

# 2-3

## Cooperation

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### HIGHLIGHTS



#### 5<sup>th</sup> Time annual supplier conference

Taiwan's first airline to hold an annual supplier conference for five consecutive years.



#### 1<sup>st</sup> airline to conduct sustainability audits

Taiwan's first airline to perform sustainability audits.



#### 3<sup>rd</sup> Time received highest scores in supply chain management criteria of DJSI

Granted the highest score in supply chain management criteria of DJSI for three consecutive years.

### Management Approach GRI 103-1,103-2,103-3

#### ► Importance of Material Issues

CAL's vision of "becoming the preferred airline in Taiwan" has firmly established it in Taiwan and around the world. We are committed to the pursuit of sustainable development. We understand that truly sustainable development and value can only be achieved through collaboration with our business partners. Thus, we have formulated the sustainable supply chain management policy, according to international standards and guidelines such as the United Nations Global Compact (UNGC), International Labour Organization (ILO), and ISO 26000:2010 Guidance on Social Responsibility. The sustainable supply chain management policy is applicable to the suppliers and contractors of CAL and its subsidiaries and joint ventures. Hence, we urge that the principles of sustainable development be implemented as part of our overall supply chain management to jointly fulfill our corporate social responsibility.



Sustainable  
Supply Chain  
Management  
Policy Statement



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#### ► Commitment and Long-Term Goals

##### • Commitment

To achieve supply chain sustainability, CAL has committed itself to the development and continuous improvement in the three dimensions of governance, society, and the environment.

##### • We are committed to

1. Conducting risk and impact assessments to ensure supply chain sustainability and establish fair, transparent mechanisms for supplier management.
2. Selecting economic and acceptable products and services by considering their environmental and social effects.
3. Adhering to ethical business standards by eliminating leakages, vested interests, and corruption.

##### • We require all suppliers and contractors to

1. Strictly abide by local and international laws and regulations.
2. Implement quality control systems that ensure the quality and safety of products or services provided.
3. Establish information security mechanisms that prevent the misuse of confidential and sensitive information.
4. Comply with local and international human rights and labor standards, and not follow child labor and discriminatory practices.
5. Provide a safe working environment and secure workplace over health and safety issues.
6. Discontinue forced labor and guarantee freedom of association as well as proper working conditions and pay.
7. Reduce the negative impact of products and services on the environment and society in accordance with sustainability-related regulations.

##### • Long-term Goals



#### 2023

1. Maintain SAQ Score at 86 points
2. Optimize risk management for sustainable supply chain, implement the SAQ, and audit 70% of critical tier-1 suppliers and 50% of critical tier-2 suppliers by 2023

#### 2025

1. Maintain SAQ score at 87 points
2. Expand the scope of supply chain management, implement SAQ audits, audit 100% of critical tier-1 and tier-2 suppliers by 2025

#### 2030

1. Maintain SAQ score at 89 points
2. Provide supply chain training, improve assistance mechanisms, and continuously implement a SAQ

#### ► Unit in Charge

Corporate Sustainability Committee — Supply Chain Task Force (in charge of aviation supplies, jet fuel, in-flight catering, and service procurement as well as general affairs)

#### ► Management Mechanisms

- The meeting of Corporate Sustainability Committee, at least twice a year
- Supply Chain Task Force reports to Corporate Sustainability Committee, every quarter
- Expand the SAQ to cover the critical tier-2 suppliers

#### ► Objectives and Plans

KPI	2020			2021 Objectives
	Objectives	Performance	Achievement	
Convene Annual Supplier Conference	One session	Held in Taipei on December 24, 2020	100%	One session
Conduct SAQ	Response rate at least 70%	Response rate over 75%	100%	Response rate at least 71%
Critical Supplier SAQ Score	85 points	89 points	100%	86 points
Implement Procurement Staff Training	Two sessions	Three sessions to be held in May, July and October respectively	100%	Three sessions

#### ► Grievance Mechanisms

CAL's suppliers access information on grievance mechanisms through the QR code below. Grievances will be handled by our dedicated personnel immediately.

- **General Products: Administration Division** —  
E-mail: [tpuou@china-airlines.com](mailto:tpuou@china-airlines.com)
- **Aviation Parts: Engineering Division** —  
E-mail: [AOG\\_DESK@email.china-airlines.com](mailto:AOG_DESK@email.china-airlines.com)
- **E-shopping / Duty free: In-flight Service Supply Division** —  
E-mail: [e-shopping@china-airlines.com](mailto:e-shopping@china-airlines.com)








Stakeholder  
Contact

## 2-3-1 CAL Value Chain GRI 102-9

Compared to other industries, the aviation industry is fairly unique regarding safety concerns. As of 2020, the CAL Group had established 31 joint ventures extending across business sectors including air transport, ground handling service, tourism, aerospace technology, air transport support, and logistics and warehousing. By integrating strengths from each component, the Group expects to optimize its overall quality of service, competitiveness, and value chain.

### Material Procurement Types

Category (No. of Tier-1 suppliers / Critical Tier-1 suppliers)	 <b>Aviation Materials</b> Aircraft Parts (558 / 14)	 <b>Aviation Fuel</b> Fuel Required for Flight (20 / 5)	 <b>In-Flight Catering</b> In-Flight Meals Offered to Passengers (29 / 7)	 <b>Ground Handling Service</b> Airport Manpower (57 / 1)	 <b>General Products</b> Goods Required for Overall Operations (240 / 36)
<b>Description</b>	Aviation materials are keys to flight safety. Therefore, aviation materials must have certificates of qualification, and their airworthiness must be confirmed by related units. / divisions / departments.	Fuel is vital for flight and its cost of procurement forms one contributor to operating costs.	In-flight catering stands as one of CAL's crucial quality services. CAL provides passengers with a complete in-flight experience based on the needs of long-haul and short-haul passengers and nationality requirements.	CAL provides excellent airport services, and improves passengers' satisfaction throughout the journey with the help of its ground staff and agents.	General products refer to basic supplies required for business operations to improve operational efficiency and quality.
<b>Critical Supplier's Definition</b>	Irreplaceable suppliers and yearly accumulated procurement amount is over certain percentage.	Irreplaceable suppliers or the procurement amount is accounted for over certain jet fuel cost in whole year.	Suppliers offer long-haul service. (including the China Pacific Catering Services at Taipei Station)	Irreplaceable suppliers, exclusive ground handling agent which is not affiliated with airlines, and yearly flights handling by the suppliers are accounted for over certain total flights of CAL.	Irreplaceable suppliers or yearly accumulated procurement amount is over certain number.

Note: Material procurement types are defined by the volume of procurement.

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## 2-3-2 Sustainable Supply Chain Management GRI 204-1, 308-2, 407-1, 414-2

CAL has implemented sustainable supply chain management since 2014 and later established the Supply Chain Task Force to be in charge of sustainable supply chain management covering aviation supplies, jet fuel, in-flight catering, and service procurement as well as general affairs. In addition to setting the long-term sustainable development goals in accordance with the UN's Sustainable Development Goals (SDGs), CAL has formulated the "[Sustainable Supply Chain Management Policy Statement](#)" and "[Supplier Code of Conduct](#)" in accordance with international standards, including the Global Reporting Initiative (GRI), ISO 26000, United Nations Global Compact (UNGC), and International Labour Organization (ILO). CAL also established risk review mechanisms to perform audits, held the supplier conferences for facilitating negotiations, and reported the results to the Corporate Sustainability Committee for review every quarter.



Supplier Code of  
Conduct

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## 2020 Achievements

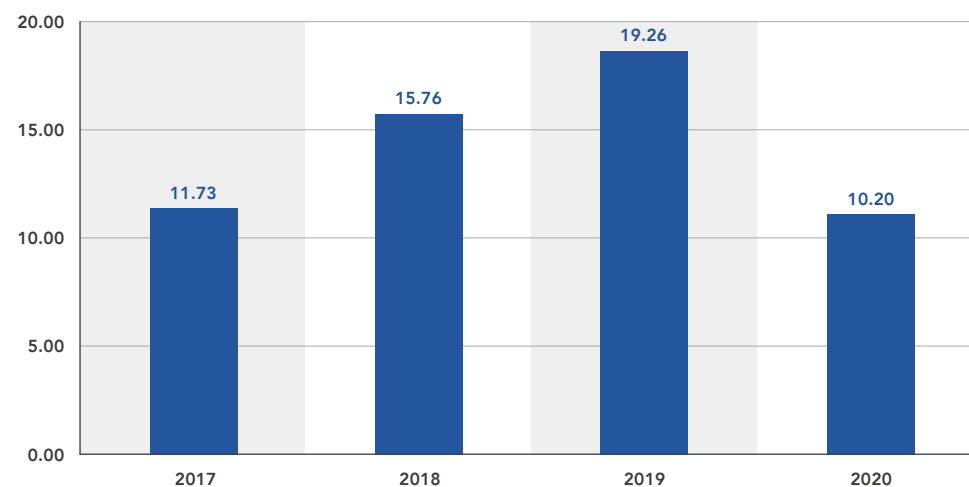
### 1. Performance of Supply Chain Sustainability

#### Green Procurement

Recently, CAL has not only introduced energy efficient passenger aircrafts including A350-900 and B777-300ER but also shifted to adopt energy-saving equipment such as choosing lightweight materials for onboard equipment. Moreover, CAL has also introduced electric vehicles to gradually replace traditional ground vehicles, thus reducing their fuel consumption and carbon emissions. To reduce the use of plastic as a raw material, we have also supplied environmental-friendly paper towels and magazines printed by FSC-certified paper in all CAL's flights. In addition, CAL also prioritizes the use of local ingredients to reduce the food miles and carbon footprint of food ingredients during transport. Although the total amount of green procurement in 2020 decreased by 47% in comparison with that in 2019 due to the effect of COVID-19 and a significant decrease in flight frequency, CAL will continue to promote and implement green procurement to reduce the impact on the environment.

#### Amount of Green Procurement

(Unit: TWD million)



Note: Green procurement includes Category I, Category II, and Category III eco-products specified in the "Regulations for Priority Procurement of Eco-Products (January 15, 2001)."

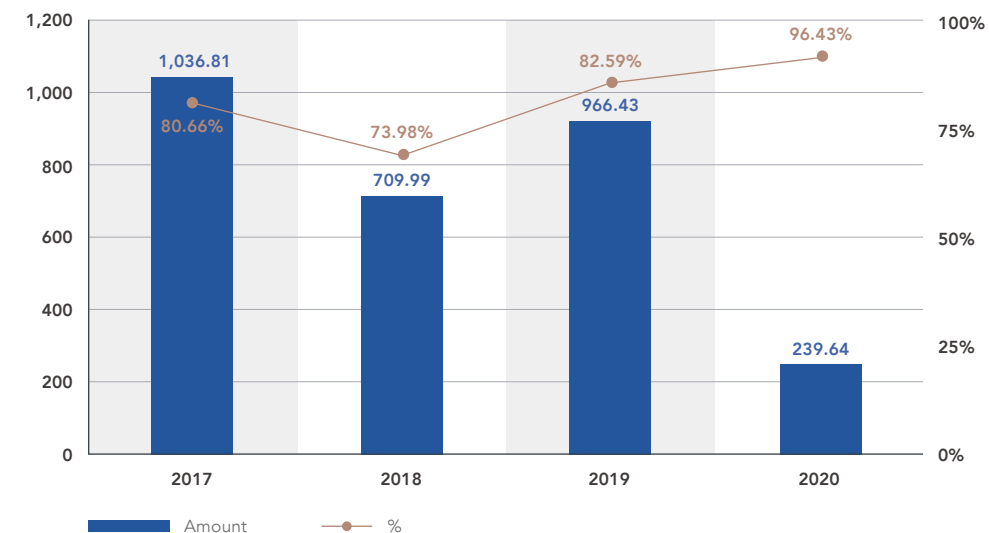
#### Local Procurement

Except for certain aviation equipment, components, and some procurement that are subject to international standards, CAL has been dedicated to sourcing from local suppliers (Taiwan, Penghu, Kinmen, and Matsu) to boost the local economy. For example, the juice for business class passengers is sourced from local Taiwanese produce, which can reduce carbon footprints for environmental protection. A significant decrease in the local procurement in 2020 compared to 2019 was due to the impact of COVID-19. However, the rate of purchasing products from local suppliers gradually rose to 98.79%, indicating that CAL still used the limited budget to promote local procurement during the epidemic.

#### Amount of Local Procurement

(TWD million)

(%)





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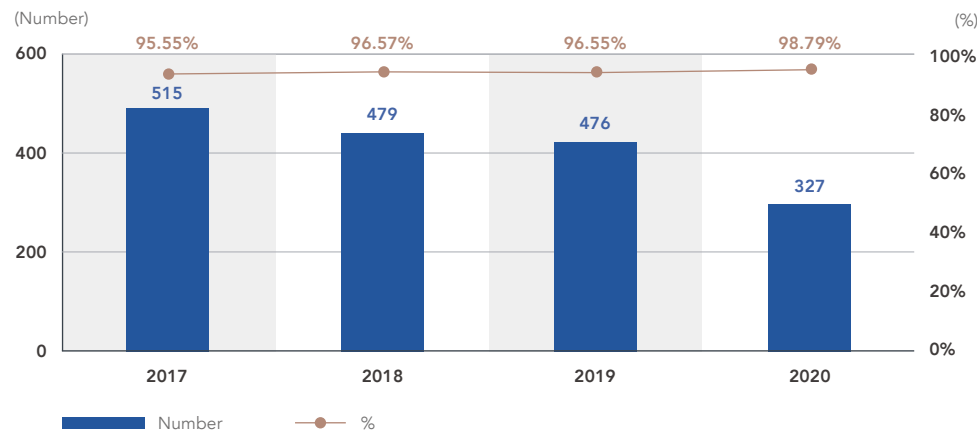
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## Number of Local Suppliers



Note 1: The statistics include the Administration Division and the maintenance park and exclude the independent procurement of the fleet, the In-flight Supply Chain & Marketing Division, and the Ground Services Division.

Note 2: Aircraft parts are not included because they are subject to special certification.

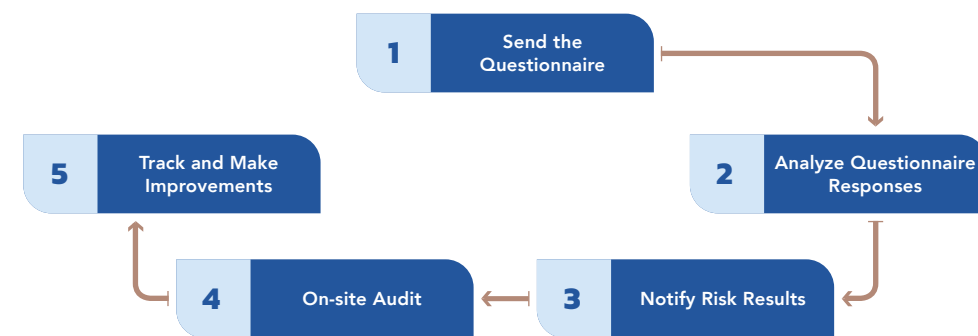
## 2. Risk Assessment of Supply Chain Sustainability

To strictly control supply chain sustainability risk, CAL has conducted a survey for supply chain sustainability risk and formulated our Sustainability Assessment Questionnaire (SAQ) since 2015 based on international initiatives and evaluations such as the GRI Standards, ILO, UNGC, Dow Jones Sustainability Index (DJSI), CDP, and the Universal Declaration of Human Rights. CAL also established a sustainable supply chain management system to improve the accuracy of the results of the SAQ in 2017, the functions of which include specifying the definition of critical suppliers, conducting the Sustainability Assessment Questionnaire (hereinafter SAQ), formulating regulations for review and designing relevant forms, setting different goals for short-term, mid-term, and long-term reviews, and improving the follow-up tracking mechanism. To strengthen the supply chain management, CAL started to identify supplier risks at the beginning of the year, conducted due diligence in the middle of the year, and reviewed the improvements at the end of the year. Supplier training courses were also organized to fully control suppliers with high risks, and relevant reviews were conducted to further reduce supply chain sustainability risks.

As for the SAQ, CAL conducted the SAQ with 79 suppliers (including 63 critical tier-1 suppliers) in 2020, accounting for 68.49% of the total procurement amount of all tier-1 suppliers with a response rate of 81.01. The result of the SAQ shows that the average score of the suppliers was 88.59 in 2020. The average scores in the four dimensions (please refer to the note) were above 84 respectively, showing that most of the suppliers have incorporated the concept of sustainability into these four dimensions. The average score in the environmental dimension was under 80, but CAL has noticed the result and invested more resources in 2019 to enhance its suppliers' environmental performance so it gained a significant growth in 2020. Moreover, CAL achieved the stage target in 2020, auditing 30% of critical tier-1 suppliers.

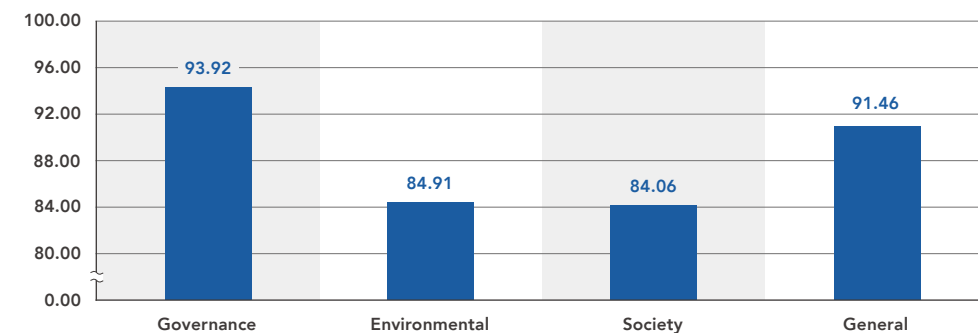
Note: "Governance" includes ethics, regulatory compliance, and meeting the norm of industrial practices; "Environment" refers to energy and resources management and environmental protection; "Society" includes human rights and labor conditions, and occupational safety and health; "General" includes quality, safety, and information security.

## Procedure of Identifying Risk of Supply Chain Sustainability



## 2020 Risk Survey of Supply Chain Sustainability

(Unit: Score)



## Overall Performance of Supply Chain Sustainability

- In 2020, the score of supply chain sustainability risk assessment was 88.59 points.
- Governance:** The score remained steady compared to last year, averaging over 90 points. Normally, critical suppliers have internal management mechanisms but CAL will continue to require suppliers to enhance their governance related to ethics and regulatory compliance.
- Environment:** After completing the CAL's education and training courses and receiving the follow-up tracking, the suppliers have gained a better score compared to last year. Moreover, CAL will keep tracking suppliers' performance in the environmental dimension.
- Society:** Although the score of this year still reached 80, it slid in comparison with the previous years. It is the dimension that CAL needs to provide guidance and assist suppliers in.
- General:** The score remained steady compared to last year, placed 2nd among the four dimensions. CAL will continue to request for regular inspections to examine suppliers' quality management and information security systems.

## Improvements to Be Made

- Governance:** Although the score hiked the most compared to last year, it was still the lowest score among the four dimensions; Therefore, CAL will pay more attention to the suppliers with



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high environmental risks in this dimension, providing guidance and reviewing them in addition to offering education and training courses to strengthen their concept of environment and urging them to formulate environmental management policies.

- **Environment:** Mainly because suppliers underperformed in operational safety and health, this aspect now becomes the focal point where CAL will provide more guidance to suppliers to improve.
- **Society:** Only one supplier has a quality management system, but CAL will continue to provide guidance and urge them to take corrective measures.
- **General:** Although the governance dimension obtained the highest score among the four dimensions, still two suppliers haven't formulated regulations for fair transaction mechanisms and haven't established a mechanism for avoiding any conflict of interest, which CAL will provide guidance and urge them to take corrective measures.

#### Improvement Action

CAL will continuously evaluate suppliers with the SAQ to examine their performances in each dimension and will expand the current range of risk assessment surveys in the hope of precisely identifying suppliers with high risks and comply with the current review systems to further understand suppliers' problems, thereby helping them improve. In addition, CAL will keep providing the relevant information and education and training about sustainable development and current epidemic situations to enhance suppliers' performances in supply chain sustainability.

### 3. Sustainable Supply Chain Audit

There are 2 overall high-risk suppliers in the 2020 SAQ analysis results, and there are no overall high-risk suppliers in the 2021 SAQ analysis results after the China Airlines follow-up audit. To better control the current conditions of suppliers' sustainable supply chain, CAL has set up different audit plans in different stages for sustainable supply chain management and has completed 30% of the audit target of critical tier-1 suppliers in 2020. The audit methods that CAL adopted were conducted on site or through written document and communication reviews based on locations and nature of suppliers and border controls for COVID-19. The audit survey in 2020 showed that suppliers didn't establish an environmental management system (EMS), formulate relevant measures of classification and recycling for recyclable waste to monitor suppliers' environmental performance, provide regular education and training courses on environmental management and regulations, etc. The abovementioned is what suppliers need to improve in the environmental dimension. After receiving the training, follow-up tracking, and guidance provided by CAL, half of the critical tier-1 suppliers have progressed significantly in the environmental dimension. In the future, CAL will redouble its efforts to enhance the environmental dimension and social dimension and will keep tracking suppliers and request them to improve.

### 4. Assisting Suppliers Reduce Risks

#### Convene Annual Supplier Conference

CAL convened the fifth annual sustainable supplier conference with 33 participating suppliers (44 partners in total) on December 24, 2020. In the conference, experts shared the global trends of sustainable development and supply chain management; CAL also elaborated on how it promoted the sustainable supply chain for the year and its future goals and plans for sustainable supply chain. Moreover, CAL introduced the correct concept to suppliers for work through two-way interactions

in the workshops. CAL will also place more emphasis on the environmental dimension and social dimension based on the result of the 2021 SAQ and will prioritize what should be improved for suppliers as the theme in the following supplier conferences.



#### In Alignment with the Global Trend, Continuing Education and Training Courses on Sustainability

CAL will continue to promote sustainable education and training for procurement personnel to further enhance their knowledge about sustainability, which is one of CAL's important goals for sustainability. In 2020, relevant procurement personnel not only continued to participate in training on the sustainable supply chain to better understand the international supply chain standards and to align with the trend, thus handling the current situations, but also focus on how to adjust its current approaches due to the tremendous impact of COVID-19 and the future direction of sustainable management. It is hoped that the personnel can combine the latest information and trends with the knowledge of sustainability through the training and can appropriately adjust the sustainable supply chain. Moreover, CAL will continue inviting external experts to provide education and practical training courses on sustainability audits for all procurement personnel in the hopes of that future procurement can be conducted in accordance with CAL's sustainable supply chain management approaches and operations of the management system.

### Future Plans

CAL will continuously strengthen sustainable supply chain management mechanisms aside from further understanding suppliers' sustainable management conditions through annual surveys. To further enhance sustainable management mechanisms, CAL also set a goal to complete the tier-2 supplier review and its risk assessment in 2023. CAL will continue to achieve 100% reviews of critical tier-1 suppliers by 2025.

As for internal management, CAL will ask procurement personnel to attend three external sustainability education and training courses or seminars; As for external management, CAL will continue to provide education and training on sustainability for suppliers to help them and the personnel further understand sustainability.

Apart from the goal of this year that is to consolidate suppliers' concept of sustainability such as the ESG concept through two-way exchanges with suppliers in the annual conference, CAL will continue its fruitful results in 2020 to strengthen suppliers' governance and will focus on the impact caused by the epidemic on its sustainable supply chain to deepen mutual exchanges.