    – % of jobs with written safety procedures

- Regularly survey workers to measure their satisfaction with workplace policies and practices.

- If there is a worker-management health and safety committee, use regular meetings and minutes to gather evidence of problems discussed and to inform the development of action plans.

- Measure training effectiveness and learning retention by testing workers immediately after training, and using follow-up worker questionnaires three to six months after training.

- Perform regular workplace inspections to verify that all health and safety hazards are properly controlled, personal protective equipment is used where required, and exhaust ventilation systems are working properly.

- Evaluate every emergency evacuation drill to verify that alarms and notification systems worked properly and all employees were able to leave the facility in the designated time.

- Audit your processes and procedures on a regular basis. Audits should be performed by trained and qualified internal staff or by external auditors.
    - Self-audits should be performed annually to determine if you are meeting legal and customer requirements and that all hazards are effectively controlled.
    - Any identified issues should be evaluated to determine their underlying cause(s) and action plans established to put in place corrective and preventive actions.

Best Practice: Worker-Management Health and Safety Committee

Even if it is not a legal requirement, forming a worker-management health and safety committee is another good way to identify and control safety hazards.

This involves workers in development and implementation of safe work procedures and other controls, which is important since workers are your eyes and ears in the work area and might spot safety risks before you do. The Committee, through regular meetings and listening to other workers' feedback, can help the business achieve its health and safety objectives

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Investigate problems and analyze why they occurred. When an audit, inspection or complaint indicates the existence of an uncontrolled hazard or non-compliance with company health and safety procedures, you should investigate the causes, and put in place sustainable solutions to prevent a recurrence.

- Every accident and "near miss" is an opportunity to improve your procedures and other controls. Accidents should be investigated to find the underlying causes and develop action plans to make improvements that will prevent a recurrence of the same incident. Actions should also aim to prevent similar incidents throughout the business.

- If your internal audit finds the same or similar health and safety issues repeatedly, it could mean that your process to identify and assign responsibility for putting in place corrective and preventive actions is not working.

- Similarly, if you have taken action but are still not meeting standards, it could mean that the corrective actions (controls) themselves are not effective and need to be improved.

FREQUENTLY ASKED QUESTIONS

How can I best identify and evaluate job-specific health and safety hazards?

A Job Hazard Analysis (JHA) is a simple approach that breaks a job down into individual tasks as a way to identify hazards before they occur.

It focuses on the relationship between the worker, the task, the tools, and the workplace. Using this process, after you identify uncontrolled health and safety hazards, you then take steps to eliminate or reduce them to an acceptable level.

Every job can be broken down into job tasks or steps. To begin a job hazard analysis, watch the employee perform the job and list each step as the worker does it. You may find it valuable to get input from other workers who have performed the same job. Later, review the job steps with the employee to make sure you have not omitted something. Point out that you are evaluating the job itself, not the employee's job performance. Include the employee in all phases of the analysis— from reviewing the job steps and procedures to discussing uncontrolled hazards and recommended solutions.

Once you have broken the job into specific tasks, the rest of the analysis is answering the following questions in a consistent manner.

- What can go wrong?
- What would be the consequences (injury or illness)?
- How could it happen?
- How likely is it that it will happen?
- How can it be prevented or controlled?

There are many online resources available to you that include simply forms and templates for performing a JSA and developing easy to implement solutions.

Do I need a separate management system for health and safety?

No. The most efficient way to apply a management system approach to meeting health and safety standards is to use your current business management system, which can be easily adapted to help your company meet health and safety standards. You should evaluate your current processes for production, maintenance, and training to make sure you have the right controls in place.

Of course, once you have put the necessary controls in place, you will need to do regular checking (monitoring) to be sure they are effective.

Will a management system require a lot of documentation and other complexity?

This is a very common concern, but a health and safety management system does not need to be any more formal or complex than the system you use to manage your business. For example, a procedure can be as simple as a short list of what is to be done, by whom, and how often. Health and safety regulations themselves can get quite complicated, so your system must be at least detailed enough to meet those requirements.

As for records, you only need to maintain items that are needed to verify that you are meeting standards, such as inspection and maintenance records, training records, audit reports, and permits.

My company has an accredited Quality Management System. Can we use this system for health and safety?

Yes. In fact, any company that has a formal management system, like ISO 9000 or ISO 14001, should also use it to manage compliance to health and safety standards rather than creating a separate health and safety management system. The risk assessment, regulatory tracking, training, communication, auditing, corrective action, and other elements of these systems can very easily be adapted for health and safety management.

Is training the best way to control health and safety hazards?

No. Effective training is only part of the solution. Eliminating a hazard completely, rather than training workers to take special precautions, works better.

Even if you have the most effective training program possible, getting rid of a hazard entirely (for example, by replacing dangerous outdated equipment or switching to an alternative non-toxic chemical) is the best way to guarantee the risk is controlled.

Because workers' learning styles vary, how can I make sure that the training they receive is adequate and effective?

You should use a variety of learning measurement methods to assess whether your trainings are adequate for training workers about the health and safety aspects of their jobs.

Methods include verbal and written testing, on-the-job skills demonstration, and asking workers to 'teach' methods themselves. Remember that not all methods are effective for every worker, so use a variety of learning measurement methods to ensure that workers understand.

What are some other ways I can identify training needs?

Use a combination of methods to determine training needs, such as:

- Conduct job hazard analyses for each position in the company.
- Review engineering data for machinery, equipment, and site vehicles.
- Always review material safety data sheets for chemicals and hazardous materials.
- Look at the tools, materials, and equipment workers use in their jobs, then list the hazards associated with each.
- Review training programs provided by other businesses in the same or similar industry.

FREEDOM OF ASSOCIATION

Adopt an open attitude towards the activities of trade unions and other worker organizations. Respect and do not interfere with the right of workers to form or join a trade union or representative organization of their own choosing. Recognize workers' right to bargain collectively. Recognize workers representatives' access to carry out their representative functions in the workplace and to openly communicate regarding working conditions without fear of discrimination, reprisal, intimidation or harassment.

What does this mean?

Worker freedom to join unions or worker organizations and collective bargaining are basic building blocks for healthy employer-worker relations. Suppliers should adopt an open attitude towards the activities of trade unions and their organizational activities.

Freedom of Association means allowing workers to form and join trade unions, worker associations and worker councils or committees of their own choosing. The purpose is to have good two-way communication between management and workers.

Collective Bargaining is the way employers and trade union representatives reach agreements on working conditions, wages, overtime, grievance procedures and worker involvement in workplace affairs.

Where the right to freedom of association and collective bargaining is restricted under law, the supplier should facilitate, and not hinder, the development of parallel means for independent and free association and bargaining.

HOW TO MEET THIS PRINCIPLE

Procedures (practices)

Human resources procedures and practices should include:

• Ways to track and understand laws and regulations on freedom of association and collective bargaining.

• Make sure that job applicants are not asked if they have ever been a union member or representative.

• Process to ensure workers are not discriminated against in salary, benefits, or promotion because they belong to a union.

• Provide a clear and safe way for workers to report discrimination, harassment or abuse of union organizers or members.

• A way to make sure that unions and other worker organizations can conduct their activities without interference, including providing paid time off for union/worker representatives to carry out their duties.

> **Best Practice:** Allow workers to participate in creating or revising workplace rules and procedures to help ensure broad acceptance and effectiveness.

• A process to limit company support of a labor union or worker organization to the provision of meeting facilities and basic materials, with no funding provided directly to the organization or its representatives.

• A procedure describing how workers can peacefully assembly for the purpose of discussing workplace related issues.

• If there is no union, putting in place a formal process for two-way worker-management communication.

• Ensuring that worker representatives are nominated and elected by the workers.

• A formal collective bargaining process for unionized facilities.

• Procedures to make sure that workers, supervisors and managers are aware of the company's policies and procedures on freedom of association.

Documentation and Records

You should keep the following on file:

• Accurate minutes of union-management meetings or of worker-management meetings (where no union exists) that cover issues discussed and solutions or suggestions agreed upon.
Note: minutes should be reviewed and approved by both management and a union/worker representative.

• The collective bargaining agreement, if any, with the union.

• Logs of any complaints or grievances, including how they were resolved. How issues were addressed should be posted for workers to see.

• Financial records showing that the union or worker organization is not funded by the company.

Best Practice: Distribute an employee handbook to all workers that describes both the legal requirements and the company's policies and procedures on freedom of association.

• Records of training provided to workers, supervisors and managers on freedom of association.

Monitoring

Monitor trends and statistics to identify actual and potential problems.

• Establish and track simple KPIs to measure program effectiveness on an ongoing basis, such as:

    – % of workers surveyed that understand their rights of freedom of association and collective bargaining;

    – % of workers who state that the company respects their rights of freedom of association and collective bargaining.

    – Workers who state that they resigned because of discrimination based on their status as a union member or worker representative.

• Regularly review recruitment, selection and hiring procedures to verify that they do not discriminate against job applicants with union affiliation.

• Periodically review complaints and grievances from workers related to the administration of your freedom of association and collective bargaining procedures.

• Regularly review records of disciplinary action to verify that workers were not disciplined because of their union membership or position as a worker representative.

Investigate problems and analyze them for why they occurred. When a situation arises that it doesn't follow your company's freedom of association policies and PMI Responsible Sourcing Principles, you should investigate and address the root causes of the problem and put in place sustainable solutions to prevent a recurrence.

• For example, if you discover that recruitment agencies have discriminated against job applicants because of union membership, investigate how this occurred. Was your policy clearly communicated to the agencies? Did an agency not follow your requirements? Was a secondary or sub-agent involved?

> **Best Practice:** When talking to workers to gain their perspective on freedom of association, individual face-to-face interviews are preferable to focus groups of several workers at a time, as workers are often reluctant to speak frankly or confidentially in groups.

• In some countries workers may perceive the union as not independent from management and the union grievance process to be ineffective and untrustworthy. If this is the case, the company should act to strengthen the credibility of the union.

Make sure that workers understand the provisions of the collective bargaining agreement and that they each have a copy; ensure workers are able to choose their representatives in a democratic election with no company involvement.

FREQUENTLY ASKED QUESTIONS

What if the country's laws limit freedom of association rights?

Where country law prohibits or limits workers' rights to freedom of association and to bargain collectively, your company must make sure that its practices do not prevent or workers from forming or joining legally acceptable worker organizations.

For example, you must not pressure workers to join a company-controlled organization in place of an organization created by and controlled by workers.

Can labor-management councils be a substitute for a union?

Such councils are a good way to promote worker participation and worker-management dialogue where unions are not permitted by law or if workers have chosen not to have a union.

How can employing workers on short-term recurring contracts violate freedom of association standards?

In many parts of the world, workers on short-term contracts are not legally permitted to join or form unions. Companies have avoided unions and violated freedom of association standards by keeping workers on short-term, temporary contracts. Such contracts can also deny workers important benefits, such as sick leave, annual leave and social insurance afforded to permanent workers.

Companies should use short-term/temporary labor contracts only when such employment arrangements are allowed by law and when the permanent workforce is not sufficient to meet unanticipated order volumes or seasonal demands.
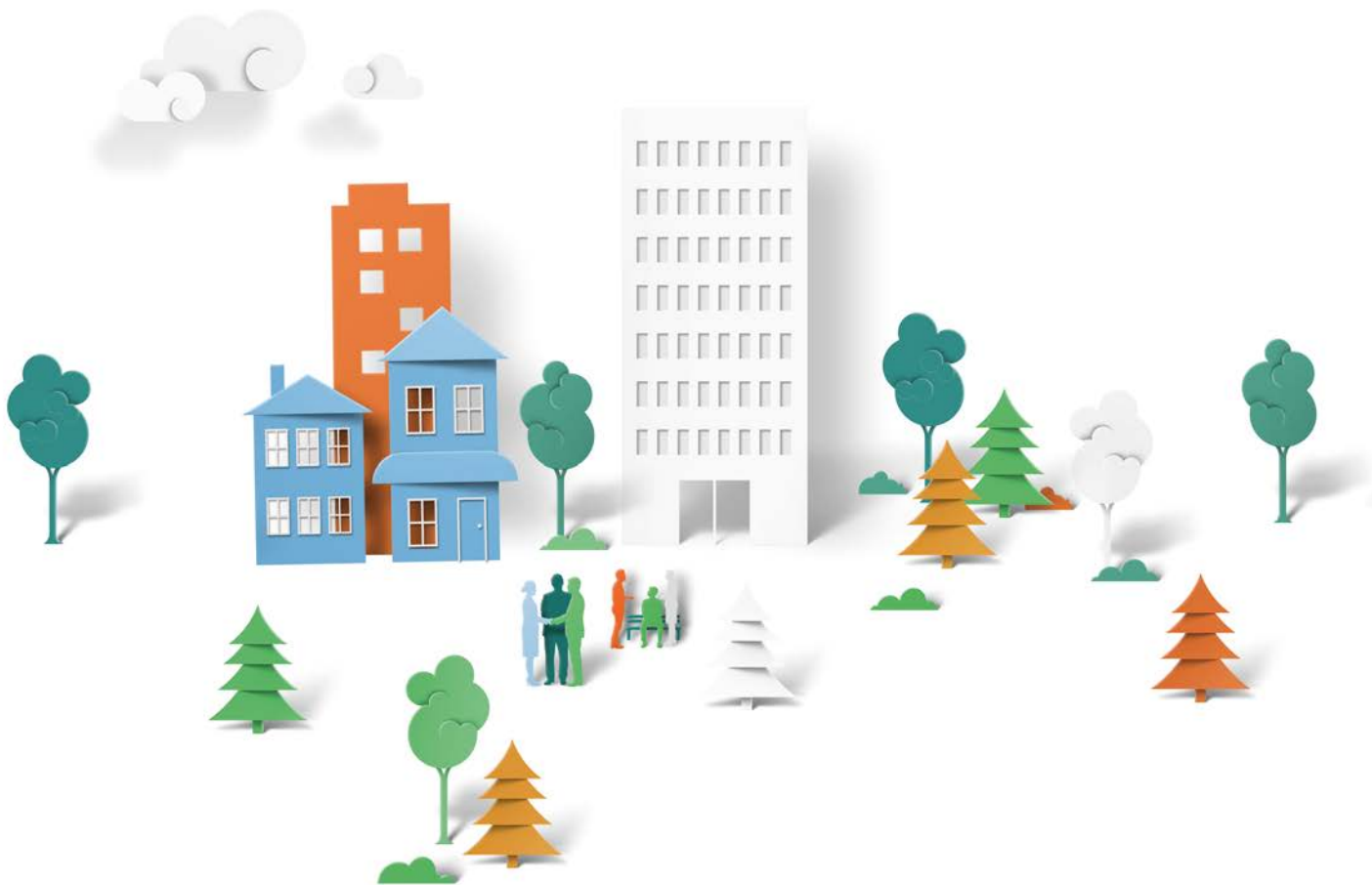
Can foreign contract workers join unions?

Yes. The ILO Convention on Migrant Workers (ILO Convention 97) provides for this right.

What practices would be considered examples of anti-union discrimination or rights violations?

• Dismissal or threatened dismissal of union members or of workers who communicate or come in contact with union organizers.

• Requiring workers to sign a resignation letter as a condition of being employed, and using such letters to dismiss workers if they engage in union activity.

- Asking applicants and workers whether they are members of a union or asking their views on unions during the application process or during employment.

- Threatening workers with penalties if they choose to unionize.

- Not allowing workers to speak with other workers during break time.

- Noting an employee's union affiliation in personnel records, or participating in efforts to 'blacklist' an employee, or hindering the worker's future work opportunities.

- Refusing to negotiate with a union.

- Prohibiting workers from attending union meetings (for example, assigning overtime during scheduled union meetings).

LAND RIGHTS

Respect the rights and title of individuals and local communities, including indigenous communities, to their land and natural resources. Engage in fair negotiations with local land holders over land use and transfer. Do not engage in contentious acquisition of large-scale land rights, or in any land acquisition that results in involuntary displacements of people. Suppliers are expected to be transparent in all decision-making about land use or transfer, and in accordance with the principles of free, prior and informed consent.

What does this mean?

The United Nations estimates that there are more than over 370 million indigenous peoples living around the world, in over 90 countries[1]. They possess unique cultural ties to ancestral lands, essentially making them custodians of natural resources and ecological knowledge. This relationship with land makes them vulnerable to potential negative impacts of commercial development and business activities.

Indigenous peoples can be harmed when they unknowingly enter into an agreement without full and informed understanding of the impact(s) it will have on them, their communities and their way of life. Additionally, indigenous peoples may not hold formal title to their land and may lack the full legal protections afforded to other citizens by country and local governments. As a result, there have been many cases where business activities, such as land acquisition and siting of production operations, have caused or contributed to adverse impacts on indigenous peoples.

[1]United Nations Permanent Forum on Indigenous Issues:
http://www.un.org/esa/socdev/unpfii/documents/5session_factsheet1.pdf

HOW TO MEET THIS PRINCIPLE

Procedures (practices)

Land use and acquisition procedures should include:

- Ways to track and understand land rights laws, regulations, international best practice, and customer requirements

- Assessment of the environmental, social and human rights impacts of the project that includes:

    – Identification of all Indigenous peoples who may be affected by the project

    – Process to jointly assess the project's impact on cultural heritage, with the affected communities and Peoples.

    – Assessment and understanding of the structure and decision-making processes of the affected communities and Indigenous peoples.

    – Evaluation of the direct and indirect impacts for significance and likelihood.

- A way to respect local land rights norms, and customary rights of individuals and communities, regardless of legal requirements.

- An engagement process that will ensure full disclosure of project information and impacts and sufficient time for Indigenous peoples to decide on the project.

> **Best Practice:** **Give priority to avoid the impacts on the aspects of cultural heritage that are essential to the identity of Indigenous peoples lives.**

- A process to prevent adverse impacts to the degree possible.

    – Where impacts are unavoidable, the impacts on indigenous peoples are minimized, restored, or remedied in an appropriate manner, and to the satisfaction of the peoples impacted.

- Process to minimize the amount of land required for the project.

> **Best Practice:** **Enable indigenous communities to engage in informed decision-making by providing them with full project information, including its likely economic, social, cultural and environmental impacts.**

- Process to obtain free, prior and fully informed consent of all affected individuals, communities, and/or indigenous peoples

- A documented and agreed negotiation process.

- Process to provide individuals, communities and indigenous peoples with appropriate remedy and due process for the development of their land and resources.

- Formal engagement process to last throughout the lifecycle of the project.

Documentation and Records

You should keep the following on file:

- Company land rights policy signed by senior management.

- Register of all laws, regulations and customer requirements regarding land rights.

- Land rights procedures, including, but not limited to: environmental, social, cultural and human rights impact assessment process, full, prior, informed consent (FPIC) process, community engagement process, and the land rights grievance process.

- Minutes of meetings and other outreach sessions with individuals, communities and indigenous peoples.

- Records of grievance reports, including their investigation, resolution and, where provided, remediation.

- Records of impact remediation provided to affected individuals and communities.

- Attendance records for informational meetings and training.

Monitoring

Monitor trends and statistics to identify actual and potential problems.

- Establish, track and report simple KPIs to measure program effectiveness on an ongoing basis, such as:
    - % of project impacts mitigated to satisfaction of the community,
    - % of community grievances addressed on time

- Regularly survey community members to measure their satisfaction with the company's handling of any project impacts on the community.

- Use regular community meetings to learn about potential problems and how they can be avoided or remediated.

- Formally evaluate your processes, procedures and outcomes on a regular basis. Assessments should be performed by trained and qualified internal staff or by external third parties.

- Self-assessments should be performed annually to determine if you are meeting legal and customer requirements and that land rights risks are effectively controlled and/or mitigated.

- Action plans should be developed to address issues identified by assessments or grievance reports that are mutually agreed by the affected individuals and communities.

> **Effective monitoring and reporting on the impacts of business activities on land rights are crucial to enable a business to fulfill its responsibility to respect such rights.**
>
> **Tracking performance helps the business identify trends, including problem areas, which may require systemic changes in business processes, or best practices to further reduce risk and improve performance to meet its responsibility to respect indigenous peoples' rights**

Investigate problems and analyze them for why they occurred. When a situation arises that it doesn't follow your company's land rights policies and PMI Responsible Sourcing Principles, you should investigate and address the root causes of the problem and put in place sustainable solutions to prevent a recurrence. For example:

• Every identified problem is an opportunity to improve your procedures and other controls, and should be investigated to find the underlying causes and develop action plans to make improvements that will prevent a recurrence.

• If your internal audit finds the same or similar land rights issues repeatedly, it could mean that your process to identify and assign responsibility for putting in place corrective and preventive actions is not working.

• Similarly, if you have taken action but are still not meeting legal standards or the PMI RSP, it could mean that the corrective actions (controls) themselves are not effective and need to be improved.

FREQUENTLY ASKED QUESTIONS

Who are indigenous peoples?

There is no single definition of indigenous peoples and a combination of subjective and objective criteria may be used in identifying indigenous peoples.

One criterion that underpins most definitions is self-identification. If a group of people defines themselves as indigenous, then, unless obviously illegitimate, such designation should be respected. According to the ILO Convention 169, "self-identification as indigenous or tribal shall be regarded as a fundamental criterion for determining the groups to which the provisions of this Convention apply".

In addition to self-identification, there are other criteria set out in international standards, such as ILO Convention 169, which identifies indigenous and tribal peoples as follows:

a) tribal peoples whose social, cultural and economic conditions distinguish them from other sections of the country, and whose status is regulated wholly or partially by their own customs or traditions, or by special laws or regulations;

b) those who descended from the populations which inhabited a country at the time of conquest or colonization or formation of the current state borders, and who retain some or all of their own social, economic, cultural and political institutions.

What is a company's responsibility to respect indigenous peoples' rights?

Guiding Principle 12 of the UN Guiding Principles on Business and Human Rights (UNGP) states that business has the responsibility to respect the rights of individuals belonging to groups that require special attention, such as indigenous peoples. This means:

• Where a group self-identifies as indigenous, companies should obtain Free, Prior, and Informed Consent (FPIC), even if this is not required by any government processes.

- Consider engaging with the local government to explore the possibility of recognition and protection of rights. Ensure, though, that this will not worsen the indigenous peoples' position or create additional risks to them or their rights; and

- Be cautious about entering into agreements with governments that do not respect the rights of indigenous peoples. Consider ways to encourage governments to fulfill their human rights obligations, and incorporate expectations for the protection of and respect for indigenous peoples' rights into agreements with governments where possible. Having a previously stated public policy can help.

It is important to note that a business' responsibility to respect human rights is a global standard of expected conduct wherever it operates, and exists independently of a government's abilities and/or willingness to fulfill their own human rights obligations. This means that corporate responsibility exists over and above compliance with national laws and regulations.

What are the key elements of any land rights protection program?

1) Adopt and implement a formal policy (whether on a stand-alone basis or within a broader human rights policy) addressing indigenous peoples' rights and committing the business to respect indigenous peoples' rights.

2) Conduct land rights due diligence to assess actual or potential adverse impacts on indigenous peoples' rights, integrate findings and take action, track and communicate externally on performance.

3) Consult in good faith with indigenous peoples in relation to all matters that may affect them or their rights.

4) Commit to obtain (and maintain) the free, prior and informed consent of indigenous peoples for projects that affect their rights, in line with the spirit of the UN Declaration on the Rights of Indigenous Peoples.

5) Establish or cooperate through legitimate processes to remediate any adverse impacts on indigenous peoples' rights.

6) Establish or cooperate with an effective and culturally appropriate grievance mechanism.

What needs to be included in my company's land rights due diligence process?

Your due diligence process should include:

- assessing actual and potential impacts on indigenous peoples' rights (environmental, economic, social and cultural);

- integrating and acting upon the findings;

- tracking responses; and

- communicating externally how impacts are addressed.

How can my company ensure that we are providing indigenous peoples with free, prior and informed consent (FPIC)?

FREE means no coercion, intimidation, manipulation, or undue influence or pressure. Indigenous peoples' consent must be obtained without physical or psychological, direct or indirect, tactics meant to coerce, manipulate or otherwise pressure the indigenous decision makers, including written, audio or any other method of communication.

PRIOR implies that consent is to be sought sufficiently in advance of any authorization or commencement of activities, respecting the length of time it will take to consult with indigenous communities, and for them to reach a consensus decision.

Companies should, as early as possible, seek to agree with indigenous peoples on how to reach consensus at every stage of a project (e.g., exploration, construction/operation, and closure). This means that FPIC should be obtained prior to the issuance of licenses, permits or concessions that may impact indigenous peoples' rights.

It is important to understand that FPIC is not a mere formality to be obtained. FPIC should be obtained before the proposed activity starts, even if the timeline for obtaining FPIC interferes with government timelines for issuing licenses and approvals, and is only valid if obtained after all relevant risk and impact information has been provided to indigenous peoples.

INFORMED means that information is provided that covers the nature, scope and reversibility of the proposed project or activity; the purpose of the project as well as its duration; areas affected; an assessment of the likely economic, social, cultural and environmental impacts; personnel and organizations to be involved in the execution of the project; and project procedures. Information should also include related mitigation measures to avoid, minimize or mitigate the identified impacts.

The information must be provided in a way that the indigenous peoples understand (e.g., available in their language), and access (e.g., hard copies should be available in addition to electronic-only). And sufficient time must be provided for the community to consider the information.

CONSENT means agreement to a business activity after a company has engaged in good faith consultation with the affected indigenous peoples. Consent is a formal, documented "social license to operate." Indigenous peoples have the right to give or withhold consent, and may revoke consent previously given if a business does not meet its obligations under an agreement, or it where consent was given without all necessary information.

In order to formally obtain and document consent, a company should:

- Consult with Indigenous peoples' representative bodies to negotiate a process for obtaining consent, which includes identifying the stages of the project for which consent is to be obtained;

- Document the agreed-upon consultation and negotiation process; and

- Document the outcomes of the process.

SOURCING OF MINERALS

Have a policy in place to reasonably assure that tantalum, tin, tungsten and gold in the manufactured materials do not finance or benefit armed groups in the Democratic Republic of the Congo or an adjoining country, or such countries as are identified in conflict minerals regulations from time to time. Exercise due diligence on the source and chain of custody of these minerals and make due diligence measures available to PMI upon request.

What does this mean?

Conflict minerals, as defined by US legislation, include the metals tantalum, tin, tungsten and gold, which are the derivatives of the minerals cassiterite, columbite, tantalite and wolframite, respectively. Manufacturing companies often refer to the derivatives of these minerals as 3TG.

The European Union passed a new regulation in May 2017 to stop conflict minerals and metals from being exported to the EU, global and EU smelters and refiners from using conflict minerals, and mine workers from being abused. It requires EU companies to ensure they import these minerals and metals from responsible sources only. It will start on 1 January 2021 so companies have time to adapt to it.

Mining and sale of these minerals from the Democratic Republic of the Congo (DRC), help finance violent conflict by militia groups in the DRC and surrounding countries.

Although mining activity is crucial to the DRC economy, mines controlled by militant groups cause serious social and environmental issues in the region, such as:

• Serious human rights abuses, theft, extortion
• Violence over control and taxation of resources
• Forced and child labor
• Wildlife habitat impacts, deforestation, etc.

Suppliers must make sure that its procurement practices, or those of its suppliers, do not financially support armed groups from the DRC or surrounding countries.

HOW TO MEET THIS PRINCIPLE

Procedures (practices)

Responsible sourcing of minerals procedures should include:

• Ways to track and understand minerals sourcing laws, regulations, international best practice, and customer requirements.

• A process to include your responsible minerals sourcing requirements in all supplier contracts.

• A due diligence process to ensure that minerals in your supply chain are from conflict-free sources. This should include:

    – A procedure to review all products that you manufacture (or that others manufacture on your behalf) to determine if they:

        • Contain gold, tantalum, tin or tungsten (3TG), and

        • Those metals are necessary to the function or use of the product

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Good Practice: **Review the bill of materials for all products to determine if any of the four conflict minerals are present in the products' components or sub-assemblies.**

    – A way to determine the reasonable country of origin (RCOI) of the materials, to include:

        • Obtaining representations from suppliers on whether the materials came from the covered countries[1] or from scrap sources. A supplier's RCOI declaration should state the name and of for each of the smelters that provide the minerals used by the supplier, and the countries of origin of those minerals.

    – Due diligence procedures for any minerals identified to originate in the covered countries, including:

        • Requiring suppliers to list the specific source smelter/refiner,

        • A determination if the smelter/refiner used by the supplier is considered "compliant" by a recognized smelter audit program, such as the Conflict Free Smelter Program[2]

        • Establishing the expectation that the supplier either works with any non-compliant smelter/refiner to meet standards, or that it changes to a compliant one.

Good Practice: **The Conflict-Free Smelter Program (CFSP) offers companies and their suppliers an independent, third-party audit of chain of custody and sourcing practices to validate compliance with global minerals sourcing standards.**

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[1]Democratic Republic of the Congo (DRC), Angola, Burundi, Central African Republic, the Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda and Zambia.

[2]Conflict Free Smelter Program (CFSP) of the Conflict-Free Sourcing Initiative (CFSI):
http://www.conflictfreesourcing.org/conflict-free-smelter-program/

- A process to report annually on the materials the company sources from conflict areas.

- A process to disengage from suppliers that do not meet your due diligence requirements.

Documentation and Records

You should keep the following on file:

- Company minerals sourcing policy signed by senior management.

- Register of all laws, regulations and customer requirements regarding minerals sourcing.

- Copies of communication materials and supplier contracts showing the company's minerals sourcing requirements.

- Conflict mineral due diligence procedures, including, but not limited to: procedure for determining which products and components contain 3TG metals, procedure to determine country of origin, and for verifying that smelters and refiners in the listed countries have successfully completed a recognized audit.

- Records of supplier representations of the sources of 3TG materials and conformance with due diligence standards[3].

- Copies of conflict minerals reports (CMRs), detailing the mineral origin and smelters used in the company's supply chain (the CFSI Conflict Minerals Reporting Template is a free, standardized reporting template available for this purpose).

- Attendance records for internal and supplier training on conflict minerals.

Monitoring

Monitor trends and statistics to identify actual and potential problems.

- Establish, track and report simple KPIs to measure program effectiveness on an ongoing basis, such as:

    – % of suppliers that have not submitted validated conflict minerals reports

    – % of 3TG materials sourced from compliant smelters/refiners

    – % of suppliers with 100%-compliant sources of 3TG minerals

- Regularly audit the due diligence process of suppliers that utilize 3TG minerals to ensure they are adhering to international standards.

- Periodically participate in a recognized due diligence audit of a smelter/refiner in your supply chain.

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[3]OECD Due Diligence for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, 3rd Edition – http://www.oecd-ilibrary.org/docserver/download/2016021e.pdf?expires=1491516952&id= id&accname=guest&checksum=1230027E0980595D9B897C3C75100A03

- Formally evaluate your processes, procedures and outcomes on a regular basis. Assessments should be performed by trained and qualified internal staff or by external third parties.

- Self-assessments should be performed annually to determine if you are meeting legal and customer requirements and that conflict minerals risks are effectively controlled and/or mitigated.

- Action plans should be developed with your suppliers to improve the performance of any non-compliant refiners/smelters in their supply chains.

> **More than 90 percent companies exclusively rely on the Conflict Minerals Reporting Template (CMRT), a standardized reporting template developed by the Conflict Free Sourcing Initiative (CFSI), to monitor and report on minerals in their supply chain sourced from conflict areas.**

Investigate problems and analyze them for why they occurred. When a situation arises that it doesn't follow your company's minerals sourcing policies and PMI Responsible Sourcing Principles, you should investigate and address the root causes of the problem and put in place sustainable solutions to prevent a recurrence. For example:

- Every identified problem is an opportunity to improve your procedures and other controls, and should be investigated to find the underlying causes and develop action plans to make improvements that will prevent a recurrence.

- If your internal audit finds the same or similar minerals sourcing issues repeatedly, such as the continued use of non-compliant smelters/refiners, it could mean that your process to monitor and manager corrective and preventive actions taken by your suppliers is not working.

- Similarly, if a supplier reports to you that it has taken action but you learn in a subsequent audit that the smelters it uses is still no meeting legal standards or the PMI RSP, it could mean that the supplier is not providing accurate conflict minerals reports or that the corrective actions taken are not effective and need to be improved.

FREQUENTLY ASKED QUESTIONS

How should my company approach the "Reasonable Country of Origin" determination?

The scope of the process depends on each company's particular facts and circumstances and may vary based on a company's size, products, leverage with suppliers, and other factors. For most companies, an acceptable reasonable country of origin determination is one that follows the "supplier engagement" approach outlined in the OECD Due Diligence Guidance.

As its name suggests, this approach contemplates that a company will engage with the companies in its supply chain to make inquiries about the source of the conflict minerals and the smelters/refiners used to process the minerals.

You may find that it is difficult to work with suppliers lower in your supply chain than with your direct (first tier) suppliers. In these situations you should cooperate with other companies in your industry with which you share suppliers to identify the smelters/refiners in the supply chain. An example of this is the "Conflict Free Sourcing Initiative" (CFSI), which is an electronics industry effort involving well over 100 companies.

What are the key elements of a minerals sourcing program?

Every company should review its choice of suppliers and sourcing decisions and integrate into its management systems a five-step framework for risk-based due diligence for responsible supply chains of minerals from conflict-affected and high-risk areas:

1) Strengthen your due diligence skills, internal systems and record keeping, including thorough chain of custody tracking and/or traceability systems.

2) Undertake individually, or in cooperation with your peer companies or trade association, a risk assessment of mines, transportation routes, points where minerals are traded and suppliers

3) Implement a process to systematically mitigate risks and regularly monitor risks in your supply chain

4) Support and participate in independent third-party audit programs (e.g. CFSI) of smelters/refiners

5) Describe annually your due diligence efforts and make the report available at your offices, on your website, and to PMI upon request.

What should my company do if we find that there are minerals from conflict areas in our supply chain?

First, report what you have learned to senior management. What your company does next is a business decision.

Enhance engagement with suppliers and internal systems of transparency, information collection and control over the supply chain, and implement a risk management plan with stakeholders, that includes:

- continuing trade throughout the course of measurable risk mitigation efforts

- temporarily suspending trade while pursuing ongoing measurable risk mitigation

- disengaging with a supplier in cases where mitigation appears not feasible or unacceptable

Once you have addressed the risk, continue to monitor your supply chain with support from stakeholder networks and peer companies.

ENVIRONMENTAL RESPONSIBILITY

ENVIRONMENTAL COMPLIANCE

ENVIRONMENTAL MANAGEMENT

RESOURCE CONSUMPTION AND WASTE MINIMIZATION

ENVIRONMENTAL COMPLIANCE

Obtain all necessary environmental permits, licenses and registrations, and document them appropriately for your operations. Provide training to relevant personnel to ensure knowledge of and compliance with the permits and other environmental legal requirements.

What does this mean?

Complying with all environmental laws and regulations is a fundamental requirement for all PMI suppliers. In order to achieve this principle, a supplier should determine the environmental laws and regulations that apply to its operations; establish procedures and controls needed to achieve compliance with the requirement; and periodically evaluating its compliance status.

More detail on how compliance should be managed can be found in the "Environmental Management" chapter.

> **Best Practice:** Effective environmental compliance programs will result in emission reductions, waste handling costs and improved worker health and safety.

PRACTICES TO MEET THIS PRINCIPLE

Procedures (practices)

Environmental compliance procedures should include:

- A formal way to track and understand environmental laws, regulations, and customer requirements covering:

  – Permits and licenses to operate
  – Storage and use of hazardous materials
  – Emissions to air and water
  – Spill prevention
  – Solid and liquid waste
  – Emergency preparedness, and
  – any other applicable environmental compliance requirements

- Creating an inventory of facility operations and equipment to determine which compliance requirements apply.
  Note: if you have implemented an environmental Management System, this step would be part of your assessment of environmental aspects.

- Determining your current compliance status with each of the applicable environmental compliance requirements This may include reviewing current permits, operating procedures and records, physically inspecting environmental control equipment, and reviewing emissions monitoring data.

- Development and implementation of operational procedures, physical controls, and employee training to comply with regulatory requirements.

> **Best Practice:** Incorporate environmental compliance responsibilities into the job descriptions and performance evaluations of employees whose job responsibilities can impact environmental compliance.

- Programs for the design, installation, inspection and maintenance of environmental controls, such as air emissions control equipment and wastewater treatment systems.

- Documented programs for segregation and disposal of solid and liquid waste products, especially hazardous waste.

- A way to track the expiry dates of all licenses and permits and renew them as required.

- Process to report environmental compliance data and other information required by local regulatory authorities.

Documentation and Records

You should keep on file the following:

- Continuously updated copies of all environmental laws and regulations applicable to the facility

- Copies of key environmental procedures, such as:
    - Hazardous material storage, handling and use,
    - Waste handling, storage and disposal,
    - Operation of processes and equipment with regulatory impact,
    - Maintenance and monitoring of emissions control equipment, and
    - Others that address the facility's compliance with regulatory requirements.

- Copies of environmental licenses and permits.

- Environmental committee meeting minutes, action items, and attendance records.

- Environmental corrective and preventive action plans and reports, including documented evidence of risk control improvements made.

- Records of regular monitoring of emissions for regulated air and water contaminants.

- Inspection and maintenance records of emissions control equipment to show that the required controls are in place and functional.

- Written records of maintenance for emissions sources (boilers, generators, and production equipment) to show that legal regulations are checked and consistently achieved.

- Copies of internal and third party audit reports and inspection reports by regulatory agencies and accreditation bodies.

- Written records for workers' general environmental orientation training and compliance training for specific jobs (including any special certification), as required.

Monitoring

Monitor trends and statistics to identify actual and potential compliance problems.

- Establish and track simple KPIs to measure compliance with regulatory requirements on an ongoing basis, such as:
    - Number of emissions exceedances per month
    - Number of workers trained on the compliance impact of their job activities
    - % of identified regulatory non-compliances corrected on time.

- Regularly evaluate your environmental compliance programs and procedures to identify actual and potential non-compliance issues. Compliance evaluations consist of physical inspections, reviews of documents and records, and interviews with responsible employees and managers.

- Monitor trends to identify and/or anticipate non-compliance issues and develop solutions that correct them and prevent them from recurring.

- If there is a worker-management environmental committee, use regular meetings and minutes to gather evidence of compliance problems discussed and to inform the development of action plans.

- Measure training effectiveness and learning retention by testing workers immediately after training, and then again three to six months after training.

- Routinely monitor the achievement of your corrective actions plans in order to stay on track.

> **Best Practice:** Regularly tracking its compliance status helps the business identify trends, including problem areas, which may require changes in business processes, or best practices to further reduce compliance risk and to meet its environmental compliance obligations.

Investigate problems and analyze them for why they occurred. When a situation arises that it doesn't meet environmental compliance requirements, you should investigate and address the root causes of the problem and put in place sustainable solutions to prevent a recurrence. For example:

• Every identified compliance issue is an opportunity to improve your procedures and other controls, and should be investigated to find the underlying causes and develop action plans to make improvements that will prevent a recurrence.

• If your compliance evaluation finds the same or similar non-compliance repeatedly, it could mean that your process to identify and assign responsibility for putting in place corrective and preventive actions is not working.

• Similarly, if you have taken action but are still not meeting legal standards or the PMI RSP, it could mean that the corrective actions (controls) themselves are not effective and need to be improved.

FREQUENTLY ASKED QUESTIONS

What are some measures I can take to prevent air and water emissions non-compliances?

Having an effective emissions management plan in place not only keeps the company in compliance with legal and customer environmental standards, but it will help you ensure the well-being of workers and community members. For example:

• **Emissions Inventory** – keeping lists of the types of air and water emissions generated by your production processes and accompanying standards helps reduce compliance risks.

• **Inspecting Source Points** – keeping stacks, discharge pipes, drains, air vents, and other emissions discharge points well-maintained means they are less likely to break down and create a compliance risk.

• **Regular Maintenance of Control Equipment** – control equipment such as neutralization systems, bag houses, scrubbers and electrostatic precipitators require regular maintenance in order to effectively remove contaminants from your facility's air and water discharges.

• **Emergency Planning** – Creating an emergency response plan and procedures and practicing them, such as for the accidental discharge of untreated process wastewater, will enable you to respond quickly and prevent a major event and limit potential damage.

It is also critical to obtain worker buy-in for controlling emissions. Each work area should have a list of emissions control requirements needed to meet legal, code, and customer requirements. Involving workers in the creation of regular maintenance

plans prioritised by the most important areas for regular inspection will also create an informed and invested work force. Prioritize areas for regular monitoring, and inform workers of how critical they are for maintaining emissions standards that ensure their health, and that of their community and the general environment.

What are common sources of water contamination and pollution?

Pollution from industrial sources is a major factor contributing to water pollution and non-compliance with regulatory requirements. Water pollution and contamination occur when wastewater containing toxic chemicals is leaked or dumped into water sources. Excessive levels of contaminants in wastewater that exceed regulatory limits can result in polluting the water supply of not only the company, but potentially the surrounding community as well. Common industrial sources of water contamination include acids, alkalis, toxic metals, oil, grease, dyes, pesticides, and fertilizers. Some other damaging pollutants include petroleum products (oils, solvents and fuels) and hot water (which causes thermal pollution, damaging fish and plant life).

Pollutants discharged into water bodies can dissolve, remain suspended in water, or accumulate on the bottom of the water bodies or waterways. All of these outcomes may result in water becoming seriously contaminated. Identifying what types of products and production processes are in use at the company will lay the groundwork for understanding applicable regulatory requirements and implementing the necessary controls.

What needs to be included in my company's environmental compliance program?

Your environmental compliance program should include:

- Assigning someone with the responsibility and authority for environmental compliance;

- Finding and understanding all of the environmental licensing, permitting and operational requirements that apply to your operation;

- Inventorying your raw materials, production processes, equipment, solid and liquid wastes, and water and air emissions, and determining the specific regulatory requirements that apply to each;

- Evaluating your current compliance status with each of the identified regulatory requirements;

- Improving existing controls and/or developing and implementing new ones needed to bring your operation into compliance with regulations;

- Training all affected staff on the environmental requirements that apply to their jobs;

- Maintaining documents and records that demonstrate compliance with environmental regulatory requirements; and

- Periodically evaluate your compliance with environmental laws and regulations and making improvements as needed to achieve or maintain compliance.

ENVIRONMENTAL MANAGEMENT

Put in place a system, appropriate to your size and circumstance, to manage the environmental aspects of your operations, including measures to assess, control and minimize environmental impacts. Implement appropriate policies to embed environmental practices across your operations and activities. Assign designated roles within your organization to have responsibility for environmental topics. Take action to prevent or remediate incidents and continually improve your environmental performance.

What does this mean?

An environmental management system is the set of interdependent policies, process and procedures that a company uses to achieve its environmental sustainability objectives.

A management system also serves to continuously improve key business processes and outcomes to meet core strategic goals. An Environmental Management System is how a company effectively controls its environmental aspects to prevent both short-term and long-term adverse environmental impacts and meet its ongoing compliance commitments.

Environmental management is an important business objective and a regulatory requirement. An effective Environmental Management System balances these requirements with running a successful business.

ISO 14001 is an international environmental management system specification modelled after ISO 9000 (Quality Management Systems). It includes criteria for an Environmental Management System that enables an organization to control its significant environmental aspects and improve its performance. It does not specify performance criteria, but describes system elements, including:

- **Establishing an environmental policy,**

- **Determining the operation's environmental aspects and impacts,**

- **Establishing environmental objectives and targets,**

- **Assigning resources, roles, responsibility and authority,**

- **Providing competence, training and awareness,**

- **Communication, documentation and recordkeeping,**

- **Implementing operational controls,**

- **Emergency preparedness and response planning,**

- **Monitoring and measuring control effectiveness,**

- **Evaluating compliance,**

- **Taking corrective and preventive action,**

- **Internal system audits, and**

- **Management review of system performance.**

PRACTICES TO MEET THIS PRINCIPLE

Policies (rules)

The company should establish a written environmental policy statement that is:

• A clear definition of your company's approach to managing environmental issues. This should include commitments to:

> – Regulatory compliance;
> – Pollution prevention;
> – Compliance with other requirements related to the company's environmental aspects; and
> – Continual improvement in environmental performance.
>
> The scope of the policy should address all the company's significant environmental aspects and impacts.

• Endorsed and signed by the most senior manager of the facility or company.

• Regularly reviewed and updated to stay aligned with changes in requirements and as the nature of the company's environmental impacts change.

• Publicly available.

Assigned Responsibility

Designate a manager with documented responsibility and accountability for implementing the company's environmental policy, including:

• Knowledge and experience on environmental legal requirements, and the company's environmental aspects

• Ensuring that the company's environmental aspects are identified, evaluated for significance, and controlled or improved, as needed.

• Routinely evaluating the effectiveness of environmental control measures.

• Monitoring all internal and external complaints and management responses related to environmental issues

• Making sure that all managers and employees of the company have clearly defined roles and responsibilities for carrying out your environmental policy.

• Performing an annual review of your management system and make any required adjustments, to ensure it is effective and achieving your policy objectives.

Procedures (practices)

Company procedures and practices should include:

- Ways to track and understand environmental laws, regulations, and customer requirements.

- A process to review its operations and processes to identify how they can interact with the environment – also known as "environmental aspects." Environmental aspects fall into the following main categories:

  – Land Use
  – Energy Consumption
  – Water Consumption
  – Waste
  – Emissions

– Community Interactions

- A procedure to identify the aspects with the greatest potential environmental impact and for violation of regulatory requirements (also refer to Frequently Asked Questions at the end of this document).

- Development and implementation of documented operational procedures and physical controls to limit the operation's impact on the environment and to comply with regulatory requirements.

- Programs for the design, installation, inspection and maintenance of environmental controls, such as air emissions control equipment and wastewater treatment systems.

- Documented programs for segregation and disposal of waste products, waste minimisation, recycling and reuse of reusable materials, and energy conservation.

- A formal process to screen and select your suppliers and contractors based on their ability to meet your environmental policies and standards.

An environmental management system is 'self-correcting.' It will enable you to make sure that all legal and customer requirements are being consistently met.

- A formal process for employees and external parties to anonymously report any concerns regarding the company's environmental performance.

Communication and Training

Use the following methods to make sure your employees are aware of policies and procedures:

- Provide training for managers, supervisors and employees on your company's environmental policy and objective.

- Train on the environmental aspects and impacts of their jobs using classroom training, on-the-job training, written materials, and work area postings.

- Refresh training on a regular basis and whenever employees change jobs or responsibilities.

- Make sure the training covers all applicable environmental laws and regulations.

- Display environmental policies and local legal requirements in areas where workers will see them and in a language they understand.

- Communicate the company's environmental policy requirements to the company's contractors and suppliers using your website, in contract terms and conditions, and during periodic meetings.

- Makes the company's environmental objectives and performance available to the public.

Documentation and Records

You should keep the following on file:

- Copy of your environmental policy.

- Continuously updated copies of all applicable laws and regulations applicable to the facility

- Copies of key environmental procedures, such as:

  – waste prevention, minimisation and disposal,

  – operation and maintenance of pollution control equipment,

  – energy conservation, and

  – others that address the facility's significant environmental aspects and regulatory requirements.

- Environmental committee meeting minutes, action items, and attendance records.

- Environmental corrective and preventive action plans and reports, including documented evidence of risk control improvements made.

Best Practice: Involve Workers

Support the environmental consciousness of your employees.. Topics like recycling, energy conservation, and reducing human impact on the environment could be issues they'd like to get involved with. Don't hesitate to utilise their knowledge, skills, initiative, and expertise to broaden the company's environmental efforts and outreach in the community.

- Copies of internal and third party audit reports and inspection reports by regulatory agencies and accreditation bodies.

Monitoring

Monitor trends and statistics to identify actual and potential problems.

- Establish and track simple KPIs to measure program effectiveness on an ongoing basis, such as:

    – % of solid waste recycled
    – Number of emissions exceedances per month
    – & of workers who understand the company's environmental objectives
    – Energy consumed per unit of goods produced.

- Regularly audit your system to identify actual and potential problems meeting internal standards and regulations. Audits can be performed by trained and qualified internal staff or by external auditors - including from your own customers.

- Monitor trends to identify and/or anticipate problems and develop solutions that address concerns and prevent them from recurring.

- Regularly survey workers to measure their understanding and satisfaction with environmental policies and practices.

- If there is a worker-management environmental committee, use regular meetings and minutes to gather evidence of problems discussed and to inform the development of action plans.

- Measure training effectiveness and learning retention by testing workers immediately after training, and using follow-up worker questionnaires three to six months after training.

- Routinely monitor the achievement of your improvement objectives in order to stay on track.

Investigate problems and analyse why they occurred. When a situation arises that indicates the existence of non-conformance with company environmental policies and customer code(s) of conduct, the company should investigate the causes, not just the condition, and what can be done to address them.

- Every environmental incident (e.g. leak, spill, etc.) is an opportunity to improve your procedures and other controls. Incidents should be investigated to find the underlying causes and develop action plans to make improvements that will prevent a recurrence of the same incident. Actions should also aim to prevent similar incidents throughout the business.

- If your internal audit finds the same or similar environmental issues repeatedly, it could mean that your process to identify and assign responsibility for putting in place corrective and preventive actions is not working.

- Similarly, if you have taken action but are still not meeting standards, it could mean that the corrective actions (controls) themselves are not effective and need to be improved.

- Work with other departments to identify reasonable solutions. Take care to develop solutions so that the problem does not recur and the solution itself does not create other problems.

Why do management systems fail?

- Lack of senior management sponsorship and commitment.

- Failure to assign a senior manager with responsibility and accountability for implementing the system.

- Creating a system that is more complicated than the business management system.

- The belief that environmental compliance objectives will conflict with company's business objectives.

- Creating extra or duplicate work that does not add any value and is not integrated into employee day-to-day activities.

Take care to develop solutions so that the problem does not recur and the solution itself does not create other problems.

FREQUENTLY ASKED QUESTIONS

Do I need a separate management system for environment?

No. The most efficient way to apply a management system approach to meeting environmental standards is to use your current business management system, which can be easily adapted to help your company meet environmental and other social responsibility standards. You should evaluate your current processes for production, maintenance, and training to make sure you have the right controls in place.

Of course, once you have put the necessary controls in place, you will need to do regular checking (monitoring) to be sure they are effective.

Will a management system require a lot of documentation and other complexity?

This is a very common concern, but an environmental management system does not need to be any more formal or complex than the system you use to manage your business. For example, a procedure can be as simple as a short list of what is to be done, by whom, and how often. Environmental regulations themselves can get quite complicated, so your system must be at least detailed enough to meet those requirements.

As for records, you only need to maintain items that are needed to verify that you are meeting standards, such as inspection and maintenance records, emissions monitoring data, training records, audit reports, and permits.

My company has a certified Quality Management System. Can we use this system for environment?

Yes. In fact, any company that has a formal management system, such as ISO 9001, can integrate it to manage compliance to environmental standards rather than creating a separate environmental management system. The risk assessment, regulatory tracking, training, communication, auditing, corrective action, and other elements of these systems can very easily be adapted for environmental management.

How do I go about performing an environmental aspect and impact assessment?

The purpose of any company's environmental management system is to manage its environmental aspects in order to minimize or prevent environmental impact. Identifying its environmental aspects is a helpful way for a company to determine the elements to emphasize in its environmental management system.

You can start to create the company inventory of environmental aspects by listing a few environmental "themes." An example of an environmental theme is air. A typical environmental aspect associated with this theme is the emission of CO_2. The environmental impact of that aspect is the greenhouse effect. Other possible themes are: water, soil, use of energy and raw materials, waste, and so on. You can then make an inventory of potential environmental aspects for the whole company, or by activity or department (see below).

Environmental Theme	Environmental Aspect	Environmental Impact
Air	Sulphur dioxide emissions from burning fuel oil in boilers.	Acid rain (acidification of water and soil)
Water	Discharge of wastewater from plating operations	Poisoning of fish; metal contamination of plants
Soil	Leakages from storage tanks	Soil contamination
Energy	Use of water, fuel oil, natural gas, and electricity.	Depletion of natural resources, air pollution, greenhouse effect

In creating your inventory, you only have to identify the environmental aspects that you can either directly control or over which you have some influence. For example, you can directly control the amount of fuel oil used at your facility, but you probably have no control or influence over the fuel used to generate the electricity you purchase.

Once you have created the inventory of aspects, the next step is to assign significance to each one. Significant environmental aspects will be addressed in the management system, either in terms of establishing or maintaining controls, or setting improvement objectives and targets.

The most direct way to determine significance is to establish a number of rating criteria and use them to evaluate your environmental aspects. For example, possible significance criteria could include:

- Are there legal requirements that govern the aspect?

- How widespread is the aspect across the facility/company?

- Are there company or customer standards in place?

- Are there associated environmental impacts with permanent/irreversible damage?

- Is there any significant impact on employees?

- Can it be improved?

After weighing the significance of each of your company's aspects, the result is a listing of which environmental aspects are significant and must therefore be controlled or improved.

Your company must keep its significant environmental aspects in mind when setting environmental objectives and targets. If an aspect has little or no potential for improvement, it will be determined less significant. This makes it easier to develop objectives and targets for the significant environmental aspects.

What is Plan-Do-Check-Act?

Plan-Do-Check-Act is a way of describing a management system to show how risks are controlled and how processes and performance are continually improved.

Plan means to identify requirements (laws and standards), evaluating risks that may prevent you from meeting those standards, and establishing policies, objectives, and processes needed to meet standards and achieve objectives.

Do means assigning responsibilities, implementing your policies and procedures, training, and communicating.

Check is making sure that you are achieving your objectives and meeting standards. This involves measuring performance using Key Performance Indicators (KPIs), performing audits, surveying workers and community members, and other ways to evaluate how you are doing.

Act is taking corrective and preventive actions when your results are different from your goals, such as when audits find non-compliances. This step also includes a regular review by senior management of the suitability and effectiveness of your overall system. Outcomes and decisions from that review are used to **Plan** system improvements.

RESOURCE CONSUMPTION & WASTE MINIMIZATION

Minimize consumption of natural resources, prevent pollution and reduce generation of waste, wastewater, carbon emissions and other environmental impacts associated with your operations and your products in line with precautionary principles. Set targets for improvement, measure performance, and report on them.

What does this mean?

The purpose of reducing the consumption of resources and minimizing waste generation is pollution prevention. Why manage a compliance problem when it can be prevented? Pollution prevention is the elimination or reduction of waste and emissions at the source, and is the most cost-effective approach to environmental compliance. If a company does not generate emissions or waste, it doesn't have to permit them, track them, or invest in expensive control technologies.

Research has shown that for every expenditure on pollution prevention, a supplier saves nine times that amount in raw materials, energy costs, time spent on permitting and monitoring activities, and in treatment and disposal costs.

> **Source reduction is fundamentally different and more desirable than treatment and disposal — or even recycling. However, companies often do not take advantage of the opportunities for source reduction because regulations typically focus exclusively on treatment and disposal.**

PRACTICES TO MEET THIS PRINCIPLE

Procedures (practices)

Company procedures and practices should include:

• Ways to track and understand environmental laws, regulations, and customer requirements related to resource reduction and waste minimization.

• A process to review its operations and processes to identify opportunities to modify or replace processes and systems in order to reduce or eliminate:

  – Energy consumption (electricity, natural gas, propane, fuel oil, gasoline, etc.)
  – Water consumption
  – Use of hazardous materials
  – Generation of solid and liquid waste – both hazardous and non-hazardous
  – Emissions to air and water

• A procedure to identify the opportunities with the greatest potential for reductions in environmental impact and for return on investment.

• Development and implementation of modifications to existing processes and equipment designed to reduce resource consumption and waste generation.

• Programs for the design, installation and operation of resource conservation controls, such as energy management and raw material reuse/reprocessing systems.

> **Best Practice:** Companies that have replaced chlorinated degreasing solvents with alcohol-based systems have saved up to $170,000 per year in the costs for raw materials, waste disposal and treatment of air emissions.

• A process actively solicit suggestions from employees and suppliers on how to reduce resource consumption and waste generation.

Documentation and Records

You should keep on file the following:

• Up-to-date copies of all laws and regulations related to pollution prevention that are applicable to the facility

• Copies of key resource reduction and waste minimization procedures, such as:

  – Operation of energy management systems (heating and cooling temperature control; automatic lighting controls; etc.);

  – Operation and maintenance of production equipment to maintain peak operating efficiency;

  – Re-use and/or reprocessing of production raw materials; and

  – others that address the facility's pollution prevention programs.

- Energy consumption and waste generation records, such as utility bills and hazardous waste manifests.

- Copies of corrective and preventive action plans and reports, including documented evidence of improvements made.

- Copies of internal and third party energy and waste audits and inspection reports by regulatory agencies and accreditation bodies.

- Records of employee training on the company's resource reduction and waste minimization programs.

Monitoring

Monitor trends and statistics to identify actual and potential problems and opportunities for further improvement.

- Establish, track and report simple KPIs to measure program effectiveness on an ongoing basis, such as:

    – Electricity consumption*,
    – Water consumption*,
    – Volume of hazardous waste generated (solid and liquid)
    – Emissions treatment costs
    – Raw materials costs*
    – Staff time spent managing environmental permitting and emissions monitoring

*raw numbers or normalized per unit of production

- Regularly review the implementation status of your pollution prevention objectives and make adjustments if off track.

- Formally evaluate your pollution prevention program and outcomes on a regular basis.

- Action plans should be developed to address issues identified by monitoring, assessments or employee suggestions.

> **Best Practice:** **Changing to a "pollution prevention culture" is an ongoing process and a commitment by everyone in the company that needs to be supported by a focus on goals and standards. Progress in achieving goals should be communicated to all employees, who should be empowered to report pollution prevention ideas and take action."**

Investigate problems and analyze them for why they occurred. When a situation arises that it doesn't follow your company's resource reduction and waste minimization policies and PMI Responsible Sourcing Principles, you should investigate and address the root causes of the problem and put in place sustainable solutions to prevent a recurrence. For example:

- Every identified problem is an opportunity to improve your procedures and other controls, and should be investigated to find the underlying causes and develop action plans to make improvements that will prevent a recurrence.

- If your energy or water consumption monitoring finds the same or similar issues repeatedly, it could mean that your process to identify and assign responsibility for putting in place corrective and preventive actions is not working.

- Similarly, if you have taken action but are still not meeting internal requirements or the PMI RSP, it could mean that the corrective actions (controls) themselves are not effective and need to be improved.

FREQUENTLY ASKED QUESTIONS

How is resource conservation and waste minimization related to pollution prevention?

They are essentially the same and are a step beyond regulatory compliance. Pollution prevention is any practice that reduces resource consumption and eliminates, or prevents pollution at its source. Also known as "source reduction," it is the "ounce-of-prevention" approach to resource reduction and waste management. Reducing the amount of pollution produced means less waste to control, treat, or dispose of. Less pollution means less hazards posed to public health and the environment.

Pollution prevention is reducing or eliminating waste at the source by modifying production processes, using of non-toxic or less toxic substances, implementing energy conservation measures, and reusing or recycling materials rather than letting them become part of a facility's waste stream

What are some basic approaches to resource conservation and waste minimization?

Pollution prevention approaches can be applied to all potential and actual pollution-generating activities, including those found in the energy, agriculture, manufacturing and commercial sectors. Prevention practices are essential for preserving wetlands, groundwater sources and other critical ecosystems – areas in which it is especially important to stop pollution before it begins.

In the **energy sector**, pollution prevention can reduce environmental damages from extraction, processing, transport and combustion of fuels. Pollution prevention approaches include:

- Increasing efficiency in energy use;

- Use of environmentally benign fuel sources.

In the **agricultural sector,** pollution prevention approaches include:

- Reducing the use of water and chemical inputs;

- Adoption of less environmentally harmful pesticides or cultivation of crop strains with natural resistance to pests; and

- Protection of sensitive areas.

In the **manufacturing sector**, examples of resource reduction and waste minimization practices include:

- Modifying a production process to use less raw materials and/or produce less waste

- Using non-toxic or less toxic chemicals as cleaners, degreasers and other maintenance chemicals

- Implementing water and energy conservation measures

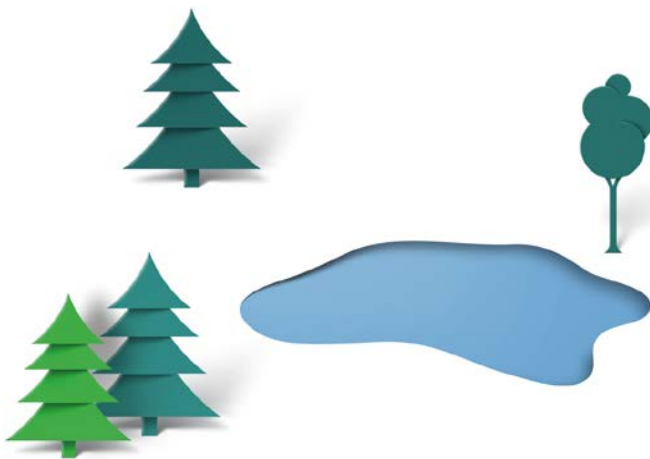- Reusing materials such as packaging material, chemical containers and pallets rather than disposing of them as waste

In **offices and retail stores** examples of pollution prevention practices include:

- Replacing incandescent and halogen lighting with CFL or LED;

- Installing systems to turn off lights when not in use;

- Automatically turning down heating and air conditioning systems during off-hours;

- Using LED display screens and turning off computers when not in use;

- Switching to non-toxic cleaning compounds.

Why is resource conservation and waste minimization important?

Pollution prevention reduces both financial costs (waste management and clean up) and environmental costs (health problems and environmental damage). Pollution prevention protects the environment by conserving and protecting natural resources while strengthening economic growth through more efficient industrial production and less need for businesses and communities to handle waste.

RESOURCES

Forced Labor

International Labour Organization: http://www.ilo.org

- Forced labour, modern slavery and human trafficking: http://www.ilo.org/global/topics/forced-labour/lang--en/index.htm
- Forced Labour Convention, 1930 (No. 29): http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C029
- Protocol of 2014 to the Forced Labour Convention, 1930: http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:P029
- Abolition of Forced Labour Convention, 1957 (No. 105): http://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO::P12100_ILO_CODE:C105
- ILO Better Work: http://betterwork.org/global/?cat=10&paged=2

Fair Labor Association

- http://www.fairlabor.org/our-work/code-of-conductir Labor Association
- http://www.fairlabor.org/sites/default/files/fla_complete_code_and_benchmarks.pdf

Ethical Trading Initiative

- http://www.ethicaltrade.org/eti-base-code/1-employment-freely-chosen

US Department of Labor Responsible Business Toolkit

- https://www.dol.gov/ilab/child-forced-labor/index.htm

Verite Research

- http://www.verite.org/helpwanted/toolkit/

Child Labor

International Labor Organization (ILO)

- ILO Convention C182, Worst Forms of Child Labor
- ILO Child labor standards: http://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/child-labour/lang--en/index.htm

Fair Labor Association

- http://www.fairlabor.org/our-work/code-of-conductir Labor Association
- http://www.fairlabor.org/sites/default/files/fla_complete_code_and_benchmarks.pdf

Ethical Trading Initiative

- http://www.ethicaltrade.org/eti-base-code/1-employment-freely-chosen

US Department of Labor Responsible Business Toolkit

- https://www.dol.gov/ilab/child-forced-labor/index.htm

Verite Research

- http://www.verite.org/helpwanted/toolkit/

ILO Better Work

- http://betterwork.org/global/?cat=10&paged=2

Working Time

International Labour Organization (ILO)

• Working time – http://www.ilo.org/empent/areas/business-helpdesk/WCMS_DOC_ENT_HLP_TIM_EN/lang--en/index.htm

Ethical Trading Initiative (ETI): http://www.eti.org

• ETI Base Code: http://www.ethicaltrade.org/resources/key-eti-resources/eti-base-code

• Purchasing practices case studies: http://www.ethicaltrade.org/resources/key-eti-resources/purchasing-practices-case-studies

• Principles of Implementation: http://www.ethicaltrade.org/resources/key-eti-resources/principles-implementation

Verité: http://www.verite.org

• For Workers' Benefit – Solving Overtime Problems in Chines Factories: http://www.verite.org/sites/default/files/Chinese_Overtime_White_Paper.pdf

Impactt: http://www.impacttlimited.com

• Impactt Overtime Project: http://www.impacttlimited.com/case-studies/impactt-overtime-project

Wages and Benefits

International Labour Organization: http://www.ilo.org

• ILO Labour Standards on Wages: http://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/wages/lang--en/index.htm

• ILO TRAVAIL – Wages and Income: http://www.ilo.org/travail/areasofwork/wages-and-income/lang--en/index.htm

Ethical Trading Initiative (ETI): http://www.eti.org

• ETI Base Code: http://www.ethicaltrade.org/resources/key-eti-resources/eti-base-code

• Living wage: make it a reality: http://www.ethicaltrade.org/resources/key-eti-resources/living-wage-eti-conference-08-briefing-paper

UN Global Compact

• "The Labour Principles – A Guide for Business:" http://www.unglobalcompact.org/docs/issues_doc/labour/the_labour_principles_a_guide_for_business.pdf

Workplace Safety

International Labor Organization

• Guidelines on Occupational Safety and Health Management Systems (ILO-OSH 2001): http://www.ilo.org/safework/areasofwork/occupational-safety-and-health-management- systems/lang--en/index.htm

• ILO Occupational Safety and Health: http://www.ilo.org/safework/lang--en/index.htm

Ethical Trading Initiative (ETI): http://www.eti.org

• ETI Base Code: http://www.ethicaltrade.org/resources/key-eti-resources/eti-base-code

• Principles of Implementation: http://www.ethicaltrade.org/resources/key-eti-resources/principles-implementation

UN Global Compact

• "The Labor Principles – A Guide for Business:" http://www.unglobalcompact.org/docs/issues_doc/labor/the_labor_principles_a_guide_for_business.pdf

United States Occupational Safety and Health Administration (OSHA):

• http://www.osha.gov/Publications/safety-health-management-systems.pdf

European Union Agency for Health and Safety at Work

• http://osha.europa.eu/en

OHSAS 18001

• http://www.bsigroup.com/en/Assessment-and-certification- services/management-systems/Standards-and-Schemes/BSOHSAS-18001/

Freedom of Association

International Labour Organization

• ILO Helpdesk – Freedom of Association: http://www.ilo.org/empent/areas/business-helpdesk/WCMS_DOC_ENT_HLP_FOA_EN/lang--en/index.htm

• ILO Helpdesk – Collective Bargaining: http://www.ilo.org/empent/areas/business-helpdesk/WCMS_DOC_ENT_HLP_CB_EN/lang--en/index.htm

Ethical Trading Initiative (ETI): http://www.eti.org

• ETI Base Code: http://www.ethicaltrade.org/resources/key-eti-resources/eti-base-code

• ETI – Freedom of Association and Collective Bargaining guidance: http://www.ethicaltrade.org/resources/freedom-association-in-company-supply-chains

• ETI – Union rights at work: http://www.ethicaltrade.org/in-action/issues/trade-union-rights

UN Global Compact

• "The Labour Principles – A Guide for Business:" http://www.unglobalcompact.org/docs/issues_doc/labour/the_labour_principles_a_guide_for_business.pdf

• UN Global Compact Human Rights Dilemmas forum: http://human-rights.unglobalcompact.org/dilemmas/freedom-of-association/

International Trade Unions Congress: http://www.ituc-csi.org/

International Covenant on Civil and Political Rights

• Article 22 – Freedom of Association: http://www.ohchr.org/EN/ProfessionalInterest/Pages/CCPR.aspx

International Covenant on Economic Social and Cultural Rights

• Article 8 – Freedom of Association and the Right to Organise: http://www.ohchr.org/EN/ProfessionalInterest/Pages/CESCR.aspx

European Convention on Human Rights

• Article 10 – Freedom of Assembly and Association: http://www.echr.coe.int/Documents/Convention_ENG.pdf

European Social Charter

• (Part 1 – Freedom of Association): https://rm.coe.int/CoERMPublicCommonSearchServices/DisplayDCTMContent?documentId=090000168048b059

Land Rights

International Labor Organization

• Indigenous and Tribal Peoples Convention, 1989 (No. 169): http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312314

• Indigenous and Tribal Populations Recommendation, 1957 (No. 104): http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_INSTRUMENT_ID:312442:NO

United Nations
- Declaration on the Rights of Indigenous peoples: http://www.un.org/esa/socdev/unpfii/documents/DRIPS_en.pdf
- UN Global Compact – Preserving the Livelihoods of Indigenous peoples: https://www.unglobalcompact.org/what-is-gc/our-work/social/indigenous-people
- UN Global Compact – A Business Reference Guide: United Nations Declaration on the Rights of Indigenous peoples: https://www.unglobalcompact.org/docs/issues_doc/human_rights/IndigenousPeoples/BusinessGuide.pdf

International Finance Corporation (IFC):
- Performance Standards on Environmental and Social Sustainability (2012): http://www.ifc.org/wps/wcm/connect/115482804a0255db96fbffd1a5d13d27/PS_English_2012_Full-Document.pdf?MOD=AJPERES

Sourcing of Minerals

Conflict Free Sourcing Initiative (CFSI): www.conflictfreesourcing.org/about/
- Conflict-Free Smelter Program (CFSP): http://www.conflictfreesourcing.org/smelter-introduction/
- CFSP Compliant Smelters & Refiners: http://www.conflictfreesourcing.org/conflict-free-smelter-refiner-lists/
- CFSI Publications and Due Diligence Guidance: http://www.conflictfreesourcing.org/additional-training-and-resources/publications-and-guidance/

Organisation for Economic Cooperation and Development (OECD)
- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas: http://www.oecd.org/corporate/mne/mining.htm
- Simplified guidance: http://www.oecd.org/daf/inv/mne/EasytoUseGuide_English.pdf

U.S. Securities and Exchange Commission
- Disclosing the Use of Conflict Minerals: https://www.sec.gov/opa/Article/2012-2012-163htm---related-materials.html

Environmental Management Systems

Ethical Trading Initiative (ETI): www.ethicaltrade.org
- ETI Base Code: http://www.ethicaltrade.org/resources/key-eti-resources/eti-base-code
- Principles of Implementation: http://www.ethicaltrade.org/resources/key-eti-resources/principles-implementation

United States Environmental Protection Agency (EPA)
- EPA for Businesses and Non-Profits: http://www.epa.gov/epahome/business.htm

European Commission
- Environment: http://ec.europa.eu/environment/index_en.htm
- Eco-Management and Audit Scheme (EMAS): http://ec.europa.eu/environment/emas/index_en.htm

International Organization for Standardization (ISO)
- ISO 14000 family – Environmental Management: https://www.iso.org/iso-14001-environmental-management.html
- ISO 150001 – Energy Management: https://www.iso.org/iso-50001-energy-management.html