



Network Japan

Building the Sustainable World

An Introduction to Sustainable Procurement

– Promoting CSR in the Supply Chain –

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Global Compact Network Japan
Supply Chain Working Group
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1. Introduction

Overview and purpose of this guide

The Supply Chain Working Group (hereafter referred to as “the Working Group”) is one of the working groups of Global Compact Network Japan (GCNJ¹) and was formed in 2008 by 11 participating companies at that time.

The Working Group conducted discussions about initiatives to promote the sustainability of buyers, suppliers and the society. The results of these discussions were compiled and published in *A Vision of Desirable CSR Activity in the Supply Chain*. The aim was to outline the ideals of sustainable procurement and the key processes involved. (Refer to the GCNJ website: <http://www.ungcjin.org/activities/topics/detail.php?id=117>)

However, it may be difficult for some industries to realize the necessity to engage in sustainable procurement especially for those industries where risks in the supply chain have yet to become apparent. Others may not be aware of the global trend towards sustainable procurement. In view of these issues, the Working Group members came together to publish this introductory guide.

Use of this guide

1) To promote understanding of sustainable procurement for beginners

This introductory guide provides an easy-to-understand and quick overview of sustainable procurement. This will serve as a useful guide for those who have become newly acquainted with the subject for various reasons, such as a request from a business partner for a supply chain survey, a request from a survey organization, an inquiry from another department, or when taking over a position related to sustainable procurement from a predecessor.

2) To promote understanding of and cooperation in sustainable procurement within the organization

This introductory guide will serve as a valuable tool to further understanding of sustainable procurement and help in the implementation of the practice in an organization. The reader may use this guide to explain the subject matter to superiors, subordinates, team members, other departments and decision-making bodies such as the boards of directors.

3) To promote understanding of and cooperation in sustainable procurement from business partners

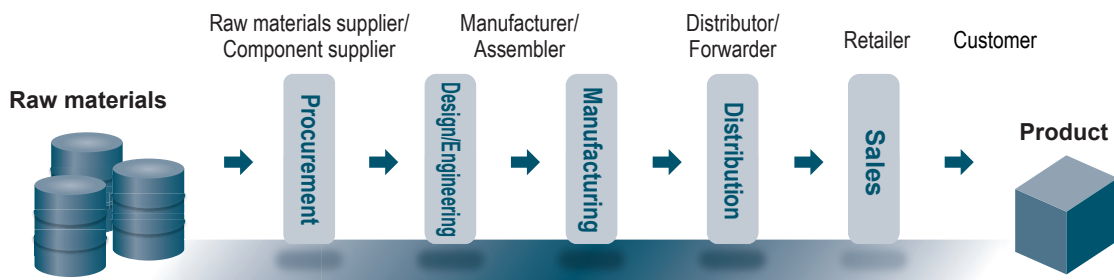
This introductory guide allows the reader to obtain basic knowledge about sustainable procurement. Thus, this guide may be used to assist business partners in understanding sustainable procurement and when requesting for their cooperation.

2. About sustainable procurement

2.1 Introduction to sustainable procurement

CSR is an acronym for corporate social responsibility. Increasingly, business entities are expected to be responsible not only for their own profits, but also to consider the impact that their business activities have on the environment and society. In addition, business entities also need to maintain better relationships with their stakeholders such as shareholders, investors, customers, suppliers and other business partners, employees, and local communities. More recently, the a new concept has taken root in the business landscape - that the scope of a company's activities is not limited to the stakeholders that it directly affects, but also extends to stakeholders that it indirectly affects through its supply chain. It is thus necessary for companies to implement corporate social responsibility through the supply chain. This can be achieved by engaging in sustainable procurement practices.

Conceptual image of a supply chain



With the globalization of supply chains, human rights issues such as forced labor^{*2} and child labor^{*3} in developing countries, and environmentally destructive activities such as illegal logging are some of the challenges associate with supply chains that have come under the spotlight in recent times. There have been several cases in which companies have suffered reputational damage after facing indictments or social sanctions, including boycott movements on a global scale (See Section 3 for more details). While companies may implement CSR initiatives within the scope that they directly affect, the limited coverage of such initiatives may imply that it is difficult to address issues such as those described above, which occur beyond the scope of their management framework. It is thus necessary to expand the scope of implementation of CSR initiatives to the entire supply chain. This led to the release of ISO20400^{*4}, which is an international guideline for organizations wanting to integrate sustainability into their procurement processes.

In other words, sustainable procurement can be defined as “activities that attempt to fulfill corporate social responsibility through the entire supply chain by adding values such as the environment, labor conditions, and human rights, to the conventional values of quality, performance, price and delivery time, when a buyer (company) purchases products, materials or raw materials, etc.”

* For details see A Vision of Desirable CSR Activity in the Supply Chain, pages 4-7 on the GCNJ website (http://www.ungcnj.org/common/frame/plugins/fileUD/download.php?type=contents_files&p=elements_file_1204.pdf&token=38c761895f4bb8c1924b6218cb5bc8c53fb672a6&t=20181029142110).

According to a survey conducted by TOYO KEIZAI INC. (13th CSR Survey in 2017), the status of implementation of sustainable procurement initiatives among Japanese companies is as follows:

	Implementing	Not implementing	Under consideration	Others
Total number of companies (1,357)	41.0%	49.2%	6.9%	2.9%
Manufacturing industry (625)	54.7%	33.4%	8.3%	3.5%
Non-manufacturing industry (732)	29.4%	62.6%	5.6%	2.5%

(Source: TOYO KEIZAI INC., “CSR KIGYO SORAN”, 2018 Edition)

2.2 Challenges in sustainable procurement

In Japan, the public is increasingly focusing its attention on compliance issues, such as long working hours and falsification of quality documents. With the globalization of the world market, the products manufactured in developing countries can be purchased by buyers in Europe and the US, where there is a high level of awareness of human rights and environmental issues. On the other hand, there have been reports that these products are the results of global business giants using cheap labor in developing countries to reduce the cost of manufacturing, but without adequate consideration of the human rights or working conditions of local workers. Conflicting issues like these are difficult to discuss on a common platform.

In response to this situation, the International Organization for Standardization issued ISO26000, an international standard for social responsibility, in 2010 with the aim to resolve global social issues. More recently, the UN developed the Sustainable Development Goals (SDGs)⁵ in 2015, as an action plan for the betterment of people, the planet and for prosperity.

As consumers are increasingly concerned about issues such as child labor, discrimination, forced labor, biodiversity conservation, animal rights, etc., there have been cases where boycott campaigns are held against organizations that society deems as using inappropriate practices. In addition to the aforementioned issues, the Working Group also views issues specific to Japan or particular industries as challenges that need to be addressed.

In view of this, companies are now expected to tackle and mitigate these challenges by taking proactive action in procurement.

The table below presents an overview of typical social challenges based on the four principles of the UN Global Compact⁶: Human Rights, Labour, Environment and Anti-Corruption.

Typical social challenges

Human rights/Labor	Environment	Anti-Corruption
<ul style="list-style-type: none"> · Elimination of forced labor · Elimination of child labor · Elimination of long working hours · Elimination of wages paid below the minimum wage · Elimination of inhumane treatment⁷ · Elimination of discrimination · Recognition of the right to collective bargaining (Freedom of association⁸) · Realization of workplace safety and a healthy environment 	<ul style="list-style-type: none"> · Pollution prevention · Management of harmful substances · Management of waste products (wastewater, etc.) · Management of substances causing air pollution · Management of substances included in products · Consideration of biodiversity 	<ul style="list-style-type: none"> · Elimination of unethical business practices · Prohibition of bribery and corruption · Prohibition of abuse of dominant bargaining position⁹ · Prohibition of granting or receiving inappropriate profits · Prohibition of anticompetitive practices¹⁰ · Provision of accurate information regarding products and services

3. Benefits of engaging in sustainable procurement

As indicated in the previous chapter, supply chains are largely interconnected with the society and therefore, the social issues that arise. In this chapter, the benefits of tackling these challenges are discussed.

While it is difficult to quantify the benefits of engaging in sustainable procurement, the following are examples of the benefits that can be obtained: 1) Prevention of possible major problems before they arise, 2) Ability to respond to problems and/or minimize damages by acting swiftly, 3) Promotion of medium- to long-term competitiveness.

3.1 Social and environmental risks in the supply chain

An organization may face a variety of social and environmental risks that could be detrimental to the survival of the company. These are risks such as the discovery of involvement in illegal activities (forced labor or child labor), reports on the impact of long working hours on workers' health, the occurrence of strikes due to issues such as unpaid wages, protests against environmental destruction, legal action as a result of corruption etc. These risks may affect the company's reputation and cause the company to lose its hard-earned brand loyalty.

It is not unusual for companies to find themselves responding to these issues in their own supply chains. It takes considerable time and expenses to address these issues, especially once public opinion has turned against the company.

In addition, an increasing number of NGOs^{*11} and NPOs^{*12} are putting forth firm demands for business entities to provide fundamental solutions or engage in preventative action in relation to such issues. NGOs and NPOs are extremely vigilant on this front because they are aware that well-known and major companies have a significant impact not only on their immediate supply chains, but also on national and local governments and even entire markets.

There are cases in which protest movements have had significant impacts on business activities. There are examples of cases where hundreds of thousands of e-mails requesting action are sent to the president of a company or the launch of boycott campaigns urging consumers not to buy from the company, among many others.

The following are examples of companies that have lost consumer trust after being exposed to engaging in practices that are condemned by society. These real-life examples are collated based on publicly available information. (Refer to sources listed on Page 16).

- **Human rights/labor-related issues**

Disney, Walmart, Nike, Ikea, Apple, Suzuki, etc.

- **Environment-related issues**

Adidas, Nike, Ralph Lauren, PVH, Puma, Lacoste, H&M, Uniqlo, etc.

- **Prevention of corruption-related issues**

GlaxoSmithKline, FIFA, etc.

Most of these high-profile examples involved leading companies that were not spared from criticism and received significant damage especially from the mass media. Yet not all the companies listed above were completely defenseless against the charges they faced. In fact, many of these companies became more aggressive in integrating sustainability into their systems following these incidents and some have become role models in sustainable procurement.

These examples exemplify the importance of engaging in appropriate social and environmental risk management not only internally, but also across the whole supply chain.

Other examples of social and environmental risks in supply chains

The table below provides examples of companies that have faced social condemnation because they were not engaged in sustainable procurement. These examples were collected based on the results of questionnaires conducted by members of the Working Group and also include cases that were reported in the news.

Category	Social issue	Examples ① Incident ② Social response, penalties, etc. ③ Impact on business
Toys	Human rights/ Labor	① Exploitation of children and stowaways in poor working environments or under poor conditions (wages below the minimum wage etc.) in Mexico, Hong Kong, Macau, the US, etc. ② Condemnation from NGOs and the media. ③ Monetary compensation to the victims, etc.
Toys/Apparel	Human rights/ Labor	① Child labor in Honduras and Guatemala, exploitation of workers in poor working environments or under poor conditions in China and Nicaragua. ② Condemnation from the media, boycotts. ③ Decline in sales
Footwear	Human rights/ Labor	① Child labor, exploitation of workers in poor working environments or under poor conditions in a Vietnamese factory. ② Condemnation from the media, boycott. ③ Decline in sales and share prices.
Furniture	Human rights/ Labor	① Child labor and forced labor in factories in Pakistan and India. ② Condemnation from the media.
Sports equipment	Human rights/ Labor	① Child labor, exploitation of workers in poor working environments in factories in India and Pakistan. Pollution caused by the release of dyes. ② Condemnation from NGOs.
Automobiles	Human rights/ Labor	① Trouble among workers in a factory in India due to poor working environments. Workers started riots that led to deaths and injuries. ③ Factory closure, crash in share prices.
Electronic devices	Human rights/ Labor	① Child labor, etc. in a factory in China. ② Condemnation from NGOs, media, etc. ③ Compelled to expose company secrets, such as a complete disclosure of the company's list of suppliers.
Apparel	Human rights/ Labor	① An illegally constructed garment factory collapsed in Bangladesh and over 1,000 workers who had been subject to forced labor in poor working environments died. ② Condemnation from NGOs.
Apparel	Human rights/ Labor	① A Japanese manufacturer forced workers to endure poor working conditions that were against the law in a Chinese factory. ② Condemnation from NGOs.
Apparel	Human rights/ Labor	① A foreign trainee on a technical internship program was forced to work for 16 hours per day (with a 15-minute rest period, for 400 Japanese yen/USD 3.60 per hour), six days per week in a Japanese factory. ② The trainee took legal action against the company and the union that was in charge of the location at which the technical internship program was conducted, after returning to his/her home country.
Apparel	Human rights/ Labor	① A foreign trainee on a technical internship program was forced to work for more than 400 hours per month, with over 200 hours of overtime and only two to three days of leave per month, in a Japanese factory. The trainee's take-home pay was 10,000 Japanese yen/USD 91 per month (less than 25 Japanese yen/USD 0.20 per hour). ② The trainee sued the president of the company and others for payment of wages.
Construction materials	Environment	① The logging of certified Australian timber caused damage to the environment and encroached on the living environment of the indigenous population. ② Boycott of Japanese products.
Apparel	Environment	① A Chinese processing plant which was believed to have a deal with a global fashion brand company was discharging harmful chemical substances. ② An NGO held a press conference in China, where it revealed that harmful chemical substances were detected in wastewater discharged from the plant.

Category	Social issue	Examples ① Incident ② Social response, penalties, etc. ③ Impact on business
Food products	Environment	<p>① Palm oil manufactured in Indonesia was supplied from a plantation which was illegally logging a protected natural forest.</p> <p>② Boycott against the company's products.</p> <p>③ Decline in sales.</p>
Paper manufacturing	Environment	<p>① A paper manufacturer based in Indonesia was found to have illegally logged forests not only in Indonesia, but also in other Asian countries including Cambodia and China.</p> <p>② Repeated condemnation from NGOs and NPOs.</p> <p>③ Decline in sales due to discontinuation of transactions by clients.</p>
Oil	Environment	<p>① An oil tanker belonging to a major oil company ran aground in Alaska while trying to steer clear of icebergs, spilling 10.8 million gallons of crude oil which caused considerable damage to the marine ecosystem.</p> <p>② Sued for damages and paid 5 billion US dollars in punitive damages.</p>
Chemicals	Environment	<p>① A chemical factory in China's Jilin Province exploded, causing large volumes of toxic benzene to flow into a river.</p> <p>② The regional administration tried to conceal information on the environmental contamination caused and attempted to hide the news by shutting down the affected area's water supply.</p>
Aviation	Corruption	<p>① A US aircraft manufacturer bribed Japanese politicians for the sale of passenger aircrafts.</p> <p>② Several politicians, including a former Prime Minister were arrested and those involved in accepting bribes were convicted. The House of Representatives was also dissolved.</p>
Pharmaceuticals	Corruption	<p>① In order to expand its sales in China, a British pharmaceutical company offered bribes equivalent to approximately 50 billion Japanese yen/USD 455 million to hospital doctors and government officials.</p> <p>② Fined approximately 50 billion Japanese yen/USD 455 million by a district court.</p> <p>③ Decline in sales by 60%.</p>

3.2 Benefits of sustainable procurement

Engaging in sustainable procurement can enable companies to avoid the social and environmental risks discussed in the previous section. In addition, there are other benefits such as continued business transactions with trade partners and the improvement in ESG¹³ evaluation by shareholders and investors. A survey was conducted among approximately 50 organizations in the GCNJ Supply Chain Working Group to find out the benefits of engaging in sustainable procurement. The results are grouped into three categories as shown in the table below.

Benefits of sustainable procurement

Benefits	Examples
(A) Avoid condemnation from the media and other social and environmental risks	A-1: To NGOs, etc. Mitigate risk by quickly responding to requests from NGOs, etc. A-2: Inquiries, etc. Mitigate risk by offering appropriate explanations to investigative bodies and responding to various inquiries on conflict minerals ¹⁴ , etc
(B) Secure business opportunities/ Continuation of business transactions/ Increased level of trust	B-1: To business partners' needs, etc. Able to gain the trust of business partners and maintain and/or secure new business transactions by responding appropriately with improvement plans to urgent demands from business partners. B-2: Third party evaluations, etc. Receive better evaluations from third party assessment organizations by responding appropriately on issues such as ESG.
(C) Mitigate serious accidents and avoid aggravation of grievances	C: Procedures, etc. Reduce the frequency of accidents and improve the ability to respond to such accidents by establishing procedures, rules, etc.

The first benefit is that companies engaging in sustainable procurement may avoid condemnation from the media and other social and environmental risks. There are examples where companies practicing sustainable procurement were deemed to have responded more appropriately as compared to other companies that were condemned by society or were able to mitigate attacks as they were seen to be tackling the problem through sustainable procurement. Another possible benefit is that companies engaging in sustainable procurement may be viewed as more progressive than those that do not do so.

Another benefit of engaging in sustainable procurement is that companies can secure business opportunities and/or ensure that they can maintain current business transactions. Engaging in sustainable procurement may also increase the level of trust that clients have in the company. There are examples where responding appropriately to requests for information from clients or assessment organizations helped increase the level of trust in the company, as well as to secure new deals and/or reinforce existing deals. These examples show that engaging in sustainable procurement may help companies to expand their businesses.

In addition, it may be possible to mitigate serious accidents and avoid aggravation of grievances by engaging in sustainable procurement. While it is not possible to quantify such benefits, it was found that companies that engage in sustainable procurement were able to reduce the incidence of error and/or accidents, as well as contribute to cost reductions in the long-run.

→For more details, refer to “Case studies of the benefits of sustainable procurement” below.

Examples of areas that are more susceptible to media or social attack

Category		Examples
A-1	To NGOs, etc.	Environmental pollution, deforestation, illegal logging, conflict minerals, palm oil ¹⁵ , health damage, etc.
A-2	Inquiries, etc.	Conflict minerals, etc.
B-1	To business partners' needs, etc.	Wide coverage with no specific area being more susceptible than others (human rights, corruption, environment, etc.)
B-2	Third party evaluations, etc.	ESG evaluations, CDP ¹⁶ evaluations, etc.
C	Procedures, etc.	Tackling antisocial forces, prevention of bribery and collusion, animals protection, engagement with local communities, etc.

Case studies of the benefits of sustainable procurement

Category	Area	Outline
A-1	Deforestation	An NGO pointed out that a company was doing business with a paper manufacturer that was profiting by logging natural forests. In response to this, the company promptly published and officially announced its "Procurement Guidelines for Paper", which helped to prevent further attacks.
A-1	Palm oil	A consumer goods manufacturer using palm oil worked proactively on various counter-measures based on information that there was an ongoing aggressive negative campaign by an NGO. The company avoided the negative campaign by purchasing certified palm oil through its affiliation with a certification agency.
A-1	Environmental pollution	A company was able to respond quickly to an NGO's inquiry about the safety of the chemical substance, because it was collecting and organizing safety data on clients that uses a certain chemical substance.
A-2	Conflict minerals	A company, which was ranked poor by an NGO regarding problems of conflict minerals, launched a project and published detailed information about company's attitude toward conflict minerals on its homepage, resulting in improvement in the ranking.
B-1	General	A company agreed to its client's commitment on sustainability ¹⁷ and began proactively conducting training courses for its employees, among other efforts. As a result, the company was commended by its client and these actions boosted its client's level of trust in the company.
B-1	General	A company gathered its various departments together to cooperate with a request from a client for an onsite survey about the company's CSR activities, which included providing data to the client. As a result, no particular issues were identified in the survey and the company was able to continue its transactions with the client.
B-1	General	A company joined an international program on the improvement of the labor environment. It evaluated the performance of its suppliers and identified specific issues that its suppliers would need to address. In addition, the company provided support for activities to make improvements and also provided training for its suppliers' workers. As a result, the company was able to improve the CSR capabilities of its suppliers and thus continued its business transactions with those suppliers.
B-1	General	A company visited its supplier and suggested improvements in CSR initiatives, which led to a dramatic reduction in the number of problems associated with employees going on strikes and committing arson. As a result, the company was able to develop a stable supply chain for components and parts.
B-1	General	By purchasing raw materials at appropriate prices and working together with its supplier on water shortage and other issues affecting the supplier, the company was able to procure finished goods with few supply chain disruptions.

Category	Area	Outline
B-2	Third party evaluations	A company continued to be selected as part of an ESG index because it was able to respond appropriately to ESG questionnaires, despite the fact that the number of questions have increased significantly. It was because the company had already formulated and began implementing new sustainable procurement guidelines.
C	Tackling antisocial forces	In order to avoid purchasing from companies associated with organized crime groups, a company and its group companies signed agreements on the exchange of information with the police. This enabled the company to avoid involvement with suspicious companies.
C	Engagement with local communities	A company made efforts to learn about the needs of the local community in a certain region through various dialogue sessions, business meetings and other forums. The information gathered helped the company to prioritize the sales of local products, which contributed to the revitalization of that region.

4. Conclusion: Further efforts to promote sustainable procurement

We have discussed the purpose and advantage of sustainable procurement for companies and stakeholders in the preceding chapters. This chapter provides an overview of procedures to promote sustainable procurement.

With rapid globalization of the economic environment, companies can no longer conduct business on a standalone basis since companies are increasingly relying on a global supply chain network. This implies that a company needs to share its vision, not only with its employees, but also with its suppliers in order to grow its business.

In view of this, there are three steps, in order of priority, when promoting sustainable procurement.

1) Supplier briefings

Supplier briefings should be held as a platform where buyers (companies) and suppliers can share their respective CSR vision and principles.

2) Self-assessment questionnaire (SAQ)

While SAQ refers to the self-assessment tool itself, it should be noted that this is in fact a process through which the buyer (company) seeks to understand and assess the supplier's level of understanding of CSR requirements.

3) Audit

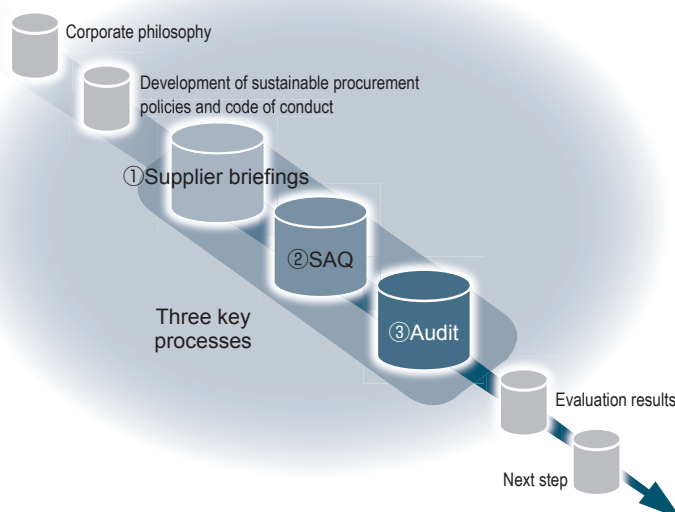
As the final step, an audit should be conducted based on the results of the SAQ to verify the current actual status of the supplier. Based on the results of the audit, the buyer (company) and the supplier directly or indirectly cooperate to improve the current situation.

There have been several cases in recent years in which the buyer (company) mandates that the supplier must agree with the buyer's sustainable procurement guidelines. In other cases, the buyer (company) may include the sustainable procurement guidelines as part of the terms and conditions for conducting business.

In order to reduce social and environmental risks, as well as to protect the company's brand value, the buyer (company) should not unilaterally demand that the supplier meet its conditions. Instead, the buyer (company) should go through the 3 step process mentioned above to promote sustainable procurement through mutual understanding with the supplier. This will ensure a more effective procurement process and help to maintain the integrity of the supply chain.

Sustainable procurement is an extremely important element in the realization of a sustainable society.

Vision for sustainable procurement



* For further details on sustainable procurement, see A Vision of Desirable CSR Activity in the Supply Chain.

* A variety of SAQ formats exist because some industry associations and individual companies have developed their own SAQs. To close this gap and provide an SAQ that is applicable for use across different companies and industries, GCNJ published the "CSR/Sustainable Procurement Self-assessment Tool Set" in 2017.

* Extracted from A Vision of Desirable CSR Activity in the Supply Chain and partially revised.

References: Explanation of specific fields, terminologies, etc. related to sustainable procurement

*1 Global Compact Network Japan (GCNJ)

Launched in December 2003 as the local network of the United Nations Global Compact (see *6 below for details) in Japan, GCNJ became a General Incorporated Association in 2011. Following the Ten Principles organized into four categories defined by the UN Global Compact, member companies and groups work together in activities aimed towards the realization of a sustainable society. The GCNJ's main activities involve the organization of a variety of Working Groups and holding events such as learning forums and symposiums in cooperation with other organizations. The events held by GCNJ serve as study sessions and forums for the exchange of information among persons responsible for their company's CSR initiatives. (Refer to the GCNJ website: <http://www.ungcjin.org/>) (Japanese site)

*2 Forced labor

Forced labor refers to any work or service which an individual is compelled to perform under threat of punishment and which is not voluntary. The performance of such work or service is still considered forced labor even if wages or some other form of compensation are offered. An individual has the right to choose or decline to engage in a particular work or service and must be able to freely leave a job under established regulations.

Examples of forced labor include slavery, indebted labor, abduction, kidnapping, and human trafficking. Threats, non-payment of wages, and physical and psychological constraints also fall under this category.

(See the UNGC website: <https://www.unglobalcompact.org/what-is-gc/mission/principles/principle-4>)

*3 Child labor

Child labor refers to labor performed by children below the minimum age for employment stipulated by law (in principle, the minimum working age is 15), that interferes with their ability to attend regular school. Child labor also refers to the performance by minors of hazardous and dangerous labor that should not be performed by anyone under the age of 18 (including the "worst forms of child labor" mentioned below). Child labor is regulated by international conventions that have been ratified by most countries, including the ILO's Minimum Age Convention, 1973 (No. 138) and Worst Forms of Child Labour Convention, 1999 (No. 182). The details of hazardous and dangerous labor that young people under the age of 18 are prohibited from engaging in are specified by the labor laws of individual countries.

*4 ISO20400

ISO20400 is an international standard for sustainable procurement issued in April 2019.

The standard defines principles for sustainable procurement, including accountability, transparency, respect for human rights, and ethical behavior, and provides guidelines for the realization of sustainability through procurement policy and strategy. For companies, this standard will not only improve the precision of management of suppliers and supply chains looking towards the realization of a sustainable society, but can also be expected to boost corporate competitiveness.

*5 Sustainable Development Goals (SDGs)

The Sustainable Development Goals (SDGs) are 17 goals set out by Agenda 2030, the plan adopted by the 193 member nations of the United Nations in September 2015 in order to eliminate extreme poverty, inequality and injustice. The SDGs seeks to protect our planet over the coming 15 years, looking towards the realization of a brighter future. The SDGs encompass 17 goals and 169 targets, addressing issues including those that were not adequately covered by the Millennium Development Goals and the worsening environmental issues that were discussed at Rio+20. The SDGs represent a grand challenge to realize a world in which Member States commit to leave no one behind.

(See the UNGC website: <https://www.unglobalcompact.org/sdgs>)

*6 United Nations Global Compact (UNGC)

The United Nations Global Compact (UNGC) is an initiative that was advocated by then-UN Secretary-General Kofi Annan at the World Economic Forum (the Davos Conference) in 1999, and formally launched at the UN Headquarters the following year. Developing and implementing activities organized around Ten Principles in the four areas of human rights, labor, environment and anti-corruption, the UNGC plays the role of a forum discussion, where people openly discuss various issues related to globalization, and put them into practice. At present, 12,868 associations, including approximately 10,000 companies and enterprises in 161 countries and regions are signatories to the UNGC (as of January 22, 2018).

(See the UNGC website: <https://www.unglobalcompact.org/what-is-gc>)

*7 Inhumane treatment

Unpleasant treatment such as forced labor, power harassment, sexual harassment, sexual abuse, corporal punishment, mental or physical repression or verbal abuse.

***8 Freedom of association**

Workers have the right to freely cooperate with and choose whether to join unions. The right of workers to participate in workers' associations must be respected in accordance with local laws. Workers should be able to discuss their situation with their managers without fear of retaliation, intimidation or harassment.

***9 Prohibition of abuse of dominant position**

Abuse of dominant position refers to the exploitation of an advantageous position in a transaction by the party requesting the goods, works or services etc. in order to disadvantage the recipient of the request by means of unfair practices. This includes requests for delay in payment or reduction of the amount of payment, requests to shoulder financial burdens such as sponsorship fees, and requests for the dispatch of employees. These practices are prohibited by the Subcontract Act in Japan.

***10 Prohibition of anticompetitive practices**

Prohibition of actions that impede free and fair competition, including the formation of cartels, bid-rigging, and the application of resale price restriction. These practices are prohibited by the Anti-Monopoly Act in Japan.

***11 NGO (Non-governmental organization)**

NGOs are private-sector international cooperation organizations that operate independently of any government. These organizations tackle global issues such as poverty, hunger and the environment from a private sector perspective that differs from those of governments and international organizations. NGOs work to resolve such issues using approaches that transcend national, racial or religious boundaries and are not profit-driven. In Japan, the term is used to refer to international organizations, and may refer to organizations engaged in international cooperation or bodies that supplement government activities.

***12 NPO (Non-profit organization)**

In the broad sense, NPOs are private-sector non-profit organizations. In a narrow sense, they are civil society groups that conduct activities to contribute to society and charitable activities on a non-profit basis. In the narrowest sense, NPO refers to a group that has acquired corporate status (Specified Non-profit Corporation) under the Act on Promotion of Specified Non-profit Activities, enacted in March 1998. The difference between NGO (non-governmental organization) and NPO comes from the difference in perspective. When the non-profit aspect is emphasized (i.e., the organization conducts social projects without seeking profit although it is a private enterprise), the organization is referred to as an NPO; when the non-governmental aspect is emphasized (i.e., the socially focused non-profit business is operated by citizens instead of the government), the organization is referred to as an NGO.

***13 ESG (Environment, society, governance)**

ESG is the acronym for environment, society and governance. It is often used as a comprehensive expression denoting an approach that evaluates companies from a non-financial perspective.

***14 Conflict minerals**

According to Section 1502 (the conflict mineral clause) in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and the SEC's final rule regarding the implementation of the clause, four minerals (tin, tantalum, tungsten, and gold ["3TG"]) among mineral resources often produced in conflict areas are designated as conflict minerals.

There are cases where armed groups that commit human rights violations are involved in the mining of conflict minerals. Purchase of conflict minerals provides a source of funds to these armed groups, leading to concerns that parties that purchase such minerals may be viewed as supporting strife in conflict regions. This is especially true for minerals mined in the Democratic Republic of the Congo and the surrounding countries, which has become a worldwide issue.

In accordance with the Dodd-Frank Act, all listed companies in the US are obliged to report on the status of their use of such minerals. As such, buyers (companies) may be asked to cooperate in investigations that trace possible use of conflict minerals in global supply chains. In addition, there are movements to institute similar laws and regulations in countries other than the US.

***15 Palm oil**

Vegetable oils and fats produced in the highest quantities worldwide are manufactured from oil extracted from oil palms. Palm oil is used in a wide range of applications that include food products (margarine, instant noodles, confectioneries such as chocolate), soaps, detergents, paints, cosmetics and chemical products. Oil palms are cultivated in regions around the equator with high rainfall, with Malaysia and Indonesia in particular having developed large-scale oil palm plantations. In the process, large areas of tropical forest have been logged or burned, and such developments have been illegal in some cases. There are limits to the efficacy of individual measures such as lobbying the governments of palm oil-producing nations for measures to respond to illegal logging, regulation and monitoring of overdevelopment, the establishment of protected zones and attempts to protect endangered wildlife. The WWF established the Roundtable on Sustainable Palm Oil (RSPO)¹⁸ in 2004 to address these concerns.

***16 CDP**

Formerly known as Carbon Disclosure Project. This is a project where institutional investors cooperate in sending questionnaires to companies on a variety of themes such as climate change, water resources and forest protection, and request for companies to answer the questionnaires by stating specific strategies, targets and initiatives for the reduction of their environmental impact.

***17 Sustainability**

In the business context, sustainability refers to looking beyond profits and towards the fulfilment of a company's corporate social responsibilities in the three areas of environment, society and the economy to ensure that the company can remain as a going concern in the future.

***18 Roundtable on Sustainable Palm Oil (RSPO)**

The goal of the RSPO is to promote the production and use of sustainable palm oil through the formulation of globally trusted certification standards and the participation of stakeholders.

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Appendix: The child labor situation and its impacts

About child labor

This section presents the actual situation of child labor in the world and is an excerpt from an article written by the NGO, ACE (<http://acejapan.org/english/>).

Q1. Why does child labor still exist in the world?

Poverty is probably the main reason why children have to work but it is not the only reason. In certain regions of the world, the ingrained believe that there is no meaning in attending school or that girls do not need to be educated are also factors that contribute to the persistence of child labor.

Q2. Are all children who work considered child labor?

The relevant international conventions define child labor as work or services performed under the same conditions as adults but by children under the age of 15 (under the age of 14 in developing nations). At this age, children should be receiving compulsory education, but those who are working without receiving education are considered child labor. Child labor also refers to children under the age of 18 performing dangerous and hazardous work. Children under the age of 15 may help around the house or in the family business after school or on holidays while attending school, but this is not considered child labor.

Q3. How do we identify child labor?

While the definition of “child labor” is clear, it can be difficult to judge whether a particular case is considered child labor or not. When a case meets one of the following criteria, it is considered as child labor.

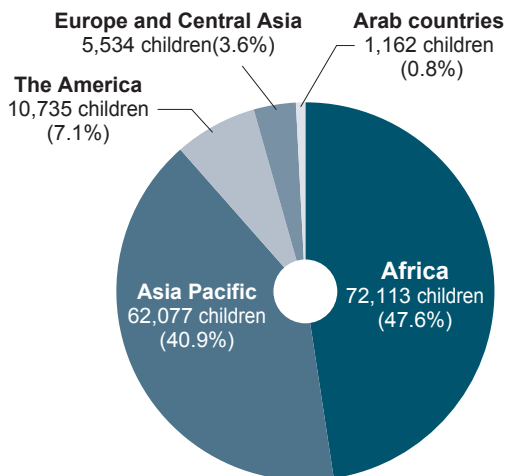
- 1) Labor that hinders a child’s education
- 2) Labor that impedes the healthy development of a child
- 3) Hazardous and dangerous labor
- 4) Labor that exploits the child

Q4. How many child laborers are there in the world? (Number of children involved in child labor)

It is estimated that there are approximately 152 million child laborers aged between 5 and 17 years old across the globe (88 million boys and 64 million girls). This represents nearly one in 10 children, with 73 million children engaged in dangerous and hazardous labor, such as child soldiers and trafficked children.

(An excerpt from the ILO report “Global Estimates of Child Labour: Results and Trends, 2012-2016”)

Q5. In which regions are child labor most prevalent? (Regional distribution of child labor)



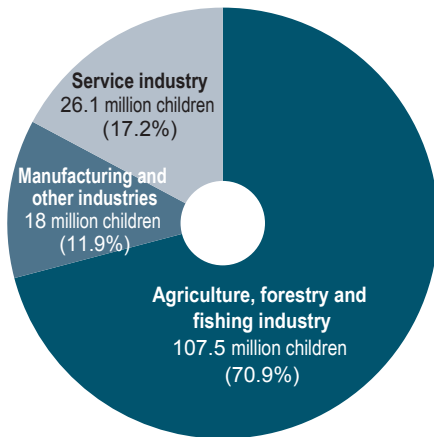
About half of the world's child laborers are in Africa. In this region, nearly one in five children are child laborers. According to a 2013 report, the highest number of child laborers in absolute terms existed in the Asia-Pacific region. However, while there is rapid improvement in the situation in the Asia-Pacific region, the situation is deteriorating in Africa.

Q6. Is child labor an issue only in poor countries?

Child labor is most prevalent in low-income countries, but it also exists in medium- to high-income countries and high-income countries including Japan.

Income level	Number of child laborers	Percentage of children that are child laborers	Percentage of total number of child laborers by income level
Low-income countries	65.2 million	19.4%	43.0 %
Low- to medium-income countries	58.2 million	8.5%	38.4%
Medium- to high-income countries	26.2 million	6.6%	17.3%
High-income countries	2 million	1.2%	1.3 %
			100%

Q7. Which industries is child labor most prevalent? (Number of child laborers by industry and main types of labor)



Agriculture, forestry and fishing industry: 70.9%

Employment in large-scale plantations producing coffee, tea, rubber, tobacco, etc., and child labor in poor farming families producing cacao, cotton, etc. in order to support the family. Child labor in the mining and fishing industry are also included.

Service industry: 17.2%

Selling products or washing car windows on the street, carrying items at markets, dismantling discarded electronic products, and working as domestic helpers at other people's houses.

Manufacturing and other industries: 11.9%

Includes child labor used in areas such as sewing workshops, match manufacturing factories and prawn processing factories. There are well-known examples of children who sew soccer balls and beads on clothes at home.

Source: Global Estimates of Child Labor: Results and trends, 2012-2016

A child working in a dye process at a leather factory



Photograph by Larry C. Price / Pulitzer Center on Crisis Reporting

A child sewing a soccer ball



Source: Action against Child Exploitation (ACE)

A child performing a cutting process at a leather factory



Photograph by Justin Kenny / Small Footprint Films

Children working in mines



Source: Amnesty International Japan

Impact of human rights violations (e.g. child labor) on corporate performance

Human rights violations impact corporate performance in various ways. The following case study estimates the magnitude of a drastic reduction in a company's sales volume that was a result of a boycott campaign launched in response to human rights issues.

(This example is extracted from a report published by Deloitte Tohmatsu Consulting LLC that estimated the effect of human rights violations on corporate sales).

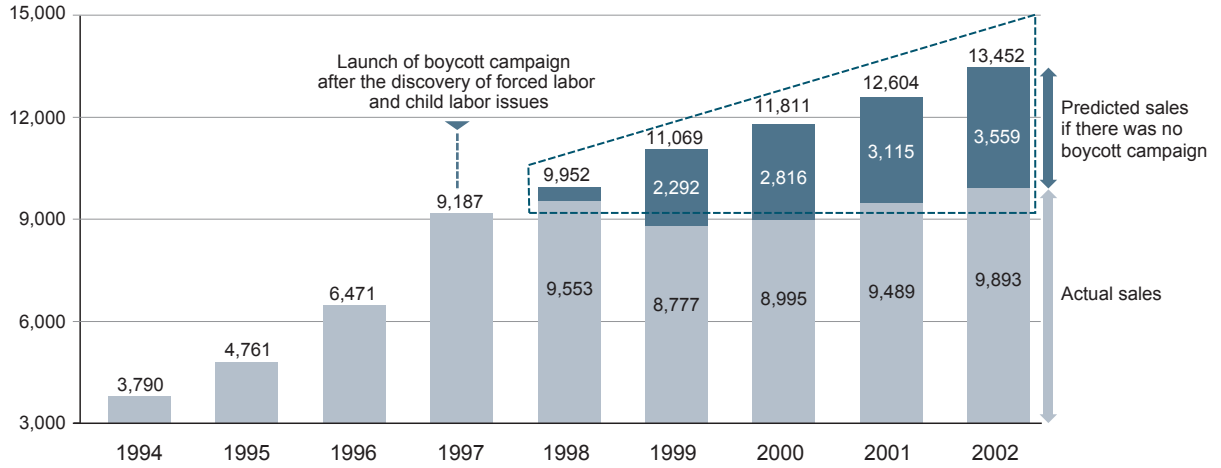
<https://www2.deloitte.com/jp/ja/pages/strategy/articles/cbs/human-rights-2.html> (Japanese site)

In 1997, an international NGO discovered and exposed the fact that factories of outsourcing contractors in Indonesia and Vietnam for a US apparel manufacturer were using child labor for their day-to-day operations. This led to boycott campaigns across the globe and the company was subject to severe criticism by the media and on the Internet, and was even referred to as a "criminal enterprise." The company's sales declined significantly after the discovery of this fact, although it had previously enjoyed rapid growth relative to its competitors.

It was estimated that the company had lost approximately 12.18 billion US dollars, equivalent to 1.3764 trillion Japanese yen due to the boycott campaign (cumulative total for the five-year period between 1998 and 2002) (Refer to the figure below). This estimate was obtained by projecting the company's sales, assuming that the boycott campaign had not been launched. This figure corresponds to approximately 26% of the company's consolidated sales, a magnitude that is considered fatal to corporate management.

Estimate of business impact
of human rights violations:
The case of a US apparel company
(million USD)

Impact of human rights violations (1998-2002)
Approximately 1.3764 trillion yen (Approximately 12.18 billion USD)
≒ Corresponds to approximately 26.1% of consolidated sales



Source: Analysis by Deloitte Tohmatsu Consulting LLC.



(The image above is a stock photo and is not related to the case discussed above.)

List of companies participating in the Supply Chain Working Group (FY 2014-2017) (By Japanese kana order)

Ajinomoto Co., Inc.	Teijin, Ltd.
Astellas Pharma Inc.	Teijin Frontier Co., Ltd.
Anritsu Corporation	Terumo Corporation
Aeon Co., Ltd.	Japan Electrical Safety & Environment Technology Laboratories
ITOCHU Corporation	Tokyo Gas Co., Ltd.
USHIO Inc.	TOTO Ltd.
Ecology Path Inc.	DOWA HOLDINGS CO., LTD.
Action against Child Exploitation (ACE)	DOWA MANAGEMENT SERVICE CO., LTD.
NTT DOCOMO, INC.	E&E Solutions Inc.
Energetic-Green Co., Ltd	Central Nippon Expressway Company Limited
Osaka Gas Co., Ltd.	Nabtesco Corporation
Otsuka Holdings Co., Ltd.	Nikon Corporation
Oki Electric Industry Co., Ltd	NGK INSULATORS, LTD.
Omron Corporation	Nissha Co., Ltd.
Olympus Corporation	Japan Food Research Laboratories
Kawasaki Kisen Kaisha, Ltd. ("K" LINE)	NEC Corporation
Kawasaki Heavy Industries, Ltd.	Japan Quality Assurance Organization
Kyokuto Kaihatsu Kogyo Co., Ltd.	Nippon Yusen Kaisha
Kirin Holdings Company Limited	Nomura Securities Co.,Ltd.
GLORY LTD.	Noritz Corporation
INPEX CORPORATION	BSI Group Japan K.K.
Cosmo Energy Holdings Co., Ltd.	Hitachi, Ltd.
Konica Minolta, Inc.	Fiber Frontier Co., Ltd.
Suntory Holdings Limited	Foster Electric Company, Limited
GXS, Inc.	Fuji Xerox Co., Ltd
JSR Corporation	Fujitsu Limited
Systemex Corporation	Marubeni Corporation
Shiseido Co., Ltd.	Mitsui Chemicals, Inc.
Citizen Watch Co., Ltd.	MITSUI & CO., Ltd.
Shin-Etsu Chemical Co., Ltd.	Mitsubishi Corporation
Sumitomo Riko Company Limited	Mitsubishi Heavy Industries, Ltd.
Seiko Epson Corporation	Yamaha Corporation
Sega Sammy Holdings Inc.	Lion Corporation
Sojitz Corporation	LIXIL Group Corporation
Daiichi Sankyo Co., Ltd.	RICOH Company, Ltd.
Daikin Industries, Ltd.	
Dai Nippon Printing Co., Ltd.	
Daifuku Co., Ltd.	
Tamron Co., Ltd.	
Institute for Global Environmental Strategies	Translation Cooperation by; Idemitsu Kosan Co., Ltd.
Chiyoda Corporation	Chiyoda Corporation
DIC Corporation	Hitachi, Ltd.
DNV GL BUSINESS ASSURANCE JAPAN K.K.	Lion Corporation

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An Introduction to Sustainable Procurement

– Promoting CSR on the Supply Chain –

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