



## **SUSTAINABLE NATURAL RUBBER POLICY**

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Pirelli is committed to promoting, developing and implementing a sustainable and responsible procurement and use of natural rubber throughout its entire value chain.

With global demand for natural rubber expected to rise, a sustainable governance of the natural rubber supply chain is essential in order to preserve forests and biodiversity, and to allow long-lasting development for local communities and economies.

From upstream to downstream, the natural rubber supply chain includes Producers/Farmers, Dealers, Processing Plants, Trading Companies, and Manufacturers. Pirelli is positioned at the last step of the chain, as a Tyre Manufacturer that does not own either natural rubber plantations or processing plants.

Within this context Pirelli strives to be an active player in global efforts towards natural rubber sustainability, and to this aim will work together with its value chain and industrial sector to enhance transparency and further develop processes and instruments to enhance traceability, using a risk-based approach.

Pirelli requires from its joint-ventures, suppliers and their subcontractors involved in producing, processing and marketing natural rubber to have appropriate management systems to ensure compliance with laws and regulations and to conform with the principles of this Policy.

Pirelli's sustainable natural rubber policy is based on the following pillars.

### **I. TAKING CARE OF PEOPLE**

#### **Protecting Human Rights and promoting decent working conditions**

Respect for universal human rights and protection of employees' health, safety and welfare, are fundamental and non-negotiable principles. Safeguards apply to all workers, including contract, temporary and migrant workers.

Pirelli expects all actors in its supply chain:

- to adopt high standards of prevention, assessment and management of Occupational Health and Safety risks;
- to support diversities and avoid discrimination based on gender, marital status, sexual orientation, religious or political beliefs, union membership, racial ethnicity, nationality, age, social background or status, physical or mental disability;
- to comply with applicable local, national and international laws on human and labour rights and to uphold the UN Guiding Principles on Business and Human Rights (UNGPs);
- to promote adequate working conditions, including regular employment contracts, salaries at least equal to the country's minimum salaries for an equivalent job, legal working hours, freedom to form or join trade unions and to collective bargaining in accordance with national and international applicable laws, supporting those living on plantations to obtain access to the necessary resources for adequate living conditions as described in ILO Convention 110;
- to have no tolerance for any form of labour exploitation, child labour, forced or compulsory labour, or any forms of abuse or mental or physical coercion towards direct employees and workers employed throughout the supply chain.



## **Fostering the development of local communities and preventing conflicts related to land ownership**

The economic and social development of local communities implies creating jobs and increasing the employability of the local populations, improving living standards and avoiding making any contribution knowingly, directly or indirectly, to actions which might lead to the detriment of local communities or populations.

Pirelli recognizes the right of indigenous people and forest-dependent communities to access and benefit fairly from forest resources.

Pirelli expects its suppliers:

- to comply with applicable local, national and international laws on land use and to carry out operations in accordance with the UN Declaration on the Rights of Indigenous Peoples (UNDRIP);
- to act responsibly, supporting decent living conditions of local communities and avoiding compromising local food supplies, granting fair compensation to local communities for conservation measures or commercial land use;
- to respect and protect customary, traditional and communal land tenure rights;
- to strive for no-land grabbing approaches;
- to promote the cultural development of local communities;
- to support access to education for local communities.

The risk of contributing knowingly, directly or indirectly, to actions which might lead to the illegitimate appropriation of land and/or to the detriment of local communities or populations shall be avoided and to this aim Pirelli suppliers - especially if and when setting up or transforming plantations and/or industrial sites - are expected to apply the methodology and Guidelines on Free, Prior and Informed Consent (FPIC) developed by the UN-REDD Programme, thereby including compensation or accommodation through appropriate and mutually agreed measures when operations impinge on Indigenous Peoples and Local Communities (IP/LC) rights.

Where operations previously caused or contributed to the appropriation of or harm to the lands, territories, or resources of IP/LC without securing FPIC, measures to provide remedy through mutually agreed procedures are expected.

## **II. PROTECTING ECOSYSTEMS, FLORA AND FAUNA**

Along the entire material lifecycle, continuous improvement on environmental impacts implies assessing, securing and possibly restoring ecosystems while avoiding, mitigating or remedying adverse environmental impacts on resources, climate change, ecosystems, flora and fauna.

In line with this approach, Pirelli expects from the actors in its supply chain:

- to comply with applicable local, national and international environmental laws;
- to develop proper land use plans to prevent the overexploitation of natural resources, to preserve surface water and groundwater resources, protecting water quality and preventing its contamination from agricultural and industrial chemicals, erosion and sedimentation;
- to protect soil quality, preventing erosion, nutrient degradation, subsidence and contamination;
- to comply with laws and regulations concerning the use of chemical products in the industrial sector and to manage chemicals to ensure their safe handling, movement, storage, use, recovery or disposal;



- to manage operations minimizing the rate of energy usage, minimizing and mitigating carbon emissions and maximizing natural resources efficiency, and to reduce, manage and recover produced waste;
- to apply proper processes and technologies to reduce odours produced by rubber milling.

### **III. NO DEFORESTATION, NO PEAT, NO BURN**

Pirelli advocates for the protection, preservation and restoration of primary and natural forests and areas of high environmental value, including key ecosystems of peat lands and intact forest landscapes that could be negatively impacted by the development of rubber cultivation, and calls for its supply chain:

- to refrain from any form of rubber production on known peat land;
- to refrain from the use of fire in the preparation of new plantings, or re-plantings or any other developments;
- to adopt the internationally recognized High Conservation Value (HCV) and High Carbon Stock (HCS) approaches. Pirelli considers the latter as a trustworthy tool towards a Zero Deforestation goal while fostering sustainable development for local communities and capitalizing on fair and open dialogue with the affected Stakeholders.

Natural rubber from areas deforested or where HCVs have been degraded after the cut-off date of 1 April 2019 is considered to be non-conforming with this policy.

### **IV. PRESERVING RESOURCES**

Pirelli undertakes to use natural rubber in a highly qualitative and efficient way, engaging in research and development activities aimed at reducing the average mass of tyres, extending tyre life, increasing material recovery.

Pirelli promotes the same qualitative and efficient approach along its supply chain in order to reduce pressure on biodiversity, increasing product efficiency and reducing disposal costs.

Value chain support to natural rubber producers including smallholders to improve yield and rubber quality is considered a priority.

### **V. ETHICS AS THE BASE**

#### **Fighting corruption**

Active and/or passive corruption shall not be tolerated, in any guise or form, in any affected jurisdiction and even in places where such activity was admissible in practice, tolerated, or not challenged in the courts.

### **VI. TRACEABILITY AND RISK MAPPING**

Pirelli has been studying procedures for tracing its natural rubber supply chain and, to that end, partners and engages with contractors to develop and use social and environmental traceability and risk mapping tools along the relevant chain that are efficient and trustworthy, in order to reach full traceability in the medium-term.

Pirelli cannot precisely state how long this process will take, due to the high fragmentation of the natural rubber supply chain and the complexity of the traceability and risk mapping process. Pirelli will report on progress made as per Section XI of this Policy.



Risk mapping results, as well as the willingness of the supply chain to engage in recovery plans when necessary, will impact on Pirelli's natural rubber purchasing decisions and development strategies.

## VII. GOVERNANCE

Pirelli expects its natural rubber suppliers:

- to comply with this Policy;
- to promote it along the relevant supply chain;
- to develop and implement a due diligence system related to this Policy towards the supply chain;
- to consider joining the [Global Platform for Sustainable Natural Rubber \(GPSNR\)](#) to benefit from a shared effort to drive and advance the sustainable development of natural rubber.

This Policy integrates the commitments<sup>1</sup> already taken by Pirelli towards sustainable management of its supply chain, and the management model Pirelli has been applying to, namely:

- encouraging suppliers to apply continuous improvement by implementing knowledge-building opportunities and capacity building activities by themselves, with Pirelli and through other collaborative efforts;
- assessing potential natural rubber suppliers on their environmental, social and business ethics performance from the pre-homologation phase through onsite audits conducted by a third party;
- requiring its suppliers to sign the Pirelli sustainability clause (which translates Pirelli's above-mentioned commitments into specific environmental, human and labour rights, as well as business ethics and anti-corruption compliance requirements for suppliers), with the formalized request to cascade the same sustainable management model into their direct supply chain and to properly monitor the relevant implementation, so as to enable a virtuous cycle;
- monitoring suppliers' compliance with the Pirelli sustainability clause through third party on site audits and defining time-bound recovery plans when required.

Evidence of serious non-compliance with this Policy or refusal to set a recovery plan, or failure to implement an agreed recovery plan, may lead to the suspension or termination of Pirelli's business relations with the supplier in question.

Should any tier 2 supplier in Pirelli's supply chain be implicated with evidence of serious non-compliance, Pirelli will discuss the most proper way to act with the tier 1 supplier involved. Proven good faith and a proactive approach to countermeasures are considered by Pirelli as a starting point towards responsible and shared mitigation, rather than immediate termination.

## VIII. COOPERATION AND CONSTRUCTIVE DIALOGUE AS KEY LEVERS

Pirelli believes that the global challenge of natural rubber sustainability requires engagement, cooperation, dialogue and partnership among all involved actors.

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<sup>1</sup> Reference is made to the commitments taken by the Company towards sustainable management of its supply chain, specifically according to: Pirelli [Values and Ethical Code](#), "[Code of Conduct](#)", "[Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment](#)", "[Global Human Rights Policy](#)", "[Product Stewardship Policy](#)", "[Green Sourcing Policy](#)", "[Quality Policy](#)", "[Health, Safety and Environment Policy](#)", "[Anti-corruption Program](#)", Pirelli Suppliers "[Sustainability Clause](#)", "[Pirelli Suppliers Handbook](#)" and related documentation, [Whistleblowing Policy](#).

All the mentioned Pirelli documents are published in multiple languages on [Pirelli website](#).

Pirelli also is a founding member of the [Global Platform for Sustainable Natural Rubber \(GPSNR\)](#).



In addition to engaging with its suppliers, Pirelli fosters and supports active cooperation at industry level and among stakeholders playing a material role in the natural rubber value chain, with the conviction that in addition to corporations' individual engagement, a shared effort can result in stronger and faster progress towards sustainable development of the global natural rubber supply chain.

Pirelli is a founding member of the [Global Platform for Sustainable Natural Rubber \(GPSNR\)](#) and cooperates with national and international governmental, non-governmental, industry-wide and academic initiatives to develop global sustainable natural rubber policies and principles.

Pirelli supports multi-stakeholder planning activities that uphold GPSNR principles at a landscape, jurisdictional or other spatial level.

Natural rubber that is produced and processed in accordance and conformance with the GPSNR Policy Framework will be preferred.

## **IX. INTERNATIONALLY RECOGNIZED FORMS OF CERTIFICATION**

Pirelli encourages its supply chain to engage in internationally recognized, robust third-party audited certification systems for environmental, social and business ethics sustainable governance at all levels of the supply chain, from plantations to dealers, to processing plants and trading, ending downstream with Pirelli tyre manufacturing process.

## **X. POLICY IMPLEMENTATION**

To facilitate the implementation of this Policy, Pirelli has drawn up a dedicated [Implementation Manual](#) and has been providing dedicated training sessions and materials at the different levels of its natural rubber supply chain, as well as to its employees engaged in the process.

Pirelli supports and interacts with capacity building and capacity development initiatives aimed at securing the development of a skilled, qualified and sustainable natural rubber supply base.

Commitments taken are embedded in Pirelli's natural rubber procurement decision-making, processes and business relations throughout the Group, and are considered for performance metrics definition.

Time-bound and geographic-specific targets and milestones with associated indicators/metrics are set by Pirelli, as well as required to Pirelli's supply-chain partners.

## **XI. COMMUNICATION ON PROGRESS**

Pirelli will communicate regularly on targets and progress made on Policy implementation through its institutional channels, including the Company web site and the Group Annual Report.

Where opportune, progress made and obstacles found will be discussed in dedicated Stakeholder Dialogues, aimed at supporting Policy implementation in the most sustainable and efficient way by the involved actors within the chain.

## **XII. COMPLAINT PROCEDURE**

Pirelli provides its supply chain and its Stakeholders in general with a dedicated and confidential channel (the "[Group Whistleblowing Policy-Complaint Procedure](#)" published on the Pirelli website) for reporting any situation that may constitute a breach of this Policy.



An accessible and natural rubber dedicated grievance mechanism, consistent with UNGP effectiveness criteria and OECD guidelines, will be issued by 2021 enabling stakeholders expressing their grievance independently while giving opportunities to remedy adverse impacts caused through natural rubber production or sourcing.

This Policy is subject to future updates in light of the results and experience arising from its implementation on the field.

**EXECUTIVE VICE CHAIRMAN and CEO**

**Marco Tronchetti Provera**



## **ANNEX**

### **Pirelli Sustainable Natural Rubber Policy: international main reference documents**

- Global Platform for Sustainable Natural Rubber (GPSNR) Policy Framework;
- International Bill of Human Rights of the United Nations, consisting of the Universal Declaration of Human Rights, International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights;
- The Ten Principles of the UN Global Compact;
- United Nations Convention on the Rights of the Child;
- United Nations Declaration on the Rights of Indigenous People;
- United Nations Convention against Corruption;
- United Nations Sustainable Development Goals;
- United Nations Guiding Principles on Business and Human Rights (UNGP);
- United Nations Guiding Principles 31;
- OECD Guidelines for Multinational Enterprises;
- UN International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work and the relevant applicable conventions;
- ILO Conventions 87 and 98 concerning freedom of association and collective bargaining;
- ILO Convention 29 and its 2014 protocol concerning no forced labour;
- ILO Conventions 111 and 100 concerning no discrimination and equal pay;
- ILO Convention 105 concerning the abolition of forced labour;
- ILO Convention 110 concerning Conditions of Employment of Plantation Workers;
- ILO Convention 131 concerning Minimum Wage Fixing Convention;
- ILO Conventions 138 and 182 concerning no child labour;
- ILO Convention 184 concerning Safety and Health in Agriculture Convention;
- ILO Convention 169 concerning indigenous and tribal people;
- European Convention on Human Rights;
- The United Nations Programme on Reducing Emissions from Deforestation and Forest Degradation (UN-REDD) ;
- New York Declaration on Forests;
- Rio Declaration on Environment and Development;
- “Principles for Responsible Investment in Agriculture and Food Systems” issued by the Committee on World Food Security;
- Convention on Biological Diversity;
- Convention on “International Trade in Endangered Species of Wild Fauna and Flora”;
- UN Food and Agriculture Organization (FAO) Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests;
- UN FAO International Code of Conduct on the Distribution and Use of Pesticides;



- China Chamber of Commerce of Metals Minerals and Chemicals Importers and Exporters (CCCMC) Guidance for Sustainable Natural Rubber;
- The Roundtable on Sustainable Palm Oil (RSPO) Principles and Criteria;
- Integration of High Conservation Values (HCV), High Carbon Stock (HCS) Forest and Free, Prior and Informed Consent (FPIC) by HCS Approach Steering Group;
- The Guidelines for Environmental and Social Impact Assessment (ESIA) from the World Business Council for Sustainable Development (WBCSD);
- The International Finance Corporation (IFC) Performance Standards.