

Critical Escalation Policy

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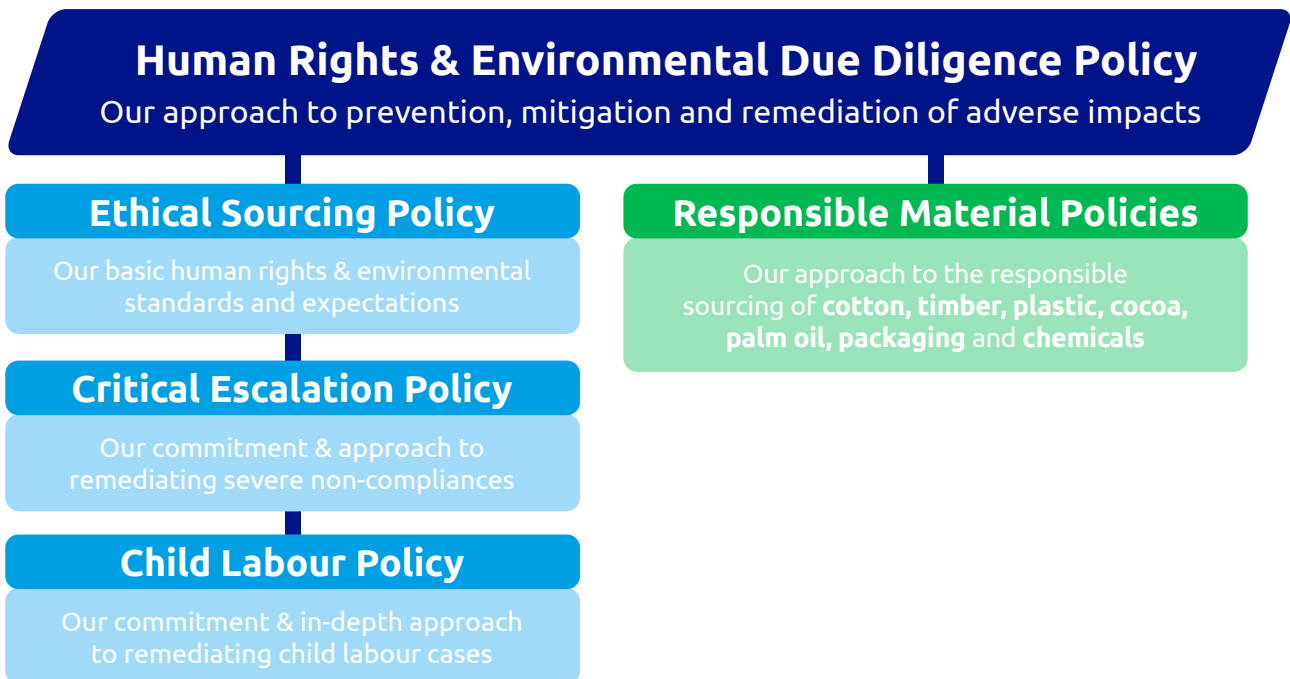
1. INTRODUCTION

Social responsibility at Action means doing business while respecting human rights, trading ethically and safeguarding the environment. As a rapidly expanding company with a global value chain, our impact on society and the world around us is increasing. We wish to ensure good ethical and environmental practices both in our direct operations, throughout our value chain and the communities in which we operate.

Action has set clear guidelines in our [Ethical Sourcing Policy](#) regarding the responsible sourcing of products that meet our standards of

quality while respecting human rights and the environment. This Critical Escalation Policy outlines our commitment and approach to remediation when certain severe (i.e. critical) instances of non-compliance are identified in our value chain. The goal of this policy is to provide guidance for involved parties, but we also recognise that every case is different. When necessary and appropriate we will act on a case-by-case basis.

For child labour cases, we have outlined our in-depth approach in the [Child Labour Policy](#).



2. SCOPE

The Critical Escalation Policy forms an integral part of the Ethical Sourcing Policy and is applicable to the sourcing of commercial goods. The definitions used in the General Terms and Conditions of

Purchase apply to this policy. All suppliers and producers in the value chain of Action are in-scope. Key actors are defined as:

- **Supplier:** The natural person or legal entity supplying Goods to Action under the Agreement. This entity is also referred to as vendor. When critical cases occur at lower-tier Producers with whom we do not have a direct relationship, it is our Supplier's responsibility to cascade the requirements through its value chain.
- **Producer:** Any actor in the value chain providing raw materials or producing (semi-)finished goods.
- **PO factory:** The Producer that receives the purchase order (PO) from Action or our Supplier and performs the last stage of production, assembly, processing and/or finishing of the finished good. This entity is also referred to as last stage of production (LSoP).
- **Authorised subcontractor:** The Producer that takes over (part of) the last stage of production, assembly, processing and/or finishing of the finished good from the PO factory with prior authorisation from Action.

We source commercial Goods through two sourcing models. Where relevant we make a distinction between direct import and domestic sourcing in this policy:

- **Direct import:** direct sourcing from Suppliers or Producers outside of the EU, for which Goods Action qualifies as an importer. Li & Fung acts as our agent, facilitating the communication between Action, Suppliers and Producers.
- **Domestic sourcing:** sourcing from Suppliers (categorised as importers or wholesalers) or Producers within the EU, for which Goods Action qualifies as a distributor. ImpactBuying acts as our partner, facilitating the communication between Action, Suppliers and Producers.

3. CRITICAL CASES

The overview below contains examples of cases that are considered critical. As specific circumstances or context may impact the assessment this overview is not exhaustive, and it is up to Action's discretion to decide if a case is considered critical or not and inform the Supplier accordingly.

Principle	In the form of
<i>Bribery</i>	<ul style="list-style-type: none"> - Cash, coupons, e-cash or envelopes with unspecified content - High value items or hospitality
<i>Child labour</i>	<ul style="list-style-type: none"> - Underage workers - Young workers in hazardous work - Children present at the factory premise outside of dedicated child-safe areas (i.e. a day care)
<i>Forced labour</i>	<ul style="list-style-type: none"> - Bonded labour, slave labour or human trafficking - Prison labour in non-EU countries - Prison labour in EU countries without prior authorisation or performed non-voluntarily or not complying with national legislation - Withholding personal documents (passports/IDs/work permits)
<i>Denied access</i>	<ul style="list-style-type: none"> - Auditor is denied access to the factory premise or documentation
<i>Harsh or inhumane treatment</i>	<ul style="list-style-type: none"> - Physical, sexual or verbal harassment, abuse or intimidation
<i>Severe health & safety breaches</i>	<ul style="list-style-type: none"> - Blocked or locked emergency exits - Hazardous chemical malpractice - Incident with fatal casualties and/or injuries - Severe boiler safety concerns - Severe electrical safety concerns - Severe structural integrity concerns - Inadequate firefighting equipment
<i>Severe unethical business behaviour</i>	<ul style="list-style-type: none"> - Providing forged or falsified documents/records relating to social or environmental compliance during social/technical audits, quality inspections or corrective action plans
<i>Unauthorised subcontracting</i>	<ul style="list-style-type: none"> - The PO factory moving the last stage of production, assembly, processing and/or finishing of the finished good to another Producer without prior authorisation from Action
<i>Unauthorised homeworking</i>	<ul style="list-style-type: none"> - Moving any production stage in the value chain to home-based workers without prior authorisation from Action
<i>Unfair remuneration</i>	<ul style="list-style-type: none"> - Payment of wage below local minimum wage

4. PROCESS

Each critical case follows three stages: identification, remediation and risk analysis.

The goal of this policy is to provide guidance for involved parties on actions that may be taken when addressing a critical case. Since every case is unique it is up to Action's discretion to decide which steps are taken and when, and to inform the Supplier accordingly.

In the event that multiple Suppliers are sourcing from the same Producer, some of the below actions will be applicable to all Suppliers, whereas others will only be applicable to one Supplier to facilitate a fast and efficient process. This Supplier will be appointed by Action based on indicators such as how the case was identified and that Supplier's relationship with the Producer.

Identification

Non-compliance can be identified through different channels, including but not limited to: grievance, social audit, spot check, technical audit, inline/final inspection, on-site visit, NGO alert or media alert.

Investigation

The resulting case will be classified as a suspicion until substantiated evidence is provided. Action will conduct desktop research and may appoint representatives to perform on-site inspections, such as third party auditors.

Block shipments

After Action confirms, within one working day pending shipments at the Producer are blocked and new order placement at the Producer is put on hold for all Suppliers.

Remediation

It is the purpose of this policy that all critical cases are remediated and that all Suppliers and Producers commit to fully collaborate to that effect.

Supplier dialogue

Dialogue meeting between Action, Supplier, Li & Fung (direct import) and ImpactBuying (domestic sourcing) within five working days to understand the situation and emphasise the importance of a shared commitment to ethical sourcing. In case of multiple Suppliers sourcing from the Producer, one Supplier appointed by Action will be involved in this process.

Stakeholder collaboration

Depending on the case, Action may appoint an expert third party to assist in and provide guidance during the remediation.

Corrective action plan

Producer provides a corrective action plan (CAP) within ten working days including a root cause analysis and an action plan to provide remedy for the affected individual(s) and prevent the critical case from occurring in the future. In case of multiple Suppliers sourcing from the Producer, one Supplier appointed by Action will lead this process.

Letter of concern

Letter of concern is addressed to all Suppliers and the Producer within fifteen working days to re-emphasise our commitment to ethical sourcing and expectations on remediation.

Resume shipments

After the corrective action plan (CAP) is approved by Action and essential corrective actions have been taken, pending shipments and new order placement at the Producer may be resumed for all Suppliers.

Risk analysis

Suppliers are expected to proactively manage social compliance of their Producers. To assess potential further risk in their value chain we conduct spot checks at their other Producers.

Spot checks

50% of the Supplier's Producers – with a maximum of five Producers – is audited within two months. In case of multiple Suppliers sourcing from the Producer, one Supplier appointed by Action will be involved in this process. These checks are out-of-scope of Action's annual spot check target and the Supplier is responsible for the costs.

Identification		Remediation					Risk analysis
Investigation	Block shipments	Supplier dialogue	Stakeholder collaboration	Corrective action plan	Letter of concern	Resume shipments	Spot checks
Through research Action determines if the suspected case is critical.	Pending shipments are blocked & new order placement is put on hold.	Dialogue meeting to understand the situation & emphasise shared commitment to ethical sourcing.	Action may appoint an expert 3rd party to provide guidance during the remediation.	Producer provides a CAP with actions and timelines for prevention & remediation.	Action addresses letter to supplier and producer with commitment & expectations.	After the CAP is approved by Action, pending shipments & new orders may be resumed.	Max. 5 producers of the supplier are audited to assess the potential risk in their value chain.

5. DISENGAGEMENT

We believe that disengagement should only be used as a last resort as it may aggravate the situation rather than lead to structural remediation. Nonetheless, Action may resort to it when the Producer does not cooperate in remediation or if Action, considering the severity of the situation, so decides in its sole discretion. Disengagement may also be enforced with recurring cases at the same Producer:

- When a second critical case is identified at a Producer, next to following the above process also a six months order freeze may be implemented.
- When a third critical case is identified at a Producer this may lead to disengagement. Depending on the case we will decide on the necessary remediation steps.

Disengagement is applicable to all sourcing models (direct import and domestic sourcing) and during the disengagement period the Producer shall not receive any purchase orders. The timeframe for disengagement is two years.

Producers can qualify for re-engagement when the specified timeframe has passed and the following criteria are met as stated in the Supplier Manual and Action Social Compliance Guidance.

1. Producer has a valid social audit.
2. Producer passed an unannounced spot check performed by an auditor appointed by Action with proven remediation on past critical case(s).
3. Producer conforms with all other onboarding criteria as required by Action.

In case of repeated critical cases from the same Supplier, Action reserves the right to disengage with the Supplier.