

Guide

Product Compliance

Your Supply Chain Sustainability Foundation

Assent

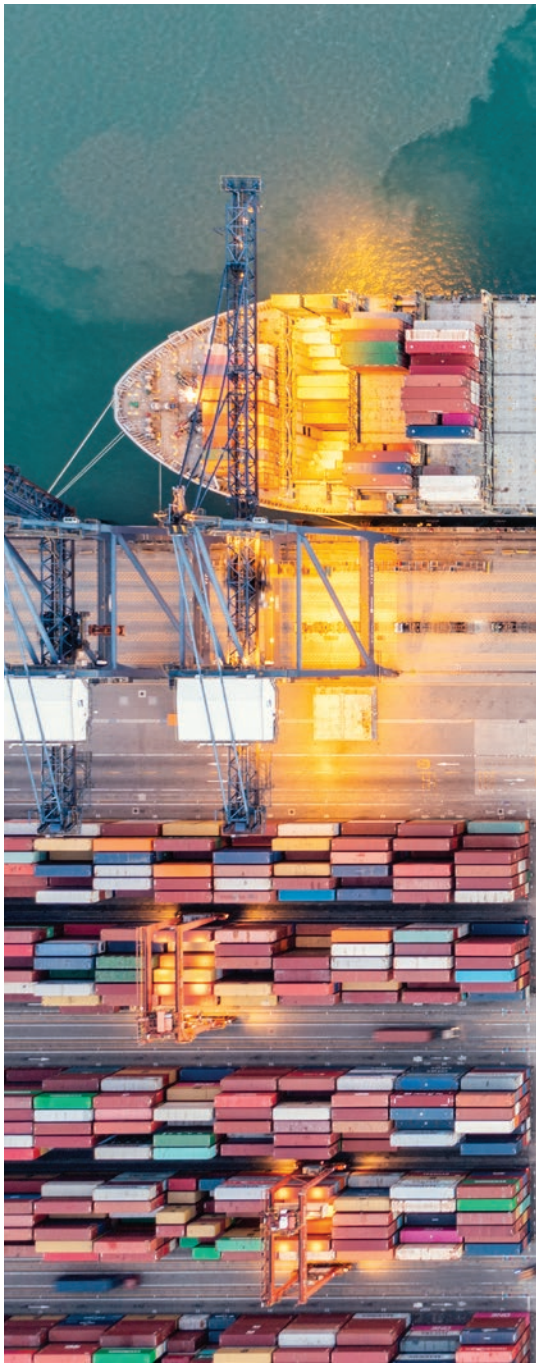
Real depth. Sustainable growth.

Introduction

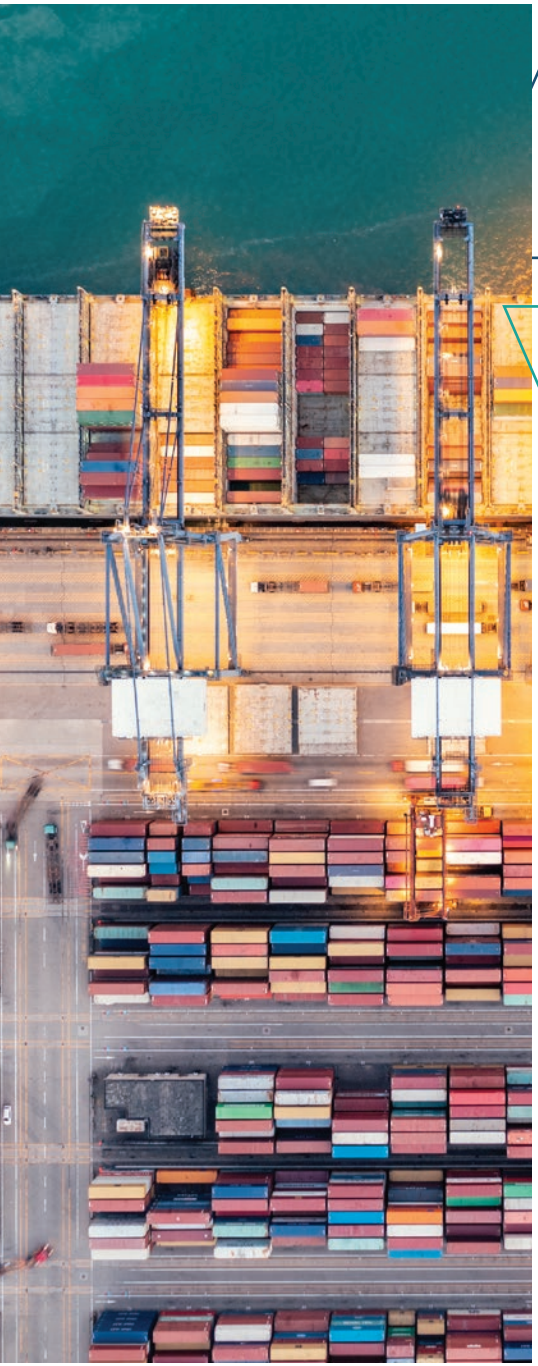
To access the world's most lucrative markets, companies need to meet the strict requirements laid out in product compliance regulations. Most complex manufacturers — those companies with the deepest supply chains and longest-lived products — have had to build compliance programs into their operations to ensure continued market access and protection from fines and penalties.

Product compliance professionals are a vital part of any organization, but compliance can be more than a key to a locked market. No team in an organization knows the supply chain better than product compliance managers. Experienced in managing large data volumes from deep in the supply chain — including parts of parts and submissions from multiple tiers of suppliers — product compliance teams have the in-depth view necessary to measure, report on, and improve organizational sustainability efforts.

And sustainability isn't just for select brands anymore; it's a business imperative for all companies. Sought after by investors, consumers, and regulators, it's increasingly becoming a non-negotiable element in gaining market access in its own right. According to the 2021 GlobeScan Sustainability Leaders survey, the adoption of sustainability as a core business function was the number one reason companies excelled in this key area.[1]



1 GlobeScan.com. (2021, July 28.). *GlobeScan / SustainAbility Survey 2021 Sustainability Leaders*. https://globescan.com/2021/07/28/2021-sustainability-leaders-report/



Sustainability is more than "going green" — it's about mitigating the emerging risks of supply chain disruption, brand damage, and regulatory constraints. This is why BlackRock Inc., the world's largest investment firm, says environmental, social, and governance (ESG) is now a "critical factor in determining companies' long-term value."[2]

For complex manufacturers, becoming a leader in this new world will require a deep map of their products and parts, down to the smallest component. It'll require enterprise-wide transparency and barrier-free access to data from deep in the supply chain. Furthermore, that data will have to be measurable and defensible, demonstrating the importance of product compliance specialists to their organizations.

In this guide, you'll learn why product compliance is the vital foundation for deep supply chain sustainability and how product compliance specialists can play a lead role as sustainability heroes in transforming their organizations.

2 BlackRock.com. (2021, May 19). *BlackRock ESG Integration Statement*. https://www.blackrock.com/corporate/literature/publication/blk-esg-investment-statement-web.pdf



What Is Supply Chain Sustainability?

Sustainability considers your entire organization and its impact on people and the planet. It can't be measured in a single performance indicator. After all, no one cares about your carbon footprint if your products can cause cancer. For complex manufacturers, this means sustainability can't be separated from parts and products, so the entire supply chain needs to be considered.

We also know sustainability isn't just about what substances are used in parts, but about the people within your supply chain making those products as well. To realize supply chain sustainability in your organization, you'll need to establish effective supply chain sustainability management practices. The complexity of supply chains presents challenges, requiring that companies understand the relationship between parts and subparts and contact the suppliers of suppliers. Product compliance teams know these challenges well.

Product compliance managers can use this expertise to involve themselves at the strategic level and support positive business outcomes related to sustainability and building more resilient supply chains.

Why Grow Into Supply Chain Sustainability

Supply chain sustainability management is an emerging business practice that aligns the priorities and data for:

- Product compliance
- ESG
- Corporate sustainability

It empowers manufacturers to see how all the data their supply chain generates is connected and tells a story about their operations. This story is one of a manufacturer's most valuable assets.

Product compliance programs collect data from the deepest levels of the supply chain. Sustainability efforts can build on this data, but it must be defensible and go well beyond direct suppliers, down to the parts of part level (or article level in REACH terminology). Anything less won't address hidden risks, regulatory requirements, or investor expectations.

What Is Supply Chain Sustainability Management?

Supply chain sustainability management is what complex manufacturers must do to maintain a transparent and resilient supply chain, considering everything from regulated substances and materials to ethical practices to ensure they meet or exceed product compliance and ESG demands.



Product Compliance Is the Driving Force

Supply chain sustainability management highlights the expertise and skills of product compliance professionals.

Product compliance teams already understand and manage the complexity of large manufacturing supply chains. They already have relationships with suppliers and insights into how supply chain data works. As industries face increasing pressure from market forces to get sustainable, product compliance specialists are the heroes who are already doing the foundational work to make supply chain sustainability possible. The key for product compliance professionals is to know how to repurpose the data they're already collecting.

Regulatory Expansion

It's not only investors and consumers pushing for sustainability. Product compliance managers have seen the rapid regulatory expansion and the need to establish more transparent and sustainable supply chains. Major regulatory changes include:

- The U.S. Toxic Substances Control Act (TSCA)
- EU Waste Framework Directive and the Substances of Concern In articles, as such or in complex objects (Products) (SCIP) database
- EU Registration, Evaluation, Authorisation, and Restriction of Chemicals (REACH) Regulation
- EU Restriction of Hazardous Substances (RoHS) Directive
- The German Supply Chain Due Diligence Act (SCDDA)

Regulations are becoming more ambitious and regulators are turning to enthusiastic enforcement to encourage companies to comply.

In the U.S., changes to **TSCA** Section 6 restrictions show the Environmental Protection Agency (EPA)'s commitment to sustainability and environmental impact. The strict new rules are only the beginning as the agency focuses on regulating per- and polyfluorinated alkyl substances (PFAS), otherwise known as "forever chemicals," in U.S. supply chains.

In the EU, changes stemming from the European Green Deal[3] could bring thousands of additional substances into scope of the **REACH Regulation** and see significant changes made to the **RoHS Directive**,[4] dramatically increasing the compliance demands for complex manufacturers.

The **EU Waste Framework Directive** aims to promote the circular economy and reduce the number of harmful substances entering landfills. The **SCIP database** was mandated under the directive and is a publicly-searchable repository of product, part, and article information that contain substances of very high concern (SVHCs). The SCIP database is the perfect example of regulatory compliance being used to action broad supply chain sustainability needs.

Building a Sustainability Foundation Tip #1

Product compliance professionals should build bridges to other teams by engaging stakeholders in sustainability discussions. Focus on transparency and removing silos. Be proactive if you expect these sustainability management considerations to be delegated to you or your team.

Taking a different tack, the **SCDDA**[5] mandates that in-scope companies create human rights due diligence programs to identify and address human rights and environmental concerns in supply chains. The law requires companies to actively examine numerous factors, including supply chain alignment to a code of conduct and environmental impacts related to labor practices.

These regulations are only a sample of global regulatory evolution impacting complex manufacturers. Product compliance managers play a key role in each, and the data collected to demonstrate due diligence for each forms a foundation for deeper sustainability disclosures.

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3 European Commission. (2019, November 12). *Communication from the Commission: The European Green Deal.* https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52019DC0640&from=EN

4 European Commission. (n.d.). *Review: Restriction of the use of hazardous substances in electronics.* https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13137-Review-Restriction-of-the-use-of-hazardous-substances-in-electronics_en

5 Business & Human Rights. (2021, June 16). *German parliament passes mandatory human rights due diligence law.* https://www.business-humanrights.org/en/latest-news/german-due-diligence-law/

Forward-Looking Compliance

“Checkbox compliance” is a term used to describe a highly reactive approach to due diligence that addresses only certain parts, mapped against specific substances. It means that you’re only checking your products against the bare minimum requirements and choosing not to dig deeper into potential risks and opportunities to improve your compliance program.

This approach does not scale with rapidly changing regulations that are designed to promote broader sustainability goals and ultimately costs manufacturers money through lost opportunities, program errors, and potential penalties.

A supply chain sustainability approach to compliance meets existing requirements, but also monitors regulatory trends and promotes deep transparency throughout the supply chain. It creates transparency throughout the entire supply chain, from the parts of parts and suppliers to suppliers, to identify and remove harmful substances and identify risks, and focuses on sustainability goals, rather than a shallow view focused on appeasing regulators.

Ultimately, this approach moves beyond singular regulatory efforts, reducing non-compliance risks and streamlining data collection efforts to reduce costs and improve response rates.

Going Beyond the Check Box

Proactive supply chain sustainability management is powered by product compliance data. For example, a company that invested in collecting full material disclosures (FMDs) from its suppliers will be better able to proactively address expansions to the REACH Candidate List of SVHCs as it already knows the substance make up of its parts. Having this deep insight allows you to be much better prepared to meet new regulatory requirements and arms you with a data foundation to measure your product’s total footprint.



Building a Foundation Tip #2

Consolidate your product compliance programs. Using a single solution to manage many regulations streamlines the data management process and is more likely to ensure teams within your organization have access to the data they need to make decisions.

In January 2021, the restriction of five substances under Section 6 of TSCA demonstrated the limitation of checkbox compliance. The majority of the restricted substances were unregulated by other markets, including the EU. Many manufacturers only collect data against EU regulations, long thought to be the gold standard for global product compliance regulations. Those that followed the crowd and didn't proactively monitor regulatory trends faced the unexpected risk of TSCA non-compliance penalties and the loss of U.S. market access.

In order to attain supply chain sustainability, your compliance program should have the following key features:

- The ability to collect clean, timely data from deep in the supply chain
- A centralized tool to store, manage, and use compliance data to evaluate products, increase cross-enterprise transparency, and promote collaboration between teams
- Regulatory expertise to monitor and interpret regulatory requirements, identify areas of concern, and assist in supplier education

One Part, Many Risks

Market access isn't the only consideration for complex manufacturers. Investors are demanding defensible ESG programs,[6] industry leaders want detailed responsible sourcing due diligence, and governments are pushing to punish those businesses profiting from forced labor.[7]

Supply chain sustainability doesn't happen overnight; it's a journey to be taken one step at a time. When your organization is ready, ESG — specifically the components that occur outside internal operations and rely on supplier-submitted data — is the next logical step when expanding toward supply chain sustainability.

There are numerous reasons to adopt ESG into your core business, including:

- Improving environmental performance and protecting human rights
- Attracting more investors and strengthening your brand's image
- Winning customer contracts, especially those stemming from public procurement
- Reducing risk in the supply chain related to fines, operational disruption, and brand damage

For this guide, we'll examine the risk mitigation component of supply chain ESG programs. As noted by a recent article from the Thomson Reuters Institute, "What started as optional for many global corporations is now increasingly becoming a requirement."[8]

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6 U.S. Securities and Exchange Commission. (2021, March 4). *SEC Announces Enforcement Task Force Focused on Climate and ESG Issues*. https://www.sec.gov/news/press-release/2021-42

7 U.S. Customs and Border Protection. (n.d.). *Uyghur Forced Labor Prevention Act*. https://www.cbp.gov/trade/forced-labor/UFLPA

8 Britton, N. (2021, October 14). *ESG and the Global Supply Chain*. Thomson Reuters. https://www.thomsonreuters.com/en-us/posts/tax-and-accounting/esg-supply-chain/

Mature compliance programs possess granular product, part, and substance data that is necessary for defensible ESG reporting that looks beyond greenhouse gas (GHG) emissions. Backed by expert guidance, a company tracking substances at the deepest part level will be better able to report on and defend:

- Environmental impact
- Public health risks
- Worker safety

Beyond the data, the processes established by a compliance program are also beneficial to ESG activities. Regulations such as the SCDDA in Germany, or procurement requirements such as the Defense Federal Acquisition Regulation Supplement (DFARS) in the U.S., are just some of the laws that require supplier engagement beyond a manufacturer's direct suppliers.

In order to comply with product compliance requirements, manufacturers have had to build effective supplier relationships with streamlined requests, easy-to-use data submission portals, and supplier education to promote buy-in. These features can be adapted in support of ESG as well.



Building a Foundation Tip #3

Your product compliance programs should incorporate or collaborate with ESG initiatives to reduce the burden on suppliers, increase collaboration and data access, and promote wholescale supply chain involvement.

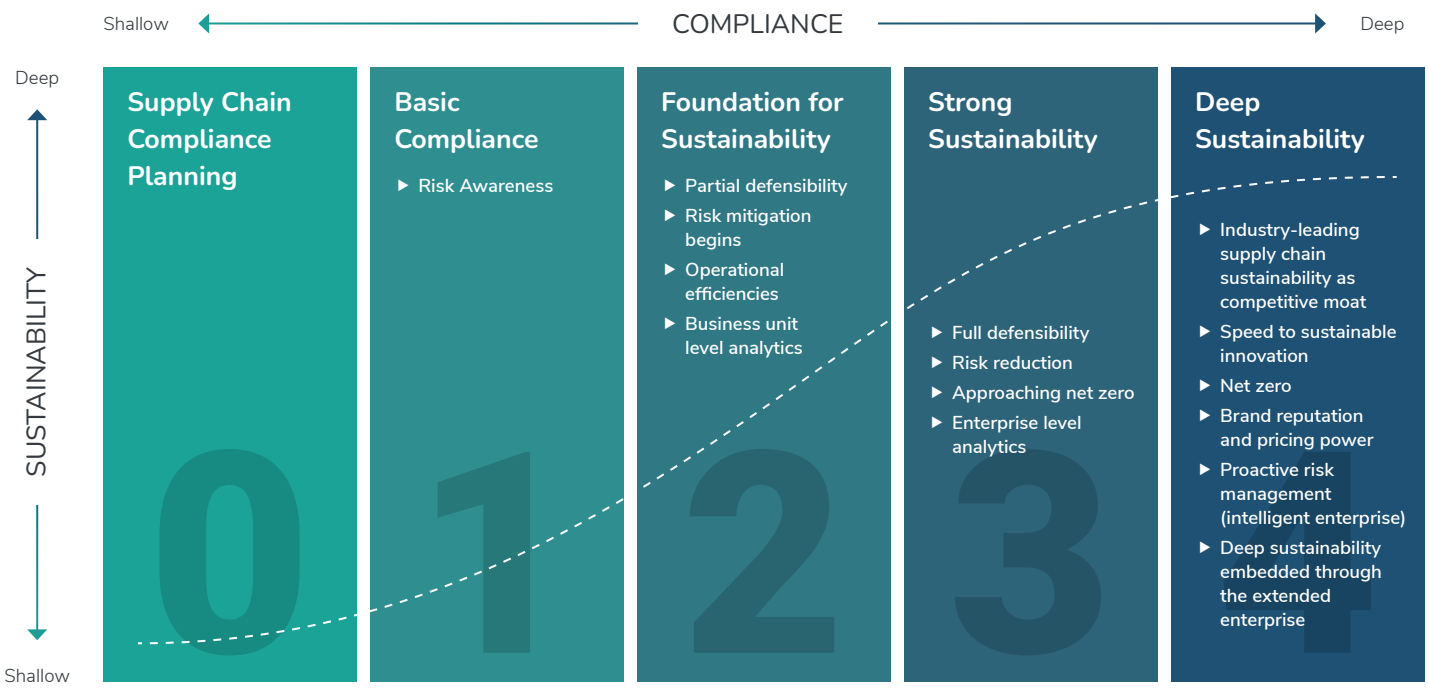
How to Reach Deep Supply Chain Sustainability

The longest journey begins with a single step, and by reading this guide you've started on the road to deep supply chain sustainability. No program will be identical, but at a high level there are specific waymarkers that complex manufacturers can use to identify their current progress and inform next steps.

Starting from a basic compliance program, a manufacturer can expect four total phases when evolving to deep sustainability:

- **Step One:** Basic Compliance
- **Step Two:** Foundation for Sustainability
- **Step Three:** Strong Sustainability
- **Step Four:** Deep Sustainability

The Assent Supply Chain Sustainability Maturity Model for Complex Manufacturing



Step One: Basic Compliance

A complex manufacturer has likely already achieved this step. However, many may be using manual processes and internal systems to handle base product compliance requirements. A digital transformation of compliance programs will help build the scalability necessary for supply chain sustainability management.

Step Two: Foundation for Sustainability

This step occurs as your organization matures the management of its supply chain data. With streamlined data collection and validation, centralized management of data, and configurable reporting (e.g., reporting by business unit), this step lays the foundation for deeper sustainability. In the beginning, it's expected that this step is focused on the core risks to a manufacturer, most likely market access regulations such as REACH, RoHS, TSCA, and others.

Step Three: Strong Sustainability

The next evolution of a supply chain sustainability management program should expand the focus to incorporate more potential risks facing your organization. Experts should be brought in to support product compliance professionals, and ensure programs are capturing the right data by analyzing it to mitigate risk and produce defensible reports.

Step Four: Deep Sustainability

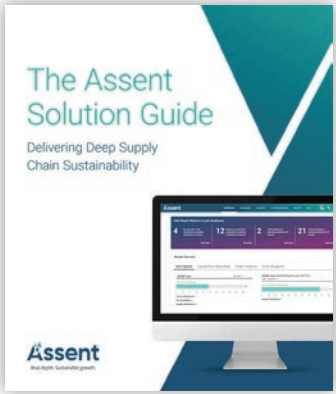
Once a manufacturer meets or exceeds its product compliance and ESG needs by collecting data from the deepest level of the supply chain, it has a deeply sustainable supply chain. This may be the most mature stage, but the journey doesn't end here. Supply chain sustainability is an ongoing process, but by this stage an organization can be confident it's able to address any emerging challenges headed its way.

Building a Foundation Tip #4

Rome wasn't built in a day and neither are supply chain sustainability programs. Focus on agility and continuous improvement through insights and optimization. Similarly, educating your suppliers and working with them to realize goals will pay off in the long run.

Conclusion

The new challenges facing product compliance specialists are bringing new opportunities for their organizations to build better processes, so they can build better products and ultimately a better business. Assent is committed to helping complex manufacturers realize supply chain sustainability through a combination of leading-edge technology and deep expertise in the field, from product compliance and ESG to trade compliance and responsible sourcing. Learn more about the Assent Supply Chain Sustainability Platform in our guide.



Download Guide



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Cally is a proven compliance program leader with experience developing, communicating, and executing company goals and strategies. She is a subject matter expert on product materials compliance, as well as market access certifications. Her background includes over 27 years of program and process development, as well as managing global compliance programs for major manufacturers, including Kohler Co.

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