PSCI PHARMACEUTICAL SUPPLY CHAIN INITIATIVE
Building responsible supply chains

Supply Chain Materiality in 2024

Assessment Report

Introducing the assessment

The PSCI periodically conducts a supply chain materiality assessment considering **supply chain issues** affecting the **Pharmaceutical and Healthcare sector ("Pharma")**. Previous assessments took place in 2013, 2017 and 2020 with the results used internally to set the PSCI's strategic priorities.

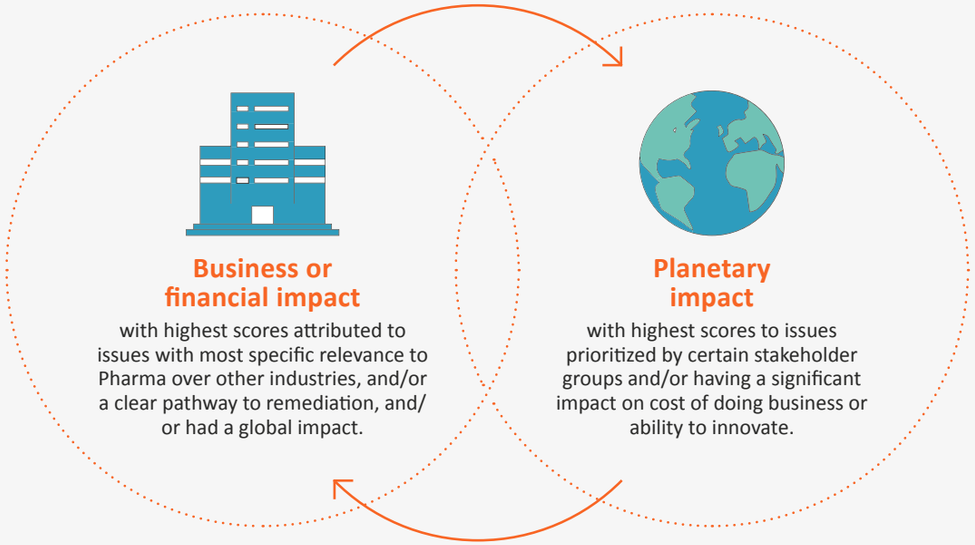
Many PSCI members now complete materiality assessments at the company level, and this number is growing as companies comply with the EU's Corporate Sustainability Reporting Directive (CSRD). To support those members and for wider interest, we have decided this year to make the results of our sector-level assessment more widely available. A few considerations should be borne in mind when reading the results:

- This is a **supply chain materiality assessment**, with issues being evaluated based on relevance to – and impact on – the supply chain. The scoring of issues and the issues list itself is therefore different to other sector frameworks e.g. SASB*.
- The assessment is intended to **represent the sector as a whole** in all its diversity; the results for each company will be different, depending on product mix, geography, ownership etc.

* Sustainability Accounting Standards Board

The framework applied

This year's materiality review uses the **double materiality** approach, based on the methodology published by EFRAG*. Issues were scored against two categories: -



Business or financial impact

with highest scores attributed to issues with most specific relevance to Pharma over other industries, and/or a clear pathway to remediation, and/or had a global impact.

Planetary impact

with highest scores to issues prioritized by certain stakeholder groups and/or having a significant impact on cost of doing business or ability to innovate.

More detail is provided in the methodology.

* European Financial Reporting Group

New regulations and investor demands are raising the bar for company reporting on supply chain responsibility.

This year's assessment highlights the growing importance of robust supply chain programs, encompassing a wider range of issues. It also reflects the changing nature of the industry's products and markets, with biosafety joining the list for the first time and the issue of substandard and falsified medicines gaining prominence. Tackling climate change remains essential, as does responsible business practice against bribery and corruption.

The PSCI Board uses this assessment as a control point to guide its own strategy. It can be a valuable resource for member companies comparing their own assessments and for those outside the sector to understand how supply chain risks are viewed within the industry.

I hope you find it useful.

Dr. Deirdre O'Reilly
Global EH&S Supplier Operations and Business Development Lead, Viatris & PSCI Chair

Methodology

A full double materiality review includes rigorous quantification of impacts; this is challenging to do at a sector level and the resource investment is hard to justify. Instead this analysis uses desk research along with member inputs to score issues using a framework aligned with EFRAG's double materiality guidance.

Research sources

Member feedback was an important input to the assessment process and scoring. Extensive member feedback was readily available, via i) ongoing and regular discussions amongst subject matter experts within our Topic Teams, and ii) a recent (2023) member consultation across all PSCI Principles topics as part of the 3-yearly Principles update process. We also took a sample of members' published responsibility reports to objectively assess the amount of coverage they were giving to the issues list.

Other research sources included:

- Latest legislation, reporting frameworks and investor indices;
- Media reports, NGO activity, and other relevant reports and research;
- External stakeholder input sourced as part of the Principles update consultation, including PSCI's Advisory Panel and other partner organizations.

Members were then consulted on the draft matrix, and their comments fed into the final version; for example, upweighting water stress and grouping labor rights issues.

Planetary Impact 3 criteria scored, using 1-5 scale

	Scope: Pharma industry impact vs other contributors	Scale (geographical): Portion of global life affected	Resonance & remedial ability
5	Significant impact and Pharma amongst highest contributors	Global and large-scale effects on people and other life-forms	Clear influence and pathway; Pharma likely to be held responsible
3	Some impact but others have greater share	Widespread or regional impact	Either influence or pathway is established but not both
1	Little or no impact	Impact is highly localised or small-scale, affecting few people or other life-forms	Little or no influence over change, and/or unclear pathway to change

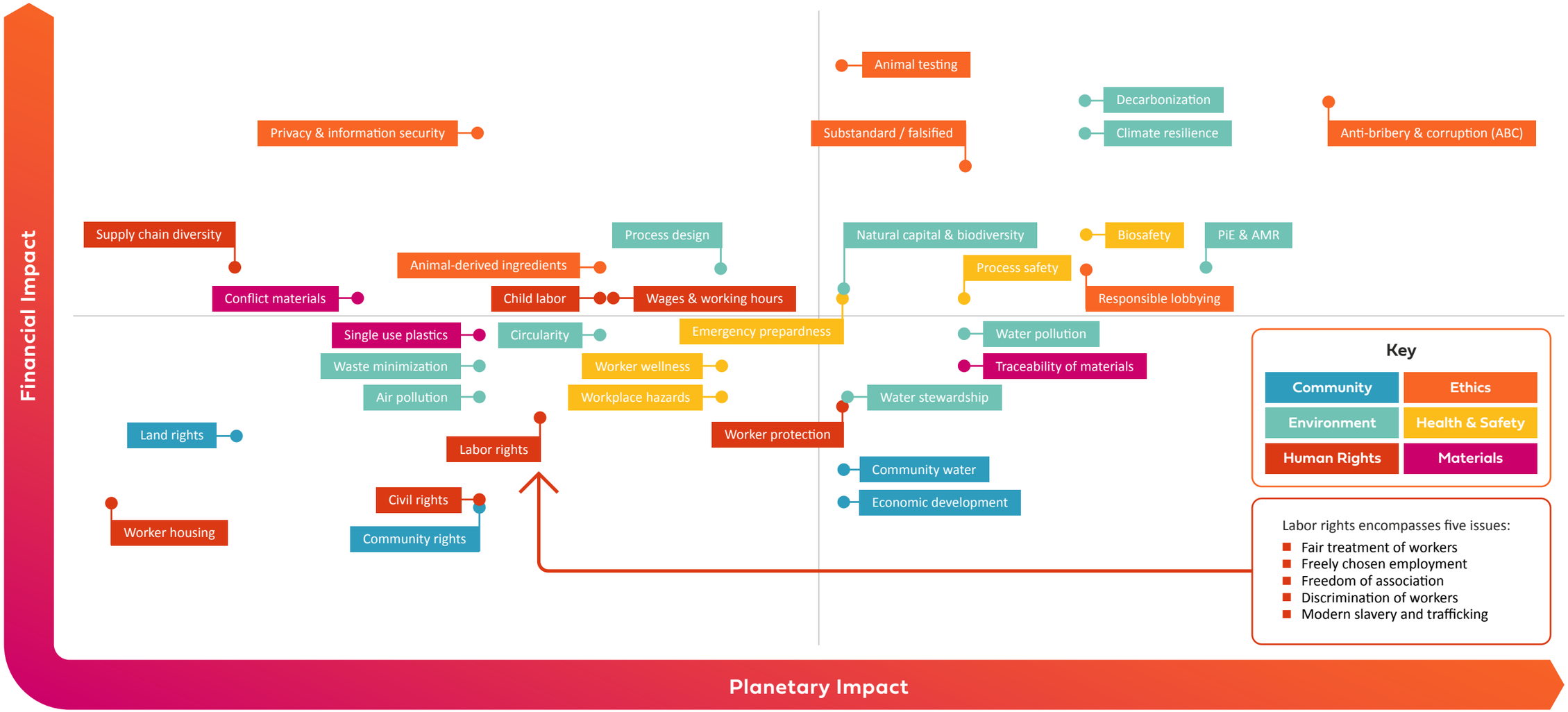
Throughout the assessment and scoring, a patient lens was applied, considering how patients could be impacted by substantially positive or negative handling of each issue.

Business / financial Impact 5 criteria scored, using 1-5 scale

	Legislation & ESG frameworks or indices	Customer decision making	Talent attractiveness	Supply chain efficiency, costs & savings	Ability to innovate
5	Legislation in place with fines attached, high importance amongst investors and featured across key frameworks	Certainly impacts customer decision making. In B2B, may change supplier on basis of this	Key decision factor and likely to be more responsible employers available	Very likely to significantly impact costs or savings in the supply chain	Major factor in innovation, nimbleness or responsiveness to change
3	Some legislation in place or emerging, no or minimal track record of fines/penalties, some interest from investors but not seen as high priority	Medium, likely to impact customer decisions alongside other more important factors	Quite likely new recruits consider this alongside other more important factors	Quite likely to impact costs or savings in the supply chain alongside other larger factors	May help or hinder innovation on certain parts of business; may have potential for greater impact in the future
1	Low or no impact on scores; low interest amongst investors	Very unlikely to impact customer decisions	Unlikely that potential new recruits will consider this	Little or no impact on the cost and efficiency of manufacturing	Little or no impact on innovation or responsiveness to change

Supply Chain Materiality in 2024

Pharmaceutical & Healthcare sector



The issues list

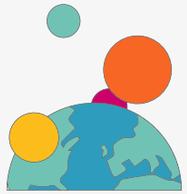
Ethics	**Animal testing and experimentation in product development**	The testing of ingredients and final products on animals
	Animal derived materials in products, ethical considerations and biodiversity impacts	The use of ingredients or components harvested from animals
	Business integrity inc. avoiding bribery and corruption in operations and value chain	Processes to prohibit corruption in the value chain
	The use of data, ensuring privacy requirements and information security	The proper use and protection of personal data, including breaches related to customers, suppliers and/or employees
	NEW **Responsible engagement on policy (lobbying)**	Ensuring political engagement (lobbying) activity is transparent and aligned with the public interest
	Product integrity, substandard and falsified medicines	The use and passing of counterfeit or otherwise improper medicines to patients
Human Rights	**Child labour and young workers in the supply chain**	The employment of workers of school age, or younger workers in unsuitable activities
	Civil and political rights in supply chain	Respecting rights of workers to political and civil engagement
	Fair treatment of workers in the supply chain	The protection of workers from abuse, harassment including sexual harassment
	Freely chosen employment for workers in the supply chain	The rights of workers to leave employment as they wish
	Freedom of association for supply chain workers	The rights to form and join trade unions or equivalent worker representation
	NEW **Housing conditions in supply chain**	This refers to the safety, hygiene, and privacy conditions of the dorms / flats / houses offered by the company to the workers
	Modern slavery, migration, and human trafficking	Distinguished from 'Freely Chosen employment' by the human trafficking / migration aspect
	Discrimination of supply chain workers	No discrimination in employment, advancement, treatment of workers
	Wages, benefits, working hours in the supply chain	Ensuring workers are paid fairly and legally and that hours are not excessive
	UPDATED **Diversity and inclusion in the supply chain**	Ensuring that supply chain includes businesses benefitting all types of owners/managers
Health & Safety	NEW **Biosafety**	This concerns containment of biological substances in a labor manufacturing context
	Emergency preparedness and response	Processes and plans to minimize the impacts of emergencies should they occur
	UPDATED **Workplace hazards**	The identification, labelling and control of hazards in the workplace
	Process safety	The design and management of processes to reduce the risk of accidents
	Worker protection	The protection of workers from accidents and exposure
	Worker health and wellness	The health and wellbeing of supply chain workers, distinct from prevention of accidents
Environment	**Air pollution**	The discharge of polluting substances into the air (excluding Carbon, covered elsewhere) and including noise
	Pharmaceuticals in the Environment (PiE) and Anti-Microbial Resistance (AMR)	Controlling the release of active ingredients, including those with the potential to lead to AMR
	Natural capital and biodiversity	Protecting all natural capitol including the protection of biodiversity and safeguarding against habitat loss
	Decarbonization	Reducing carbon emissions from the value chain.
	UPDATED **Climate change resilience**	The resilience of supply chains to the weather and other changes that will result from a changing climate
	Water pollution	The discharge of polluting substances into water (excluding active ingredients, which are considered under PiE/AMR)
	Water stewardship	Includes the minimization of water required in processes and the safe and sustainable extraction and return
	Waste minimization	The operational control and reduction of waste
	Circularity	The design of business models to enable take-back, reuse and recycling
	Sustainable process design and green chemistry	Designing processes to minimize material consumption and waste
Materials	**Conflict minerals**	The sourcing and use of materials from conflict zones
	UPDATED **Traceability of raw materials**	Incorporating the systems to trace and control the origins of materials
	Single use plastics, use and disposal	Reduction and safe disposal of single use plastic in product, packaging and manufacture
Community	NEW **Communities' human rights**	Respecting and safeguarding the rights of communities
	Rights to property/ land use	Increased attention especially in North America market
	Clean water and hygiene in communities	Ensuring community access to water and sanitation is not compromised by the supply chain. Connected to water stewardship and pollution, but relating to upside potential for pharma to contribute positively to sanitation
	Economic development and poverty	Including employment opportunities for development

Using the results

PSCI uses the assessment in the following ways:

to ensure new and emerging topics are considered – and top issues given due focus - within our activities;

to systematically understand the position of important stakeholders on supply chain responsibility topics;



and, to ensure members' responsibility programs are covering all material issues.

The assessment should not be used as a blueprint for any individual companies' programs. Our membership is diverse in product types, manufacturing and supply chain structure, and risk areas. This assessment represents a sector view and will not align perfectly to any company, and in many cases the differences will be significant.

Since the assessment is specifically focused on supply chains, it also will not align to organizations' corporate materiality assessments.

Pharmaceutical Supply Chain Initiative (PSCI)

pscinitiative.org

info@pscinitiative.org

@PSCInitiative

PSCI

For more information about the PSCI please contact:

PSCI Secretariat
Carnstone Partners Limited
Third floor
26 Farringdon Street
London EC4A 4AB

info@pscinitiative.org

+44 (0) 7587 076 059

 Design by nineteenseventyone