

Ethical Sourcing

Ethical Sourcing Program Guidance

03 Charter

02 Policy

02 Requirement

1. Purpose

At Coles, we are committed to protecting and upholding human rights and labour rights of all our workers, including workers within our supply chains.

Our Ethical Sourcing Policy (Policy) and Supplier Requirements (Requirements) outline our commitment to ensuring goods and services we procure are ethically and responsibly made, together with comprehensive criteria on labour rights, health and safety, environment and business integrity we require our suppliers to meet.

We monitor compliance against our Policy and Requirements through our Ethical Sourcing Program (Program). To enable suppliers to understand their individual obligations under the Program, we have developed this document - the Ethical Sourcing Program Guidance (Guidance).

Our Program is designed to help identify and mitigate human rights and labour risks that exist within our supply chain, and remedy issues where they are found.

2. Program Scope

We have a complex supply chain with thousands of suppliers that have a direct trading relationship with us, and thousands more within our extended supply chain.

To ensure that our work has impact we take a risk-based approach to supplier management. We focus on suppliers where there is a higher likelihood of human rights and labour rights violations occurring and where we have leverage – the ability to influence change where required.

We use a segmentation approach to determine which suppliers and tiers of our supply chain are in scope for the program for a selected business unit.

For the purpose of the Guidance, 'Supplier' is defined as a direct Vendor and/or Packing / Manufacturing Site to Final Retail Form in-Scope for the Program.

2.1 Supplier Segmentation

We know that human rights and labour rights violations are more likely to be found in some areas of our supply chain than others. We take a risk-based approach to managing our supply chain, focusing our resources on areas with a greater likelihood of labour and human rights issues and where Coles has leverage to affect change.

The supplier segmentation approach determines which suppliers are in scope for the program for a selected business unit.

Inherent Exposure

Inherent exposure is the risk to people, or the likelihood of an adverse labour/human rights violation occurring within a given supplier's operations. There are two different dimensions that determine inherent exposure, Country and Category/Product.

Leverage

Leverage refers to the ability Coles has to influence change for a given supplier and is determined by ownership, spend, length of relationship and exclusivity.

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2.2 FY20/FY21 Program Scope

Based on supplier segmentation, we have determined the following suppliers to be in scope for Coles Ethical Sourcing Program in FY20/FY21.

Table 1: Coles Ethical Sourcing Program Scope FY21

Business Unit	Category	Production Tier	Justification
Supermarkets & Express	Own Brand	Direct Vendors (Tier 1) Packing/Manufacturing to Final Retail Form (Tier 2)	Leverage: high, brand ownership Inherent exposure: manufacturing operations are largely in medium risk countries
	Fresh Produce (unprocessed fruit, vegetables and flowers) – including those bearing a proprietary brand label	Direct Vendors (Tier 1) Packing/Manufacturing to Final Retail Form (Tier 2)	Leverage: high level of association with the Coles Brand Inherent exposure: labour hire structure, increased risk of forced labour due to high use of migrant labour, product and country risk.
Liquor (commencing Q3 FY20)	Own Brand, Export	Direct Vendors (Tier 1) Bottling Sites (Tier 2)	Leverage: high, brand ownership Inherent exposure: manufacturing operations are largely in medium risk countries
	Exclusive	Direct Vendors (Tier 1) Bottling Sites (Tier 2)	Leverage: exclusivity Inherent exposure: manufacturing operations are largely in medium risk countries
Goods-not-For Resale (GNFR) (commencing Q3 FY20)	Suppliers of high-risk services / goods Suppliers with operations in high risk Countries	Direct Vendors (Tier 1) Sub-contractors (Tier 2) - selected circumstances	Leverage: ownership of commercial relationship Inherent exposure: high risk activities and/or Countries.

Further suppliers within our supply chain will be included as our program progresses.

3. Risk Assessment and Management Framework

At Coles, we require in scope Suppliers to adopt pre-defined Risk Assessment and Management Framework. These include but are not restricted to: Sedex, Fair Farms, Ariba and StaffSure.

The external platforms chosen are targeted to specific Business units. SEDEX (Supplier Ethical Data Exchange) is an international platform that can be used to conduct and store risk assessment and management activity, including audits, and it is used to determine some of the Inherent Risk metrics used by Coles.

Fair Farms is an Australian Ethical Sourcing Certification platform that includes risk assessment, training and auditing activity. This platform is accepted for Australian suppliers of Fresh Produce items as defined in Table 1.

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For Goods Not for Resale (GNFR), the initial Risk Assessment is completed in Ariba during supplier registration. In selected instances, based on the initial risk assessment outcome, GNFR suppliers may be required to also register on SEDEX.

Table 2: Coles Ethical Sourcing Risk Management workstreams

Business Unit	Category	Production Tier	Risk Assessment	Risk Management
Supermarkets & Express	Own Brand	Direct Vendors (Tier 1), Packing/Manufacturing to Final Retail Form (Tier 2)	SEDEX	Ethical Audit
	Fresh Produce	Direct Vendors (Tier 1) Packing/Manufacturing to Final Retail Form (Tier 2)	SEDEX Fair Farms	Ethical Audit Fair Farms
Liquor	Own Brand, Export	Direct Vendors (Tier 1), Bottling Sites (Tier 2)	SEDEX	Ethical Audit
	Exclusive	Direct Vendors (Tier 1) Bottling Sites (Tier 2)	SEDEX	Ethical Audit
Goods-not-For Resale	Suppliers of high-risk services/goods (as determined by Coles) Suppliers with operations in high risk Countries As informed by Sedex country risk rating)	Direct Vendors (Tier 1) – non labour hire	Ariba SEDEX (pending initial risk assessment)	Ethical Audit
		Sub-contractors (Tier 2) - selected circumstances		
		Direct Vendors (Tier 1) – labour hire	Ariba SEDEX (pending initial risk assessment)	Labour Hire Licensing Scheme (State requirement) Ethical Audit Staff Sure
		Sub-contractors (Tier 2) - selected circumstances		

Suppliers who are part of our Program will be subject to the following four principles: Assessment, Classification, Management and Remediation as part of Coles Risk Assessment and Management Framework.

3.1 Assessing Risk

Coles assesses Ethical Sourcing risk by gathering information on company specific practices, through self-assessments, and inherent risk evaluation through external sources and supplier performance:

- **Self-Assessment Questionnaires:** provides insight into the risk of the specific supplier' operation. This may also include intelligence from investigations or complaints via Coles' grievance channels.
- **Inherent Risk evaluation:** this is the inherent risk of a country / region / commodity from independent and reputable sources. Coles utilises SEDEX Risk Assessment Tool, review of Social Audits and grievances for information on inherent risk.

The combination of company risk and inherent risk will be used for classification of risk.

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Table 4: Coles' Risk Management integration with external resources

	SEDEX	Fair Farms	Ariba
Define Scope of program	Risk Segmentation	Risk Segmentation	Risk Segmentation
Onboarding	Register on Fusion Register on SEDEX	Register on Fusion Register on Fair Farms	Register on Ariba
Risk Assessment	Complete SEDEX Self-Assessment Questionnaire (SAQ)	Complete Fair Farms: -Self-Assessment Questionnaire -Training	Complete Coles Self-Assessment Questionnaire in Ariba
Risk Classification	Output from Sedex inherent risk and SAQ	Output from Fair Farms SAQ	Output from Coles SAQ in Ariba
Risk Management	Conduct Ethical Audit at required intervals	Conduct Fair Farm Audit and attain Certification at required intervals	Variable according to industry, may include: Sedex Registration, conducting an Ethical Audit of Staffsure Audit at required intervals
Remediation	Remediate audit findings	Remediate audit findings	Remediate audit findings

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3.2 Classifying Risk

Following risk assessment, suppliers are assigned a risk rating of **High, Medium** or **Low**.

Suppliers who are part of the Program may be required to update their supplier information on a regular basis to support ongoing review of risk (for example by reviewing and updating their SAQ in SEDEX).

In some instances, Coles may elect to increase a supplier's risk rating regardless of the risk output from SEDEX, Fair Farms and / or Ariba. These instances may include but are not restricted to:

- Suppliers with the following types of non-conformances as identified in Coles or third-party audits:
 - Human rights violations
 - Labour rights violations
 - Health and safety violations
 - Environmental violations
- Suppliers with substantiated human rights/labour violations
- Suppliers with unsubstantiated but persistent claims of human rights/labour violations
- Suppliers who fail to remedy previously identified non-conformances

If a supplier is unwilling to work with us to address compliance issues under our Ethical Sourcing Policy and Ethical Sourcing Supplier Requirements, or refuses to participate in the program, we reserve the right to exercise any termination rights available and/or otherwise cease engagement with that supplier.

3.3 Managing Risk

Risk management activities will vary based on a suppliers' risk rating. The table below outlines the activities associated with each risk category. Coles may, at its discretion, require an independent audit, at the supplier's expense as a means of assessing compliance with the Requirements and Guidance.

Table 5: Coles Ethical Sourcing Risk Management Activities and Cycle

Activity	Description	Low	Medium	High
Coles Desktop Audit	Review of documentation and compliance to ETI and local requirements	Selected Suppliers (spot checks) Frequency: at Coles' discretion	Selected Suppliers (spot checks) Frequency: at Coles' discretion	Selected Suppliers (spot checks) Frequency: at Coles' discretion
Coles Onsite Audit	SMETA 4 pillar	Selected Suppliers (spot checks) Frequency: at Coles' discretion	Selected Suppliers (spot checks) Frequency: at Coles' discretion	Selected Suppliers (spot checks) Frequency: at Coles' discretion
Third-Party Announced Onsite Audit	Third-party audit compliant to Coles' Social Audit Standard arranged by Supplier	Selected Suppliers (spot checks) Frequency: at Coles' discretion	Yes Frequency: every 24 months	Yes Frequency: every 12 months
Third-Party Semi-Announced Audit	Third-party audit compliant to Coles' Social Audit Standard Arranged by Coles	Selected Suppliers Frequency: at Coles' discretion	Selected Suppliers Frequency: at Coles' discretion	Selected Suppliers Frequency: at Coles' discretion

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Third-Party Unannounced Audit	Third-party audit compliant to Coles' Social Audit Standard Arranged by Coles	Selected Suppliers Frequency: at Coles' discretion	Selected Suppliers Frequency: at Coles' discretion	Selected Suppliers Frequency: at Coles' discretion
Self-Assessment Revised every 12 months	Site review of Self-Assessment Questionnaire	Yes Frequency: every 12 months	Yes Frequency: every 12 months	Yes Frequency: every 12 months
Coles Investigation – All sources	Desktop Audit SMETA 4 pillar – announced, semi-announced or unannounced workers/ interviews	Selected Suppliers Frequency: at Coles' discretion	Selected Suppliers Frequency: at Coles' discretion	Selected Suppliers Frequency: at Coles' discretion

When Coles is made aware of issues, a combination of Risk Management activities may be enacted at Coles' discretion.

Coles' Ethical Audit Standards

Supplier sites classified high or medium risk are required to conduct an onsite Third-Party Ethical Audit. The audit must:

- For new suppliers, have been conducted or certified in the last 12 months
- For existing suppliers, follow Coles Ethical Sourcing Audit Cycle
- Cover Labour Standards and Health and Safety Standards, as a minimum
- For suppliers using Sedex, be uploaded to SEDEX by a qualified auditor
- Have all Business Critical, Critical and Major non-conformances verified by an auditor and closed within auditor recommended deadlines (but must not exceed 120 days unless agreed)

The below audit formats are approved and preferred by Coles:

- **SEDEX (SMETA) – Coles preferred audit format**
- **Fair Farms – Coles preferred audit format**

The below audit formats are accepted under mutual recognition:

- BSCI (Business Social Compliance Initiative)
- ICTI (International Council of Toy Industries)
- SA8000
- WRAP (Worldwide Responsible Apparel Production)

At the discretion of the Coles Ethical Sourcing team, additional audit formats may be recognised.

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Mutually accepted audit formats are valid for 12 months from the original date of being conducted. At the point of expiration, a SMETA 4-Pillar Audit must be conducted.

Mutually recognised audits are not accepted as part of Coles Ethical Sourcing Re-Audit Cycle.

To ensure the highest level of quality and to uphold best practice standards, audits must be carried out by a Third-Party Auditor covered by the guidelines of the Association of Social Compliance Auditors (APSCA) program.

Below is a non-exhaustive list of certification bodies who are recognised by Coles to conduct third party audits of the accepted audit formats.

- AusQual / AusMeat
- Bureau Veritas
- Elevate
- Intertek
- SGS International

Coles' Ethical Audit Cycle and Approval Process

Supply to Coles can only commence once the Supplier is compliant with the Ethical Sourcing Program.

Coles will determine whether a new supplier is Approved, Conditionally Approved or Not Approved based on the Risk and Audit Assessment metrics in Table 6 and Risk and Audit Assessment Decision Tree.

Fresh Produce suppliers on Fair Farms Program must attain Fair Farms Certification to obtain Approved status.

The below table outlines the criteria for classification of approval status under the Coles Ethical Sourcing Program.

Table 6: Coles Ethical Sourcing Audit Assessment Criteria

Approval Status	Metrics
Approved	Fair Farms Certified Australian Fresh Produce Suppliers
	Low Risk Suppliers that are not required to have an audit and have a current self-assessment (< 12 months old)
	Medium risk suppliers with a SMETA 4-pillar audit completed in the past 12 months or a mutually recognised format in the past 12 months with all Major and Critical non-conformances closed out and / or agreed corrective action plan in place
	High risk suppliers with full audit completed in the past 12 months and all Major and Critical non-conformances closed out and / or agreed corrective action plan in place
Not Approved	Suppliers with Lapsed membership
	Suppliers with last SAQ review older than 12 months
	Medium risk Suppliers with no full audit in the past 12 months and / or
	Medium risk Suppliers with audit completed in the past 12 months with overdue Major and / or Critical and / or Business Critical non-conformances
	High risk Suppliers with no approved full audit in the past 12 months and / or open critical non-conformances
	High risk Suppliers with audit completed in the past 12 months with open Major and Critical non-conformances
Conditionally Approved	Medium risk sites with audit completed in the past 12 months with open not overdue major non-conformances
	Fresh Produce Suppliers in the process of obtaining Fair Farms certification

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The below table outlines the steps and timelines for risk management using SEDEX and Fair Farms.

Table 7: Coles Ethical Sourcing Program Timelines

	SEDEX	FAIR FARMS
Registration	Within 7 days of Business Award	Within 7 days of Business Award
Self-Assessment	Within 14 days of Sedex registration	Within 14 days of Fair Farms registration
Training	N/A	Within 120 days of SAQ completion
Audit	Within 120 days of SAQ completion	Within 120 days of SAQ completion
Remediation of Audit findings	By agreed timelines during audit and no longer than 120 days	By agreed timelines during audit and no longer than 120 days
Self-Assessment review	Annually	Annually
Re-Training	N/A	Annually
Re-Audit	According to Coles Ethical Sourcing Risk Management Activities and Cycle	According to Fair Farms Certification requirements

4. Remediation

At Coles, we believe that if people are harmed, there is a duty of care on those involved to address the issue. Coles has a Remediation Framework which sets out the core principles Coles adheres to, and expects its suppliers to adhere to, for providing effective remediation of human rights and ethical sourcing issues.