

Sumitomo Riko Group

Procurement Policy for the Sustainable Natural Rubber

September 2023

## Introduction

The Sumitomo Riko Group (hereinafter referred to as the "Group") is united in its efforts to become a "Global Excellent Manufacturing Company", a corporation that contributes to safety, comfort, and the environment for people, society, and the earth.

As stated in our Group Corporate Action Charter, "Recognizing that global environmental issues pose challenges to all humankind, and that they are an integral part of our existence and activities, we shall proactively tackle these issues.", we aim to build a sustainable society by contributing to global environmental conservation in the spirit of practicing activities that contribute to society.

Our Group manufactures and sells a wide variety of rubber products for a wide range of applications, including automotive anti-vibration rubber, of which it has the world's top share, as well as anti-vibration rubber, hoses, precision components for office equipment, and anti-seismic and seismic control devices.

The Group uses more than a dozen major types of raw rubber globally, of which natural rubber alone accounts for more than 40%. Sustainable procurement of natural rubber is essential to ensure a stable supply of high-quality products into the future.

While 70% of natural rubber is consumed for tires, 85% of its production is supported by smallholders. In reality, the industry faces many problems, including deforestation, resource management, and loss of biodiversity on the environmental front; labor rights, gender gaps, and land conflicts on the social front; and low wages and low prices economically. Against this backdrop, in order to ensure the traceability of natural rubber and the sustainability of procurement, in addition to the annual CSR audits of natural rubber processing plants and farms that we have conducted up to now, we have judged that it is necessary to endorse the policy of GPSNR (Global Platform for Sustainable Natural Rubber) and joined in 2022.

In accordance with this policy, our Group will continue to work with its suppliers to transform itself into a company that is trusted and supported by all stakeholders, and steadily fulfill its responsibility to solve social issues.

## 1. Compliance with Laws and Regulations

In line with the recognition that fulfilling corporate social responsibility (CSR) is a prerequisite for the survival of a company, the Group is working to ensure that all employees are fully aware of the fact that "compliance takes precedence over profit. As part of this effort, we are making a push to further instill compliance awareness in all Group companies through the distribution of a booklet entitled "Global Compliance Conduct Guidelines" and internal training sessions. Against this backdrop, we are committed to fair and highly transparent management in various aspects of our procurement activities, not to mention "compliance with laws and regulations," and have established the following basic principles and code of conduct as our basic stance in procurement activities. In the unlikely event that an employee's conduct is found to be in violation of this Code of Conduct, we will take strict measures to deal with the situation.

(Respect for Human Rights)

1-1. Management shall respect the human rights of all people in accordance with The Sumitomo Riko Group Policy on Human Rights.

- The Group shall respect fundamental human rights and strive to create a healthy and vibrant work environment based on the principle of safety first, shall not engage in forced labor, inhumane treatment, child labor, discrimination, or illegal employment of foreign workers, and shall ensure that employee employment conditions, including wages and working conditions, and health and safety standards are in compliance with the laws and regulations of the countries and regions in which it operates.

(Global Environment)

1-2. We act proactively, recognizing that addressing global environmental issues is a challenge common to all humankind and an essential requirement for the existence and activities of the company.

- We will comply with the laws and regulations of each country and region regarding the prevention of pollution of air, water, soil, etc., and will prevent environmental pollution through continuous monitoring and reduction of polluting substances.
- We do not use prohibited chemical substances in our manufacturing processes, and for chemical substances designated by the laws of each country and region, we monitor and report the amount of emissions to the government in accordance with the laws and regulations.

(Respect for international norms and harmony with local communities)

1-3. In response to the globalization of our business activities, we will not only comply with

the laws of each country and region and respect various international norms, including human rights, but also contribute to the economic and social development of the country and region concerned through management that takes into consideration cultures, customs, and the interests of stakeholders.

- The Group shall comply with the relevant laws and regulations (including anti-monopoly laws, subcontracting laws, foreign exchange laws, personal information protection laws, copyright laws, intellectual property right infringement prevention, land use laws such as land sales, and ILO Conventions, etc.) and social norms of the countries and regions in which it operates. In addition, we will strongly promote anti-corruption initiatives against malpractices such as extortion and bribery in business transactions.
- We will engage in fair, transparent, and free competition as well as appropriate and responsible business transactions with our stakeholders. We will comply with laws, regulations, and rules, maintain sound and normal relationships with political and administrative bodies, and will not provide or give inappropriate entertainment, gifts, or money to private business partners, public officials, or others for the purpose of obtaining or maintaining undue advantage or preferential treatment.

## 2. Commitment to a healthy functioning ecosystem

Based on the idea of realizing a sustainable society in which people, societies, and the Earth are in harmony, our group is promoting environmental conservation activities from a global perspective. Through environmental preservation activities such as global warming countermeasures, environmental pollution prevention, and nature conservation activities, we aim to coexist in harmony with nature and local communities in cooperation with our stakeholders.

The Group will act as follows:

- We will produce and procure natural rubber that does not contribute to deforestation or the reduction of High Conservation Values (HCV).
- We will identify, manage and conserve areas for development and conservation in accordance with the HCV and High Carbon Stock (HCS) approaches and GPSNR guidance.
- We will follow GPSNR guidance and determine that natural rubber sourced from deforested or High Conservation Value (HCV) degraded areas after April 1, 2019 will not comply with this policy.
- We will work with our natural rubber suppliers to support the long-term protection of natural forests and other ecosystems and their conservation values.
- We will work with natural rubber suppliers to help restore deforested (including destroyed) and degraded rubber production areas.
- We will protect wildlife (including rare, threatened, vulnerable, and endangered species) from poaching, overhunting, and habitat loss on the natural rubber lands we procure and support wildlife conservation efforts affected by such activities.
- We will protect soil, protect the quantity and quality of water resources, prevent water pollution by pesticides and industrial chemicals, and prevent erosion and sedimentation on the natural rubber lands we source.
- We will not develop peatlands or procure natural rubber from plantations located on peatlands, regardless of their depth, extent or condition.
- We, in cooperation with our natural rubber suppliers, will not conduct open burning for land development or management, waste management or any other reason except as justified and documented by the following reasons:
  - Establishment of firebreaks
  - Waste management for sanitary reasons (when public refuse collection services are not available)
  - Phytosanitary and other emergency situations

### 3. Respect for Human Rights

We pledge to fulfill our responsibility to respect and protect human rights by not infringing on the human rights of those affected by our business activities, and by taking appropriate measures to correct any negative impacts on human rights that arise from our business activities. If negative human rights impacts are caused by our business partners or other related parties, we will demand that these partners also respect and not infringe on human rights.

#### 3-1. International norms on human rights

In order to respect all human rights, our Group supports the international norms on human rights listed below. Based on these norms, we have established the "Sumitomo Riko Group Policy on Human Rights" to promote our efforts to respect human rights. And this protection clause applies to all workers, including contract workers, temporary workers, and migrant workers.

- The International Bill of Human Rights (Universal Declaration of Human Rights and International Covenants on Human Rights), which stipulates the fundamental human rights to be enjoyed by all people of the world
- The International Labour Organization's "(ILO) Declaration on Fundamental Principles and Rights at Work", which sets forth fundamental rights at work (freedom of association and the right to collective bargaining, prohibition of forced labor, effective abolition of child labor, elimination of discrimination in employment and occupation, prohibition of abusive practices)
- UN Guiding Principles on Business and Human Rights
- UN "Ten Principles of the Global Compact" (Decent living wages, legal working hours, safe and healthy workplaces)
- Gender equity

#### 3-2. The Sumitomo Riko Group Policy on Human Rights

##### 1) Human Rights Due Diligence

To fulfill our responsibilities in regard to respect for human rights, the Sumitomo Riko Group will establish a system of human rights due diligence through the implementation of "Guiding Principles on Business and Human Rights" of the United Nations, and implement this in an ongoing manner. Human rights due diligence includes specifying and evaluating negative impacts imposed potentially or actually and taking measures to prevent or mitigate such risks.

##### 2) Remedy

In the event the Sumitomo Riko Group's business activities result in violation of human rights

or it becomes clear that it was involved in making such adverse impact, we will provide for an appropriate remedy.

### 3) Training and Education

The Sumitomo Riko Group will provide appropriate training and education to its executives and employees.

### 4) Compliance with Applicable Laws and Regulations

The Sumitomo Riko Group will comply with the laws and regulations of all countries where it conducts its business activities. In the event that we face contradiction between internationally recognized human rights standards and the laws of the relevant country, the Sumitomo Riko Group will pursue ways to honor the principles of internationally recognized human rights.

### 5) Dialogue and Consultation

The Sumitomo Riko Group, in various efforts under the Policy, will make use of the independent and external expertise concerning human rights and will engage sincerely in holding dialogues and consultation with the stakeholders.

### 6) Information Disclosure

The Sumitomo Riko Group will disclose the progress of the initiatives regarding human rights based on the Policy on its website and reports.

## 3-3. Receipt of complaints

The Sumitomo Riko Group will establish a Global Compliance Code of Conduct and a mechanism for handling problems when they arise. We will establish and maintain an internal grievance mechanism (in conformity with the Guiding Principles of the United Nations) to receive and remedy complaints regarding disadvantages arising from our production and procurement activities.

## 3-4. Respect for the rights of indigenous peoples and local communities

- We recognize and protect the following customary, traditional and communal land tenure rights in cooperation with our stakeholders with respect to indigenous peoples and local communities:
  - Understand the actual situation of activity in accordance with the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP)
  - Ensure ongoing land tenure and access rights
  - Traditional access rights to hunt and gather plants and animals for subsistence and religious traditions, customs and ceremonies

- Free Prior Informed Consent (FPIC) is always obtained prior to any activity that may affect the rights of indigenous and local peoples regarding land, territory and resources. Activities may include the planning, construction, restoration and conversion of plantations, industrial sites and related infrastructure.
- With respect to the FPIC process, we will follow culturally appropriate and generally accepted practices and GPSNR guidance.
- Indigenous and local peoples have the right to consent to or refuse all activities subject to the FPIC process.
- If company activities violate the rights of indigenous peoples and local communities, compensation or adjustments will be made based on mutual agreement, reflecting the results of the FPIC process negotiations.
- If in the past the company has occupied or damaged the lands, territories, or resources of indigenous and local communities, or has been complicit in these acts, without going through the FPIC process, the company will take remedial measures according to mutually agreed-upon procedures. Implementation will be monitored by members of the community and GPSNR, or by a third party approved by both parties. The accepted methodologies to be followed for the FPIC process are:
  - UN-REDD (2012) Guidelines on Free, Prior and Informed Consent
  - RSPO (2015) Free, Prior and Informed Consent for RSPO Members
  - FAO (2015) Free, Prior and Informed Consent Manual
- We will establish continuous, effective and culturally appropriate two-way communication channels with indigenous and local communities.



#### **4. Initiatives for the Development of Local Communities**

In response to the globalization of its business activities, our Group will not only comply with the laws of each country and region and respect various international norms, including human rights, but will also support local communities in cooperation with our stakeholders to contribute to the economic and social development of the country or region concerned through management that takes into consideration culture, customs and stakeholder interests.

- We support the decent living environment of local communities. (e.g., drinking water, adequate housing, sanitation)
- We support the right of individuals, families, and communities to food and food security.
- We support the economic, social, and cultural rights of local people, including access to education and employment.

## **5. Efforts to Improve Efficient Productivity**

- We will provide or support training opportunities for natural rubber producers, including smallholders, to improve productivity and quality of natural rubber.
- We will work with our business partners and manage our operations to minimize energy use to contribute to a low-carbon society.
- We will design, manufacture, and manage natural resources for highly efficient use and contribute to the creation of a recycling-oriented society in our operations.
- We will work with stakeholders to reduce, minimize and mitigate carbon emission.

## **6. Initiatives for Achievement**

- We will formulate, set and publish a plan that includes the setting of public, timebound and geographic-specific targets and milestones with their associated indicators/metrics for applying its commitments.
- We will embed commitments into decision-making processes, systems, and performance metrics of Sumitomo Riko Group and manage the progress of the plan on a global basis on a regular basis through the CSR Sustainability Committee, which is chaired by the President.
- We will hold regular dialogues with stakeholders to provide relevant information as well as opportunities for feedback and suggestions on the implementation of our commitments.
- We will participate in multi-stakeholder planning and policy efforts that uphold the GPSNR principles at a landscape, jurisdictional or other spatial level.

## 7. Supply Chain and Traceability Initiatives

- In our supply chain management, we conduct supply chain mapping and assess suppliers for social and environmental risk to prioritize risk mitigation actions to prevent them or minimize damage if they materialize.
- We will work with our suppliers to manage and understand the traceability of purchased natural rubber, starting with its origin and at a minimum to an appropriate jurisdictional level to be outlined in the GPSNR implementation guidance, to ensure and control that it complies with GPSNR's policies, and will work to ensure an appropriate level of traceability. There are enormous numbers of stakeholders in the supply chain of natural rubber and it is difficult to control/manage the traceability of all of them. Therefore, our group will work with the concerned stakeholders and suppliers to study the processes for better traceability.
- We will notify our natural rubber suppliers that raw materials produced in accordance with the GPSNR Policy will be given preference, and set a deadline to meet the requirements of the policy.
- We will notify suppliers of surveys to ensure that their supplier codes, contracts, engagement activities, and other mechanisms reflect the requirements of GPSNR policies.
- We will regularly support and verify supplier (both direct and indirect suppliers) compliance with covenants and agreements by putting in place effective incentives, support mechanisms, and purchase monitoring systems.
- When a supplier is identified as non-compliant with GPSNR policy requirements, we will promptly assess the situation and request improvement. We will set a deadline for improvement and work together to resolve the issue. If the supplier does not respond to our request for improvement, we may suspend our business with the supplier, taking into consideration the overall environmental, social, and economic impact.

## **8. Progress Management and Disclosure of Initiatives for Sustainable Natural Rubber Procurement**

- In order to confirm the progress of the initiatives described in this policy, our group will conduct regular monitoring with the cooperation of our suppliers.
- We will apply monitoring systems and traditional methods from local stakeholders and affected parties (Information sources may be informal or formal) to verify the status of compliance with GPSNR policy requirements. If nonconformities or concerns are uncovered during the review, we will promptly gather information from stakeholders and affected parties and discuss with them for improvement.
- The progress and results of the management of matters related to this policy will be reviewed at regular meetings of the CSR Sustainability Committee. The results will be disclosed publicly once a year on the company's website and in the Integrated Report.

## Terminology

- GPSNR (Global Platform for Sustainable Natural Rubber)

An international platform established in October 2018 with the role of leading the improvement of social, economic, and environmental performance in the natural rubber value chain. A wide range of companies dealing with natural rubber, including tire manufacturers, automakers, and trading companies, are participating.

Official website: <https://sustainablenaturalrubber.org/>

- Child labor

Refers to hazardous work that is mentally, physically, socially, or morally harmful to children or that interferes with their compulsory education. According to International Labor Organization (ILO) Convention No. 138, the minimum age for employment is 15 years old in principle, after the age at which compulsory education ends. In addition, Convention No. 182 prohibits "the worst forms of child labor," which is dangerous and harmful work performed by children under the age of 18.

Reference: International Labor Organization (ILO), "What is Child Labor".

<https://www.ilo.org/ipec/facts/lang--en/index.htm>

- Forced labor

Any labor that a person is forced to perform under threat of punishment and is not offered voluntarily. Punishment includes confinement, threats of violence, and restrictions on the worker's freedom to leave the premises. Threats also include threats of harm to the worker's family, accusations to the authorities that the worker is working illegally, and non-payment of wages made for the purpose of keeping the worker at work in the hope that wages will eventually be paid.

Reference: International Labor Organization (ILO), "What is forced labour, modern slavery and human trafficking"

<https://www.ilo.org/global/topics/forced-labour/definition/lang--en/index.htm>

- High Conservation Values (HCV)

A value of outstanding biological, ecological, social, or cultural importance. High Value Areas are defined by the following six categories

HCV1: Species Diversity - areas of concentrated biodiversity, including endemic and rare or

endangered species of global, regional or national importance.

HCV2: Ecosystems and mosaics at the landscape level - intact forest landscapes that are important at the global, regional, or national level and where viable populations of numerous naturally occurring species exist in their native distribution and numbers.

Large-scale ecosystems and ecological mosaics.

HCV3: Ecosystems and Habitats/Habitats - Ecosystems, habitats or refugia that are rare, threatened or endangered.

HCV4: Essential ecosystem services - Fundamental ecosystem services that are important in critical situations, including protection of catchments and prevention of erosion and collapse of fragile soils and slopes.

HCV5: Community Needs - Places and resources essential to the basic livelihoods (e.g., livelihoods, health, nutrition, water, etc.) of a community or indigenous people, identified in consultation with the community or indigenous people.

HCV6: Cultural values - Globally or nationally significant sites, resources, habitats and landscapes of cultural, archaeological or historical significance, and/or identified in consultation with local communities or indigenous peoples, that are highly significant in cultural, ecological, economic or religious/sacred aspects to the traditional culture of the local community or indigenous people and habitat/growing areas and landscapes.

References:

HCV Network "HCV Approach"

<https://www.hcvnetwork.org/hcv-approach>

- High Carbon Stock (HCS) approach

An approach that distinguishes between forest areas that should be protected and degraded lands of low carbon and biodiversity value that may be developed in the future. High carbon stock forests to be protected include high-density forests, medium-density forests, low-density forests, and young regenerating forests.

References : HCSA "The high carbon stock approach"

<https://highcarbonstock.org/>

- Traceability

The acquisition of the traceability of each step in the supply chain of a product, from procurement of raw materials to manufacturing, processing, distribution, consumption, and disposal.

- Smallholders

The definition of small producers varies from country to country, but in the GPSNR a threshold of 50 ha or less has been established to define sustainable small producers of natural rubber.

- Peatlands

Land formed by piles of soil in a state of incomplete decomposition of the plants.

- UNDRIP (United Nations Declaration on the Rights of Indigenous Peoples)

Declaration adopted by the United Nations General Assembly in 2007, emphasizing the right of indigenous peoples to maintain and strengthen their customs, cultures and traditions and to promote development in accordance with their own aspirations and needs.

Reference : United Nations “United Nations Declaration on the Rights of Indigenous Peoples”

<https://www.un.org/development/desa/indigenouspeoples/declaration-on-the-rights-of-indigenous-peoples.html>

- Free, prior and informed consent (FPIC)

Rights/principles that should be respected to protect the livelihoods and cultures of indigenous peoples when a project may affect their lands, territories, resources, etc., primarily indigenous peoples.

Reference : UN-REDD “Guidelines on Free, Prior and Informed Consent”

<https://un-declaration.narf.org/wp-content/uploads/2013unredd-fpic-guidelines.pdf>

- The United Nations “Guiding Principles on Business and Human Rights”

An international document on human rights that should be respected in business activities, unanimously approved by the UN Human Rights Council in 2011. It consists of three pillars: the obligation of states to protect human rights, the responsibility of companies to respect human rights, and access to remedies.

Reference: Ministry of Economy, Trade and Industry “Business and Human Rights: Towards a Responsible Value Chain”

[https://www.meti.go.jp/english/policy/economy/biz\\_human\\_rights/index.html](https://www.meti.go.jp/english/policy/economy/biz_human_rights/index.html)



- The United Nations "Ten Principles of the Global Compact"

The ten principles of the UN Global Compact, a global framework proposed by then UN Secretary-General Kofi Annan at the World Economic Forum in Davos in 1999, cover four areas (human rights, labor, environment, and anti-corruption). Members who sign the UN Global Compact are expected to endorse these principles and continue their efforts to realize them based on the commitment of top management themselves.

Reference: United Nations Global Compact, "The Ten Principles of the UN Global Compact"

<https://www.unglobalcompact.org/what-is-gc/mission/principles>

- CSR Sustainability Committee

The committee, chaired by the president, was established as an executive division to promote CSR and sustainability management at Sumitomo Riko. The committee meets three times a year to check and follow up on the progress of activities related to the themes of "Environment and Carbon Neutrality," "Safety and Health," "Diversity and Human Rights," Corporate Citizenship," and "Supply Chain".

Sumitomo Riko Sustainability Official Website:

<https://www.sumitomoriko.co.jp/english/csr/portal/policy/system.html>