

# Responsible Sourcing Policy for Stepan's Bio-sourced Raw Materials

## **BACKGROUND AND SCOPE**

At Stepan Company ("Stepan") we believe that chemistry can provide solutions to benefit the environment, promote human well-being, and meet the needs of a growing population. We take seriously our responsibility to operate in a manner that ensures the safety, security and well-being of our people and the communities where we conduct our business. We also understand the importance of working to promote social and environmental responsibility throughout our supply chain.

Stepan does not own, manage, or operate agricultural or forested plantations, mills, or refineries. For some of our finished products, Stepan utilizes derivatives from bio-sourced materials derived from plants or animals for their performance characteristics. Production of these agricultural products will have been associated with historical or more recent land conversion. Stepan's Responsible Sourcing Policy outlines our commitments and expectations related to our bio-sourced raw materials and is applicable to our direct suppliers. We look for comparable expectations to be defined by our suppliers for their own supply chain partners, with a goal of promoting responsible and ethical practices across the value chain. Suppliers of bio-sourced raw materials from agricultural and forestry systems, including materials derived from palm or palm-kernel oil, coconut oil, soybean oil, sunflower oil, safflower oil, tall oil, rapeseed oil, or tallow oil are covered by this policy. We aim to work collaboratively with suppliers who share our commitment to achieving more sustainable and responsible supply chains and who can support compliance with existing and future regulations.

## **STEPAN ACTIONS TO PROMOTE RESPONSIBLE SOURCING**

Stepan consistently communicates expectations for ethical and responsible practices to all our stakeholders. These are outlined in our Company Code of Conduct, our Third Party Code of Conduct, and other public communications such as Stepan's annual sustainability report. Stepan's Partner for Sustainable Supply (PaSS) program, builds on these commitments by formalizing evaluation of our suppliers' practices and performance related to business ethics, sustainable procurement, human and labor rights, and environmental impact. Annual assessment of our suppliers across these criteria informs our internal review process. Additionally, all suppliers undergo a compliance risk evaluation as part of approval.

Stepan has partnered with NGO's and suppliers to increase the traceability of our palm supply chains as part of an industry-wide effort to identify those supply chains at highest risk for deforestation, development on peat, and exploitation of people and local communities. Stepan holds supply chain certifications aimed at verifying best practices. Since our first RSPO (Roundtable for Sustainable Palm Oil) supply chain certification in 2014, we have continued to increase our capacity to offer Mass Balance certified ingredients to our customers globally. This includes a global network of RSPO certified facilities, as well as more recent ISCC PLUS certifications (International Sustainability and Carbon Certification) for select sites. Such certifications promote best practices in the supply chain and provide external review and validation of sustainability related product claims.

In addition to voluntary actions taken to promote responsible sourcing, Stepan works to ensure compliance with regulations that impact our supply chain and our business activities, such as the EU Deforestation Regulation (EUDR). The EUDR triggers responsibility from companies that place on- or export from the EU market specific commodities. Stepan will work with our value chain partners to enable required transfer of information or documents, and we regularly monitor current and emerging regulations regarding further responsibilities.

## SUPPLIER RESPONSIBILITIES

Stepan values our supply chain partners and their work to promote responsible and sustainable practices. To promote continuous improvement, Stepan will look for our suppliers to demonstrate shared commitment to the principles in this policy through:

- Practices and policies fully aligned with Stepan's Third Party Code of Conduct and this Responsible Sourcing Policy;
- Compliance with all relevant regulations (local, national, and international laws applicable in countries of production, manufacturing, and trading). This includes compliance with the European Union Deforestation Regulation (EUDR) aimed at ensuring deforestation- and conversion-free imports and exports with the European Union for defined commodities, with a defined cut-off date of December 2020.
- Ability to provide required Due Diligence statements, risk analyses, and mitigation plans in accordance with relevant regulations;
- Engagement and demonstrated progress on Stepan's ESG assessment process (hosted by third-party EcoVadis today);
- Sharing of Product Carbon Footprint (PCF) data for the raw materials Stepan is currently sourcing from the supplier and for any more sustainable grade, as this information becomes available;
- Responsiveness in the event of raised concerns that represent non-compliance with regulations or with Stepan's policies, as well as responsiveness to queries related to Stepan's Customer grievances.

## RISK MITIGATION AND MANAGEMENT OF GRIEVANCES

- We continue to engage our direct suppliers for traceability work on key commodities.
- We record and track grievances raised to our attention from customers, the RSPO, NGO's, or other mechanisms, according to the process below.
- In the event that we learn of non-conformances with this policy in our derivative supply chains, we formally engage, or will appoint a third-party to engage on our behalf, with the relevant direct supplier to present the grievance and request the following:
  - ✓ Acknowledgement of the grievance and identification of non-conformance(s) by location(s);
  - ✓ Evidence either of current compliance or actions underway to address the non-compliance or proposed corrective actions and reasonable timeframe for implementation; and
  - ✓ Follow-up report after corrective actions are implemented.
- Stepan looks for our key direct bio-sourced material suppliers to demonstrate alignment with this policy through their own commitments and initiatives.
- For suppliers that are not in compliance with our Responsible Sourcing Guidelines, or that are not demonstrating clear progress toward meeting them, we reserve the right to take corrective action, including potential termination of business.

## RESPONSIBLE SOURCING AND NDPE\* COMMITMENTS

Stepan Company requests that our bio-sourced raw material derivative suppliers work toward the following commitments in their own operations and work to ensure the same commitments from their direct and indirect suppliers:

- Operating in compliance with the principles outlined in Stepan’s **Third Party Code of Conduct**;
- Compliance with relevant regulations, including the EU Deforestation Regulation for defined commodities, with a cut-off for deforestation and conversion of December 2020.
- Ending deforestation through the protection and conservation of High Conservation Value (HCV) <sup>1</sup> and High Carbon Stock (HCS) <sup>2</sup> areas, as defined in the most current High Carbon Stock Approach (HCSA) <sup>3</sup> Toolkit;
- No clearing, development, draining, or burning of peatlands, regardless of depth;
- For PO/PKO derivative suppliers, managing current and retired palm plantations in accordance with the RSPO’s most current Principles and Criteria, the RSPO Manual of Best Management Practices for Existing Oil Palm Cultivation on Peat<sup>4</sup>, or comparable standards;
- Reducing the carbon footprint of their operations;
- Implementing a Free-Prior-Informed Consent (FPIC) process, supporting the rights of local and indigenous people to allow or deny operations planned on lands for which they hold legal, community, or customary rights;
- No child labor;
- No abusive practices, undue disciplinary procedures, or withholding of worker identification documents;
- Implementing policies and practices that respect the rights of all workers as outlined in Stepan’s **Third Party Code of Conduct**, including women, contract or temporary workers, and migrant workers, and including the right to earn a fair wage from their employer;
- Providing a safe work environment and appropriate training and personal protective equipment to minimize or prevent worker exposure to harmful chemical, biological, and physical agents;
- Enabling a transparent, impartial, consultative process for grievance and conflict resolution; and
- Delivering necessary due diligence or traceability reports to support compliance with relevant regulations or other efforts to ensure ethical and sustainable supply chain practices.

1 High Conservation Value (HCV) as defined by the HCV network: <https://www.hcvnetwork.org/>

2 High Carbon Stock (HCS) forests as defined at <http://highcarbonstock.org> by the HCS Steering Group.

3 HCSA Toolkit and the Unified HCS and HCV <http://highcarbonstock.org/registered-hcsa-and-hcv-hcsa-assessments/>

4 RSPO Manual on Best Management Practices (BMPs) for existing oil palm cultivation on peat. <http://www.rspo.org/key-documents/supplementary-materials>

5 Fair wage as described in Stepan’s Third Party Code of Conduct [220d877a-1dce-4d78-a877-187eb6a6be65](https://www.stepan.com/220d877a-1dce-4d78-a877-187eb6a6be65) ([gcs-web.com](https://www.gcs-web.com))

**\*NDPE: No deforestation, no development on or burning of peat, and no exploitation of people or communities.**