

Recommendation

Business Partner Code of Conduct

One Code in the Supply Chain



Our vision is to achieve excellence, innovation, transparency and performance in a sustainable manner.

People and the environment are business most important resources. We strongly feel that companies should fulfil their social responsibilities and obligations to realize a healthy and harmonious development between enterprises and employees, enterprises and society, and enterprises and the environment. As part of this, we are working together to attain the highest standards in business integrity and the social and environmental performance of our supply chain.

Supply chains have a high degree of complexity; therefore, we believe in the benefits of a common approach and message where possible. This Business Partner Code of Conduct (“Code”) contains the common standards towards business ethics, working conditions, human rights, health and safety, environmental leadership and supply chain due diligence for business partners at all tiers.

While the standards set out in this Code reflect fundamental risks identified for major industrial sectors, in particular the automotive and electronic industry, with respect to the supply chains, these risks do not have to apply equally to all business partners. This Code contains the general expectations for a common approach and does not imply that every business partner would be affected by all standards and risks addressed in this Code.

We expect business partners to uphold the standards set out in this Code and make a best and risk-based effort to cascade them throughout their supply chain. This entails the responsibility to strive towards achieving the objectives of this Code, as well as the expectation that business partners will implement appropriate actions to pursue these objectives.

The Code is based on fundamental principles of social, environmental and governance responsibility that are consistent with applicable laws and international standards, which may include, but is not limited to, the UN Guiding Principles on Business and Human Rights, ILO Conventions, OECD Guidelines for Multinational Enterprises, the Rio Declaration on Environment and Development, as well as the Paris Agreement. The Code is based on the Drive Sustainability/AIAG Automotive Guiding Principles to Enhance Sustainability Performance in the Supply Chain and on the Responsible Business Alliance Code of Conduct. It is aligned towards enabling compliance with the guiding principles of the German Act on Corporate Due Diligence Obligations in Supply Chains with respect to obliged organizations, acknowledging that different organizations are subject to different regulation, also depending on size and circumstances. Continuous adaptation of this Code is planned, also in accordance with new legal requirements and improved insights and tools.

The Code defines common standards for business partners. It is independent of and does not replace an individual risk analysis. To fulfil the Code, business partners should implement a management system/s appropriate to their size and circumstances – defined as a combination of policies, processes, functions, tools and internal controls – that help the organization to control its operations, reach objectives and ensure continuous improvement. The Code does not prescribe which procedures and measures should be applied. Recommendations concerning the practical application of the Code are outlined in the Practical Guidance. The recommendations outlined in the Practical Guidance reflect the results of an industry-wide risk analysis and best practices applied by the industry, but are not mandatory.

The Code may be voluntarily adopted by any customer/organization and subsequently applied by that organization to its supply chain and subcontractors, including providers of contract labor. The Code is to be understood as a total supply chain initiative. At a minimum, organizations committing to apply the Code shall also require its next tier suppliers to make a best effort to acknowledge and implement the Code.

The Code sets out requirements for business partners to comply with applicable laws and regulations and aim to apply best industry practices. In situations when the Code goes further than applicable laws and regulations, the Code applies only to the extent permissible under applicable mandatory laws and regulations. Individual organizations may have their own standards, codes and policies in addition to the Code.

1. Business Ethics

Business partners should uphold the highest standards of integrity and operate honestly and equitably throughout the supply chain.

Business partners should implement a management system for business ethics that includes the following:

- **Anti-Corruption and Anti-Money Laundering:** Business partners should not participate in or endorse any corrupt practices in whatever form, including offering or accepting bribes, excessive gifts or hospitality or facilitation payments. Business partners should not facilitate or support money laundering. Business partners should report any suspicious transactions and be alert for signs of money laundering.
- **Data Protection and Data Security:** Business partners should respect the privacy and civil liberties in respect of the collection, retention, use or dissemination, as well as any other processing of personal data.
- **Financial Responsibility/Accurate Records:** Business partners should perform their business dealings in a transparent manner and accurately reflect them in the companies' financial reports and filings. Business partners should confirm an adequate financial reporting system control is in place.
- **Disclosure of Information:** Business partners should disclose financial and non-financial information to the relevant authorities in accordance with applicable regulations and prevailing industry practices.
- **Conflicts of Interest:** Business partners should ensure that their employees avoid and disclose situations where their financial or other interests' conflict with job responsibilities, or situations giving any appearance of impropriety.
- **Counterfeit Parts:** Business partners should minimize the risk of introducing counterfeit and/or diverted parts and materials into deliverable products and adhere to relevant technical regulations in the product design process.
- **Intellectual Property:** Business partners should respect valid intellectual property rights.

- **Export Controls, Trade, and Economic Sanctions:** Business partners should comply with applicable restrictions on the export or re-export of goods, software, services and technology, as well as with applicable restrictions on trade involving certain countries, regions, companies or entities and individuals.
- **Grievance Mechanism:** Business partners should make a grievance mechanism in line with UN Guiding Principle 31 available to rights-holders potentially affected by their activities. They can opt to establish or join an effective internal or external grievance mechanism, or, if not obliged by applicable law to provide a grievance mechanism, at a minimum support or recommend an existing external grievance mechanism. The mechanism must allow concerns related to business ethics, human rights, or any other risks addressed in this Code to be raised anonymously, confidentially and without retaliation.
- **Remediation:** Business partners should provide for or cooperate in remediation through legitimate processes when their business activities cause or contribute to adverse environmental or social impacts.
- **Non-retaliation:** Business partners should avoid any form of threats, intimidation, and physical or legal attacks against stakeholders, including those exercising their legal rights to freedom of expression, association, peaceful assembly and protest against their business activities.
- **Cyber Security:** Business partners should establish end-to-end cybersecurity measurements to protect critical systems and sensitive information from digital attacks. A comprehensive cybersecurity strategy, governed by best practices and modern key technologies like automation, digitalization, advanced analytics, artificial intelligence (AI) and machine learning are required prerequisite to ensure adequate information security by preventing, detecting, and responding to attacks in an efficient way.
- **Artificial Intelligence (AI):** Business partners should develop and establish a solid and reliable AI governance framework consisting of processes, methods, controls and supporting tools to drive greater confidence and transparency in the end-to-end lifecycle of AI, where appropriate. It is recommendable to ensure traceability of the system's operation by automatic event logging capabilities throughout the entire life cycle.
- **Data Integrity:** Business partners should ensure that products are designed, manufactured, tested and suitable for use based on data that is accurate, reliable, and complete. Product quality is a highest priority, and data integrity is a fundamental aspect of an organization's Quality Management System.
- **Fair Business, Advertising and Competition:** Business partners must uphold standards of fair business, advertising, and competition.

2. Environment

Business partners should develop, implement, and support a proactive approach to environmental responsibility through environmental protection practices, conserving natural resources and reducing overall environmental footprint of production, goods and services throughout their life cycle.

Business partners should implement an environmental management system that includes the following:

- **Carbon Neutrality:** Business partners should strive to set science-based and time-bound emission reduction goals and renewable energy objectives that are aligned with the Paris Agreement and put in place measures that drive forward the decarbonization of the entire value chain.
- **Water Quality, Consumption & Management:** Business partners should minimize water consumption, effectively reuse and recycle water with responsible treatment of wastewater discharges and prevent potential impacts from flooding as a consequence of rainwater run-off, at a minimum as required by and in accordance with applicable law.
- **Air Quality:** Business partners should routinely monitor and disclose, appropriately control, minimize, and to the extent possible, eliminate emissions contributing to air pollution, at a minimum as required by and in accordance with applicable law. Business partners should assess cumulative impacts of pollution sources at their facilities and mitigate their pollution levels accordingly.
- **Responsible Chemical Management:** Business partners should identify and minimize or eliminate the use of restricted substances in manufacturing processes and finished products to ensure regulatory compliance. They must comply with the international conventions in Annex A. Business partners should also be aware of any use of restricted substances in processes and finished products, and actively investigate suitable substitutes to maintain product and environmental stewardship. Chemicals, waste, and other materials posing a hazard to humans, or the environment are to be identified, labeled, and managed to ensure their safe handling, movement, storage, use, recycling or reuse, and disposal.
- **Circularity, Sustainable Resources, Waste Reduction, Reuse and Recycling:** Business partners should promote closed loop systems by supporting the use of sustainable, renewable natural resources. Business partners shall implement a systematic approach to identify, manage, reduce, reuse, recycle and, as last option, to responsibly dispose waste.
- **Animal Welfare:** Business partners should respect the five animal freedoms formalized by the World Organization for Animal Health (OIE) concerning animal welfare. No animal should be raised and killed for the single purpose of being used in a product.
- **Biodiversity, Land Use and Deforestation:** Business partners should protect ecosystems, especially key biodiversity areas, impacted by their operations, and avoid illegal deforestation in accordance with international biodiversity regulations, including the IUCN Resolutions and Recommendations on Biodiversity.
- **Soil Quality:** Where appropriate, business partners should monitor and control their impact on soil quality to prevent soil erosion, nutrient degradation, subsidence and contamination

- **Noise Emissions:** Where appropriate, business partners should monitor and control the levels of industrial noise to avoid noise pollution.
- **Environmental Permits and Reporting:** Business partners must uphold, maintain and keep current all required environmental permits (e.g., discharge monitoring), approvals, and registrations and must follow their operational and reporting requirements.

3. Human Rights and Working Conditions

Business partners must respect the human rights of workers, local communities and other relevant stakeholders. This means preventing and addressing adverse human rights impacts linked to business activities, in accordance with the ILO Core Conventions and UN Guiding Principles on Business and Human Rights.

Business partners should implement a management system for human rights and working conditions that includes the following:

- **Child Labor and Young Workers:** Business partners must observe the minimum employment age of at least 15 years in their business activities and throughout their supply chain in accordance with the ILO Minimum Age Convention No. 138 and shall ensure that no young worker is performing worst forms of child labor as defined by ILO Worst Forms of Child Labor Convention No. 182. All measures to address child labor need to respect the children's rights to both livelihood and education and avoid additional harm to those rights.
- **Wages and Benefits:** Business partners must provide their workers with remuneration in accordance with applicable regulations and prevailing industry practices; such remuneration should be adequate to cover basic needs and enable a decent standard of living for the workers and their families, which includes respecting minimum wages, overtime compensation, medical leave and government-mandated benefits.
- **Working Hours:** Business partners must comply with local laws and collective bargaining agreements (where applicable) regarding working hours or should comply with the ILO Standards on Working Time in the absence of relevant local regulations.
- **Modern Slavery:** Business partners must prohibit any forms of forced, bonded or compulsory labor, including human trafficking in accordance with ILO Convention 29. This includes the prohibition of physical punishment. Workers being housed on factory premises should be able to leave any time without giving reasons.
- **Ethical Recruiting:** Business partners must not mislead or defraud potential workers about the nature of the work, ask workers to pay recruitment fees, and/or confiscate, destroy, conceal, and/or deny access to worker passports and other government-issued identity documents. Workers must receive a written contract or employment notification at the start of their recruitment in a language well understood by them, stating in a truthful, clear manner their rights and responsibilities.
- **Freedom of Association and Collective Bargaining:** Business partners should allow workers to communicate openly with management regarding working conditions and management practices without fear of reprisal, intimidation or harassment. Business partners should respect worker rights to associate freely, to join or not join labor unions, bargain collectively, seek representation and join workers' councils.

- **Non-Discrimination, Harassment and Women's Rights:** Business partners should not tolerate any form of discrimination or harassment in respect of employment and occupation and should provide equal employment opportunities regardless of worker or applicant characteristics such as age, gender, sexual orientation, gender identity, ethnicity or national origin, disability, pregnancy, religion, political affiliation, union association, covered veteran status, genetic information or marital status in accordance with ILO Convention 111. Business partners should provide equal opportunity in employment and commit to equal pay for equal work.
- **Diversity, Equity, and Inclusion:** Business partners should develop and promote inclusive cultures where diversity is valued and celebrated, and everyone is able to contribute fully and reach their full potential. Business partners should encourage diversity in all levels of their workforce and leadership, including boards of directors.
- **Rights of Minorities and Indigenous Peoples:** Business partners should respect the rights of local communities to decent living conditions; education, employment, social activities; and the right to Free, Prior, and informed Consent (FPIC) to developments that affect them and the lands on which they live, with particular consideration for the presence of vulnerable groups.
- **Land Rights and Forced Eviction:** Business partners should avoid forced eviction and the deprivation of land, forests and waters in the acquisition, development or other use of land, forests and waters that violate legitimate tenure rights.
- **Private or Public Security Forces:** Business partners should not commission or use private or public security forces to protect the business project if, due to a lack of training or control on the part of the organization, the deployment of the security forces may lead to violations of human rights.

4. Health and Safety

Business partners should provide workers a safe and healthy working environment that meets or exceeds applicable local laws and industry standards for safety and occupational health.

Business partners should implement a management system for a safe and healthy working environment that includes the following:

- **Workspace:** Business partners should provide a working environment that meets or exceeds local and national safety, occupational health, and fire safety legislation, in addition to encouraging remote workers to understand and apply best practices.
- **Personal Protective Equipment:** Where applicable, business partners should provide their workforce with necessary Personal Protective Equipment (PPE) and ensure they understand how and when it needs to be applied.
- **Emergency Preparedness:** Business partners should reduce the risk of occupational hazards and develop an emergency preparedness and response plan.

- **Incident and Accident Management:** Business partners should implement hazard and risk analysis systems to minimize the potential for incidents or accidents at the workplace. An investigation system should drive to determine the root cause, and a corrective action system should ensure all permanent measures have been taken to minimize the chance of a recurrence.
- **Contractors:** Business partners should properly manage the health and safety of contractors as part of an organization's extended supply chain. Business partners should coordinate their procurement processes to identify hazards and to assess and control risks arising from the contractor's business activity with the business partner, and the organization's business activity that impacts the contractors' workers.
- **Road Traffic Safety:** Business partners should adopt a systematic way of working with road safety. They should ensure commitment on all levels of the organization by establishing a policy on road traffic safety with clear targets for how to manage road traffic safety concerns within their direct control as well as within their sphere of influence. Business partners should work towards tracking, understanding and managing their Road Traffic Safety Footprint, i.e. injuries related to road traffic within their operations and those that occur within their supply chain, and to work systematically internally and with their supply chain partners to improve road safety impact.
- **Health and Safety Training:** Business partners should train their workers on the adequate behavior to avoid health and safety risks and incidents in their respective workplace.

5. Responsible Supply Chain Management

Business partners should themselves select business partners that comply with the practices of responsible business conduct described in this Code, and take best efforts to cascade them along the supply chain.

Business partners should implement a supplier management system appropriate to the size and circumstances that includes the following:

- **Due Diligence and Responsible Purchasing:** Business partners should conduct due diligence on their direct suppliers and subcontractors in accordance with the OECD Due Diligence Guidance for Responsible Business Conduct appropriate to the size and circumstances, promote transparency and traceability and use their best efforts to cascade the Code further along the supply chain. Business partners should develop and implement responsible purchasing practices in line with applicable law, following a risk-based approach, and according to their respective capacity.
- **Responsible Sourcing of Raw Materials and Minerals:** Business partners should responsibly source raw materials and minerals used in their products by developing a management system appropriate to the size and circumstances that promotes supply chain traceability and transparency, and by implementing due diligence measures in accordance with OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

6. Cooperation and implementation

Business partners will have a greater impact on, and a better chance of identifying, preventing, mitigating, and remediating adverse environmental or social impacts in their organizations and supply chains by working together. Business Partners commit to act and react constructively, cooperatively, and with due diligence, regarding the principle of cooperation. They agree to cooperate in the development and use of standardized tools and shared solutions necessary to implement this Code towards reducing or eliminating redundancy, and minimizing workloads to suppliers, including (i) risk assessment and risk mapping, (ii) self-assessment questionnaires, and (iii) risk based on-site assessments and audits.

Upon request, suppliers must provide with materials and information and to accept on-site audits to verify that they are operating consistent with the requirements of this Code, if there is evidence of an increased risk of a violation. Business partners should collaborate and, unless stricter binding legal standards apply, at a minimum make a best and risk-based effort to take corresponding measures to ensure operation consistent with the requirements of this Code in their supply chain, to the source of origin if needed.

Business partners may draw consequences for violations of the standards defined in this Code, where appropriate and depending on the legal nature of the standard. This also applies if business partners do not cooperate appropriately or fail to take necessary or agreed measures.

7. Acronyms

- AI – Artificial Intelligence
- AIAG – Automotive Industry Action Group
- FPIC – Free, Prior, and Informed Consent
- ILO – International Labor Organization
- IUCN – International Union for Conservation of Nature
- OECD – Organization for Economic Cooperation and Development
- OIE – World Organization for Animal Health
- PPE – Personal Protective Equipment
- UN – United Nations

Annex A

Minamata Convention on Mercury dated October 10, 2013

Stockholm Convention on Persistent Organic Pollutants dated May 23, 2001

Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal dated March 22, 1989.

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About VDA

The German Association of the Automotive Industry (VDA) consolidates around 620 manufacturers and suppliers under one roof. The members develop and produce cars and trucks, software, trailers, superstructures, buses, parts and accessories as well as new mobility offers.

We represent the interests of the automotive industry and stand for modern, future-oriented multimodal mobility on the way to climate neutrality. The VDA represents the interests of its members in politics, the media, and social groups. We work for electric mobility, climate-neutral drives, the implementation of climate targets, securing raw materials, digitization and networking as well as German engineering.

We are committed to a competitive business and innovation location. Our industry ensures prosperity in Germany: More than 780,000 people are directly employed in the German automotive industry.

Publisher German Association of the Automotive Industry
Behrenstraße 35, 10117 Berlin
www.vda.de/en

German Bundestag Lobby Register No.: R001243
EU Transparency Register No.: 9557 4664 768-90

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Version August 2024

About CLEPA

CLEPA, the European Association of Automotive Suppliers, represents over 3,000 companies, from multi-nationals to SMEs, supplying state-of-the-art components and innovative technology for safe, smart and sustainable mobility, investing over €30 billion yearly in research and development. Automotive suppliers in Europe directly employ 1.7 million people in the EU.

Founded in 1959 and based in Brussels, CLEPA is recognised as the natural discussion partner by international organisations and fellow associations.

Our vision is for the European automotive suppliers to be the leading providers of highly efficient and sustainable mobility worldwide.

Publisher European Association of Automotive Suppliers
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EU Transparency Register No.: 91408765797-03