

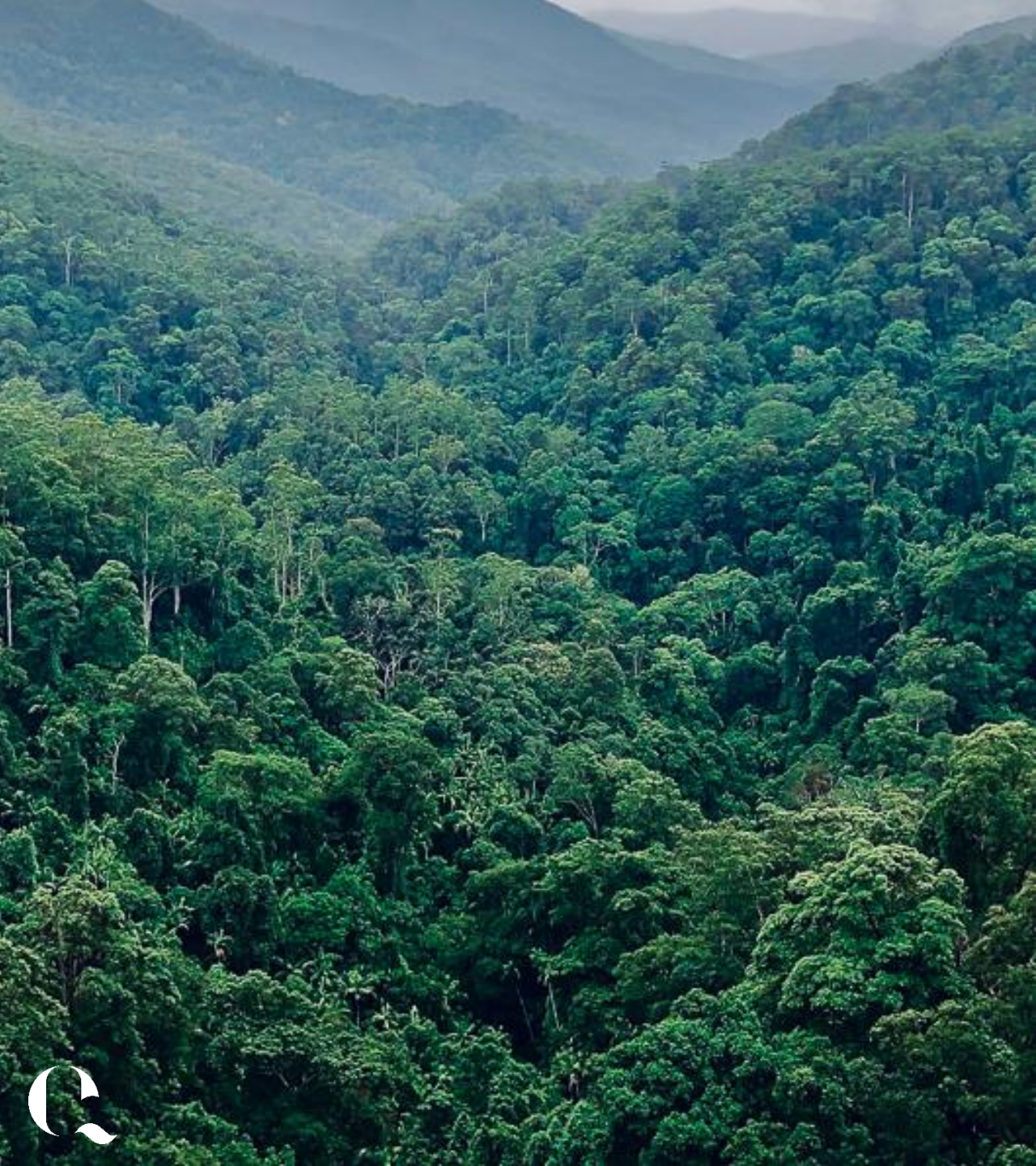


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British-Swedish Chamber of Commerce

Sustainability Due Diligence

24 November 2022

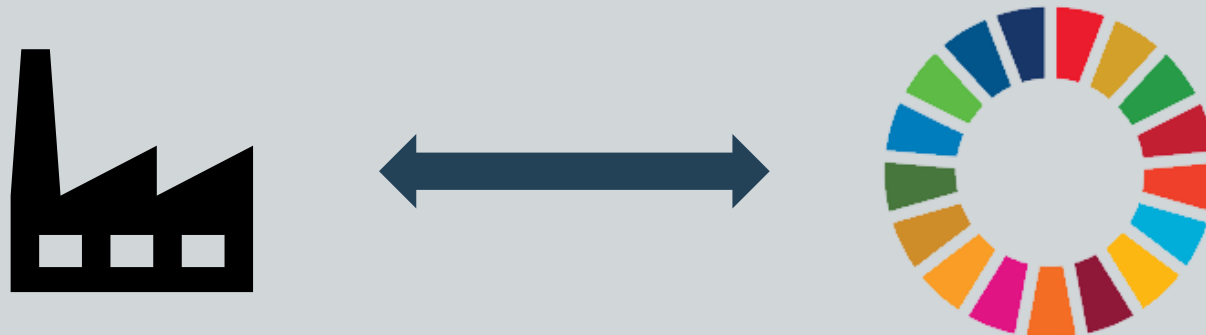


BACKGROUND

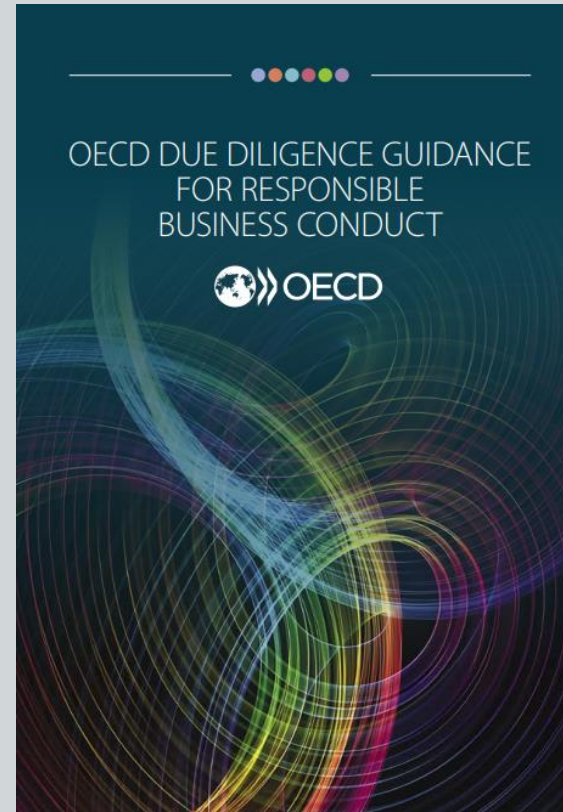
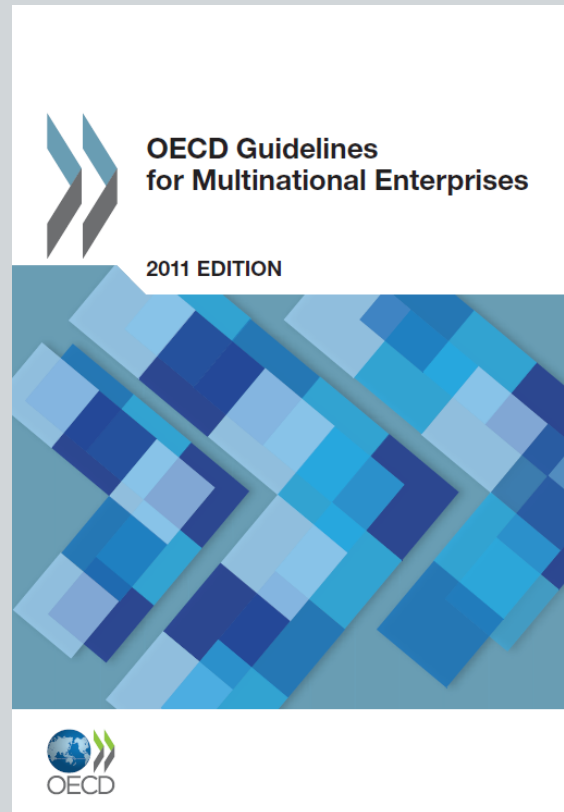
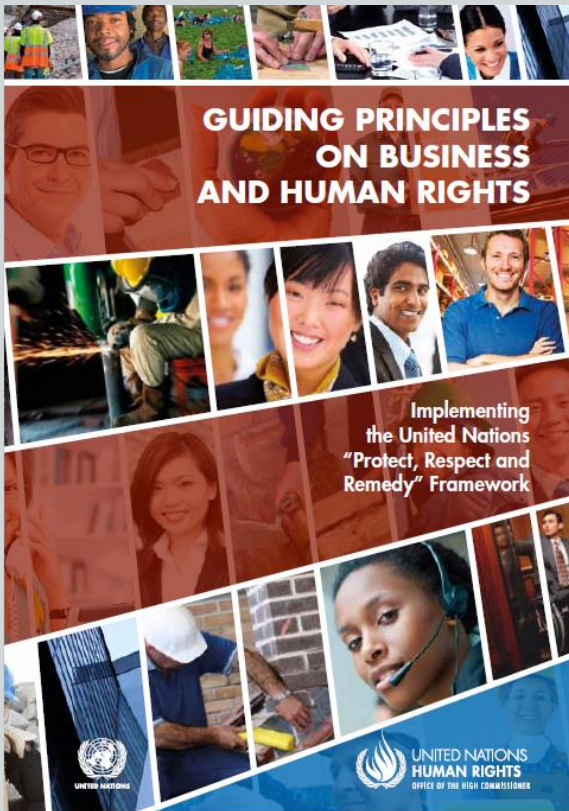


Companies' role in sustainable development

- Companies operate on a global market with urgent challenges relating to sustainability
- Many depend on complex value chains with multiple suppliers in various jurisdictions
- The behaviour of companies is key to succeed in the climate transition and to achieve sustainable development



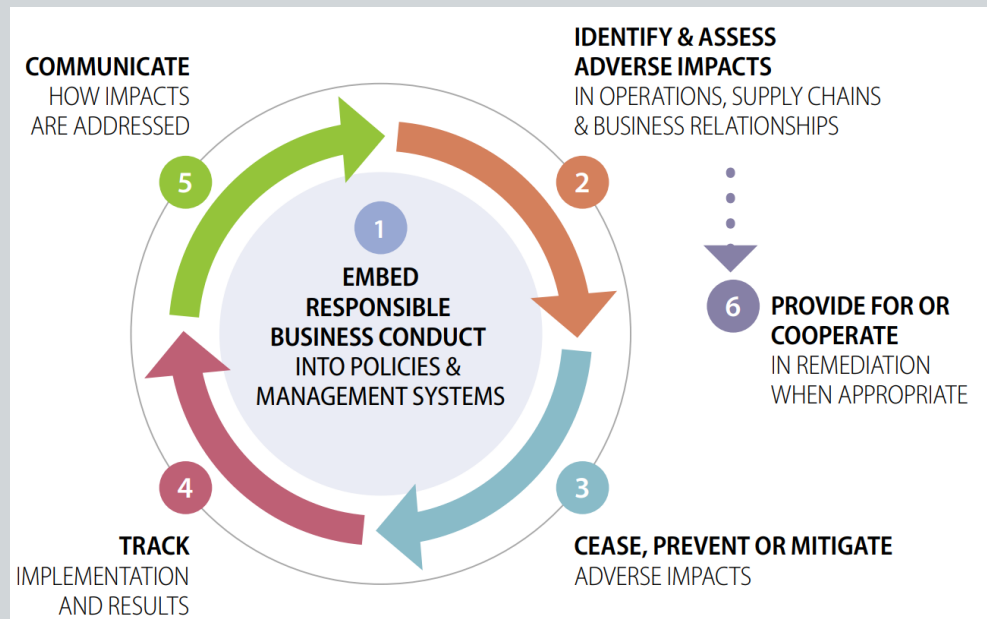
Voluntary international standards



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What is due diligence?

- A process to identify, prevent, mitigate and account for how companies address actual and potential adverse impacts in their own operations, supply chain and other business relationships
- The concept of “risk” in due diligence relates to the likelihood of adverse impacts on people, the environment and society that companies cause, contribute to, or to which they are directly linked
 - Such negative impact also entail risks to the company; financial, market, operational, reputational, etc.



Source: OECD Due Diligence Guidance for Responsible Business Conduct

POLICY DEVELOPMENT

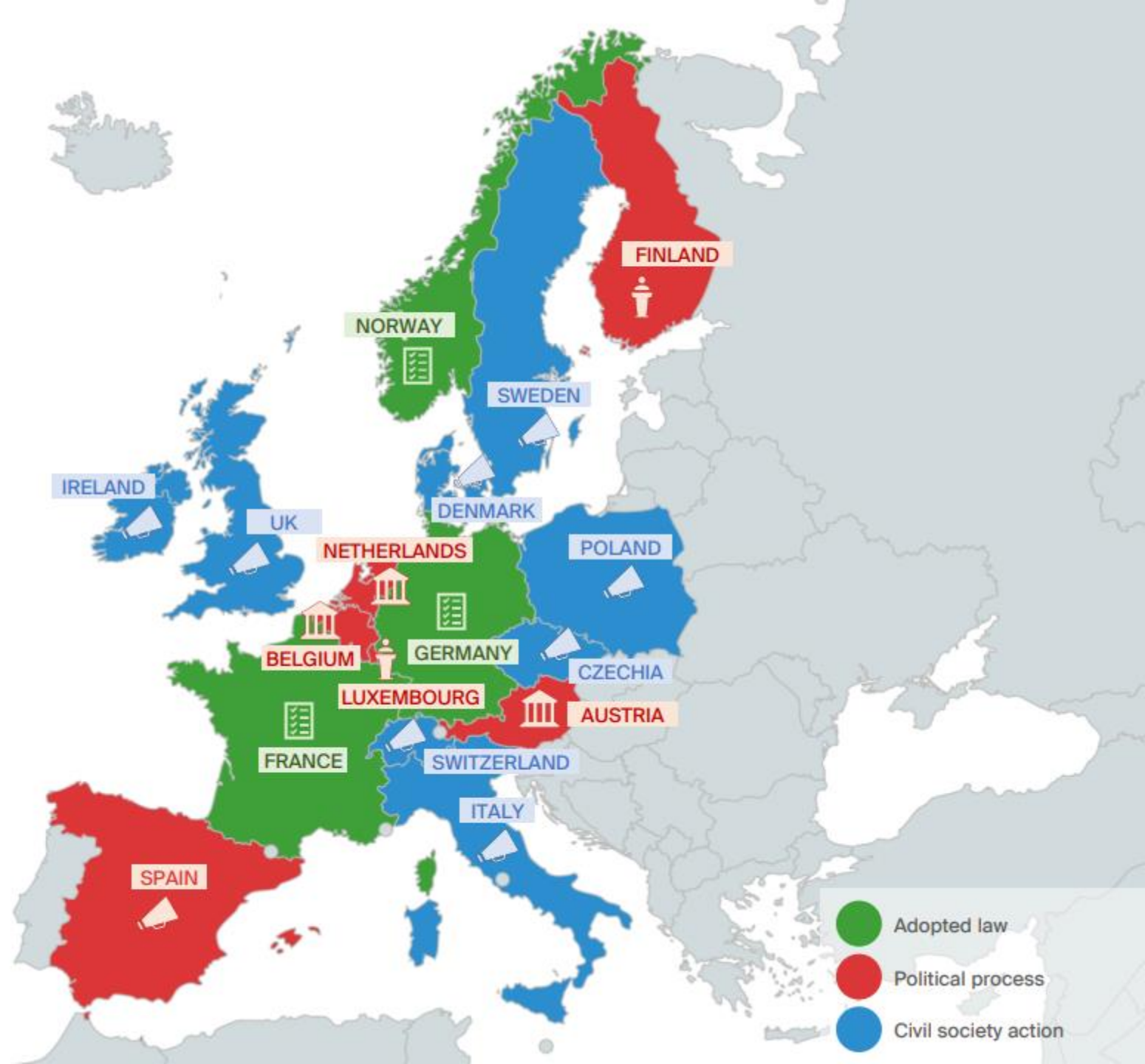


The trend: Hardening soft law

- The use of voluntary standards alone has not resulted in large scale improvement
- Increasing scrutiny and requirements from stakeholders that companies take responsibility for negative impact in their value chains
- Called for by companies that want a level playing field and increased leverage



FRANCE	Law on the duty of vigilance of parent and outsourcing companies
GERMANY	Law on the corporate duty of care in supply chains
NETHERLANDS	Law on child labour due diligence
NORWAY	Law on business transparency and human rights and decent working conditions
AUSTRIA	Parliamentary proposal for a supply chain law
BELGIUM	Parliamentary proposal on the corporate duty of vigilance and care in value chains
FINLAND	Government commitment to due diligence legislation
LUXEMBOURG	Government commitment to due diligence legislation
NETHERLANDS	Government commitment to due diligence legislation Parliamentary proposal on responsible and sustainable international business conduct
SPAIN	Government's Annual Regulatory Plan includes a legislative initiative on due diligence



Policy development in the EU

- The Commission adopted its proposal for a Directive on Corporate Sustainability Due Diligence on 23 February 2022
 - Ongoing negotiations with the European Parliament and the Council
- Underpins EU reporting requirements and transparency tools (NFRD/CSRD, SFDR, Taxonomy Regulation)
- Complements due diligence requirements in other EU instruments, *inter alia* relating to conflict minerals, batteries, deforestation-free supply chains, sustainable products/ecodesign and products made by forced labour
- Important to fulfil objectives of other measures in this field, including the EU climate legislation and targets



Main features of the proposed CSDD Directive

- Obligations for companies to conduct environmental and human rights due diligence with respect to own operations, subsidiaries and value chain operations where there is an "established business relationship"
- Applies directly to about 1 % of EU companies, but will have significant "trickle-down effect" in their value chains
 - EU companies:
 - < 500 employees and < MEUR 150 net turnover (group 1)
 - < 250 employees and < MEUR 40 net turnover, of which 50 % from risk sector (group 2)
 - Non-EU companies:
 - < MEUR 150 net turnover in the EU (group 1)
 - < MEUR 40 net turnover in the EU, and 50 % of net worldwide turnover from risk sector (group 2)
- Group 1 companies must adopt a plan to ensure that business model and strategy is compatible with the transition to a sustainable economy and the Paris Agreement's 1.5-degree goal



Main features of the proposed CSDD Directive

- Also new provisions on, *inter alia*
 - Supervision
 - Sanctions
 - Civil liability
 - Director's duties of care
 - Directors' responsibility for setting up and overseeing due diligence



THE DUE DILIGENCE PROCESS



1. Integrate due diligence into policies and management systems

- Integrate due diligence into all corporate policies and implement a specific due diligence policy

Work actively with your corporate policies

- Review existing policies
- Update and supplement
 - Cover salient risks
 - Include all operations
 - Specific due diligence-policy
 - Policies for high risk areas
- Communicate
- Review and update

Make due diligence a part of the business process

- Impact on humans, environment and society should inform all decisions and measures
 - Assign responsibility
- Establish channels of communication and information management systems
- Create feedback loops for continuous improvement
- Consider incentives

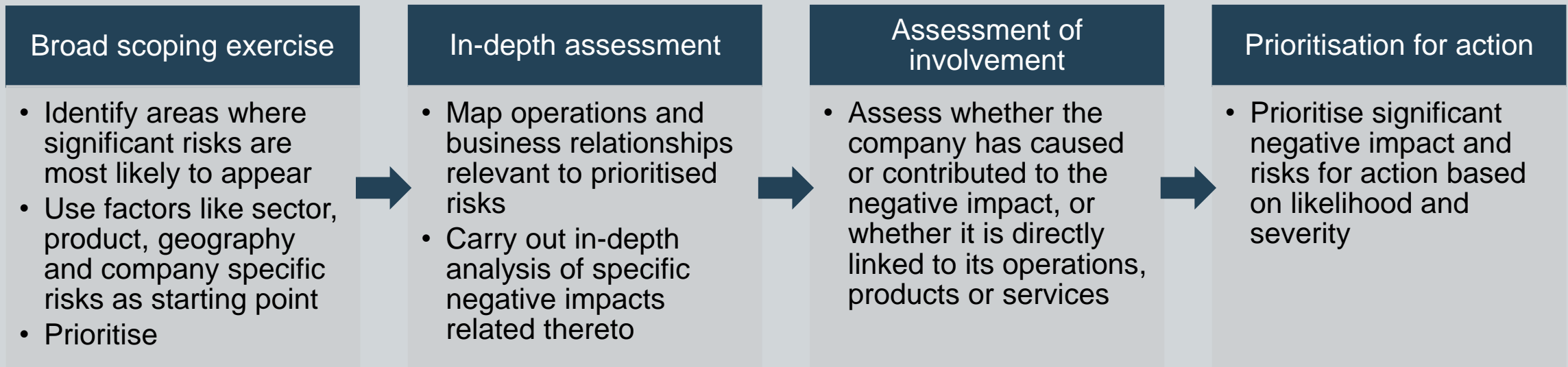
Involve your business relationships

- Communicate key aspects of policies to business relationships
- Set up pre-qualification processes
- Include contractual provisions on expectations, review/audit and consequences of non-compliance
- Provide adequate resources and training, in particular to SMEs
- Consider incentives



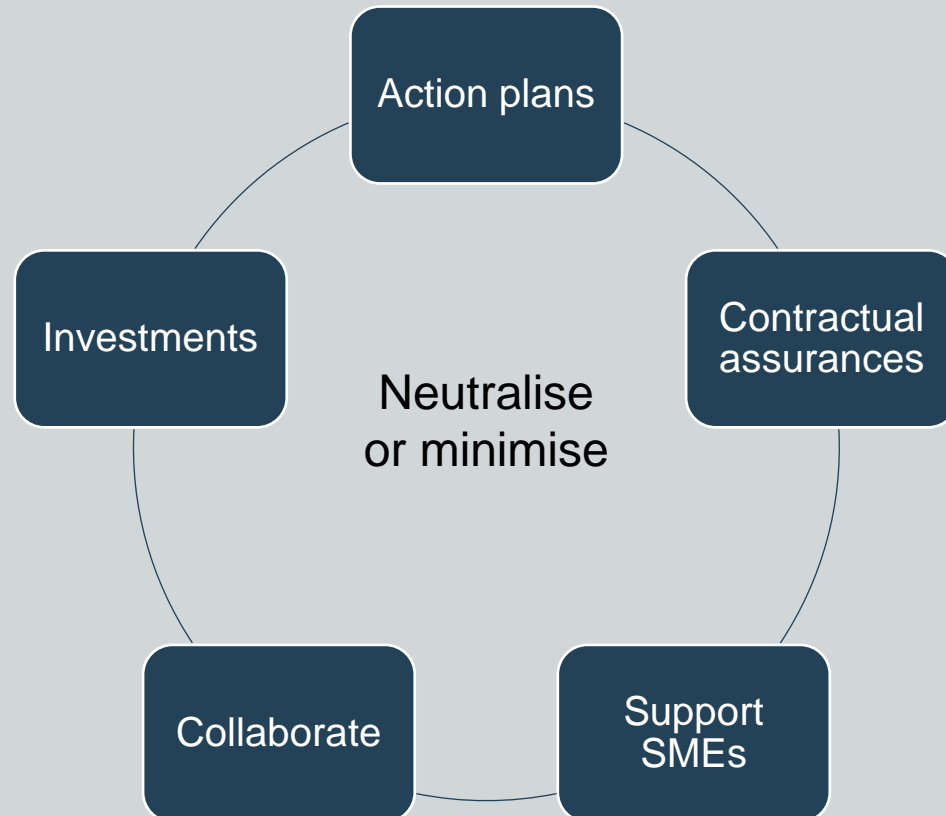
2. Identify actual and potential adverse impact

- Take appropriate measures to identify actual and potential adverse human rights and environmental impacts
 - commensurate to severity, likelihood and nature of adverse impacts (risk-based)
 - use appropriate resources, including independent reports, complaints and stakeholder consultations



3. Cease, prevent and mitigate adverse impacts

- Take appropriate measures to cease, prevent and mitigate adverse impacts that have or should have been identified



Multi-stakeholder initiatives can support implementation of the due diligence process

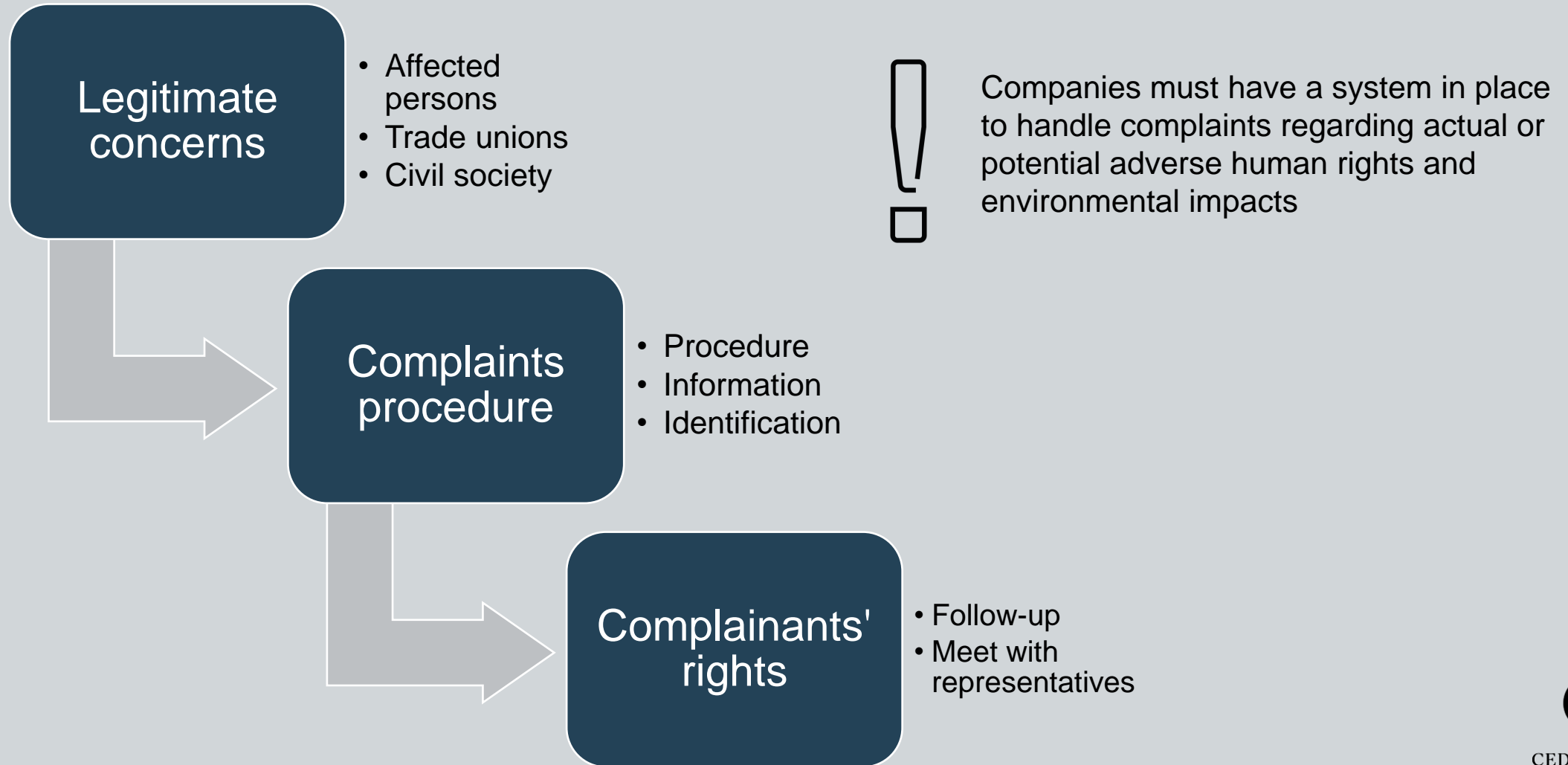


Disengagement as last-resort action

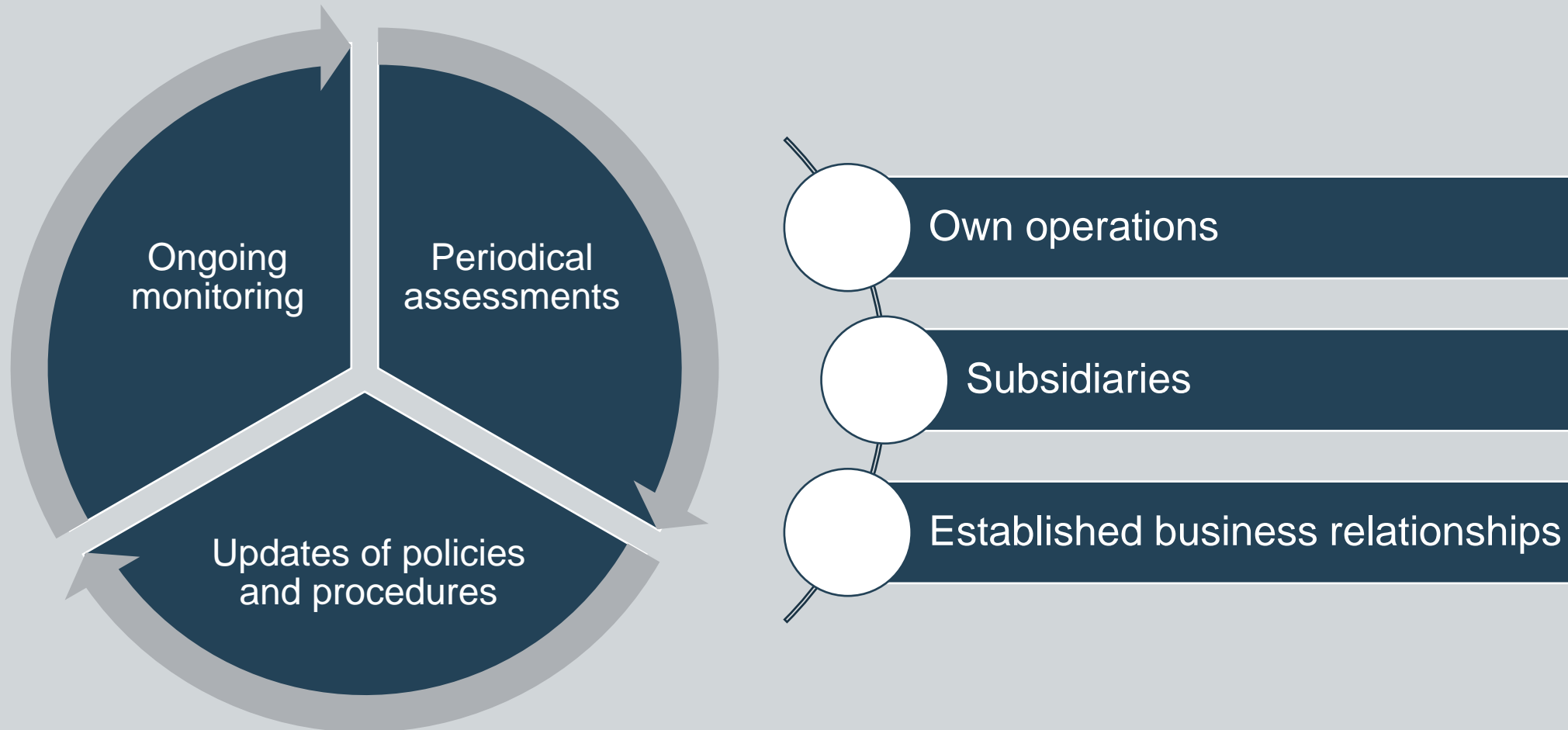


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4. Establish and maintain a complaints procedure



5. Monitor the effectiveness of policies and measures

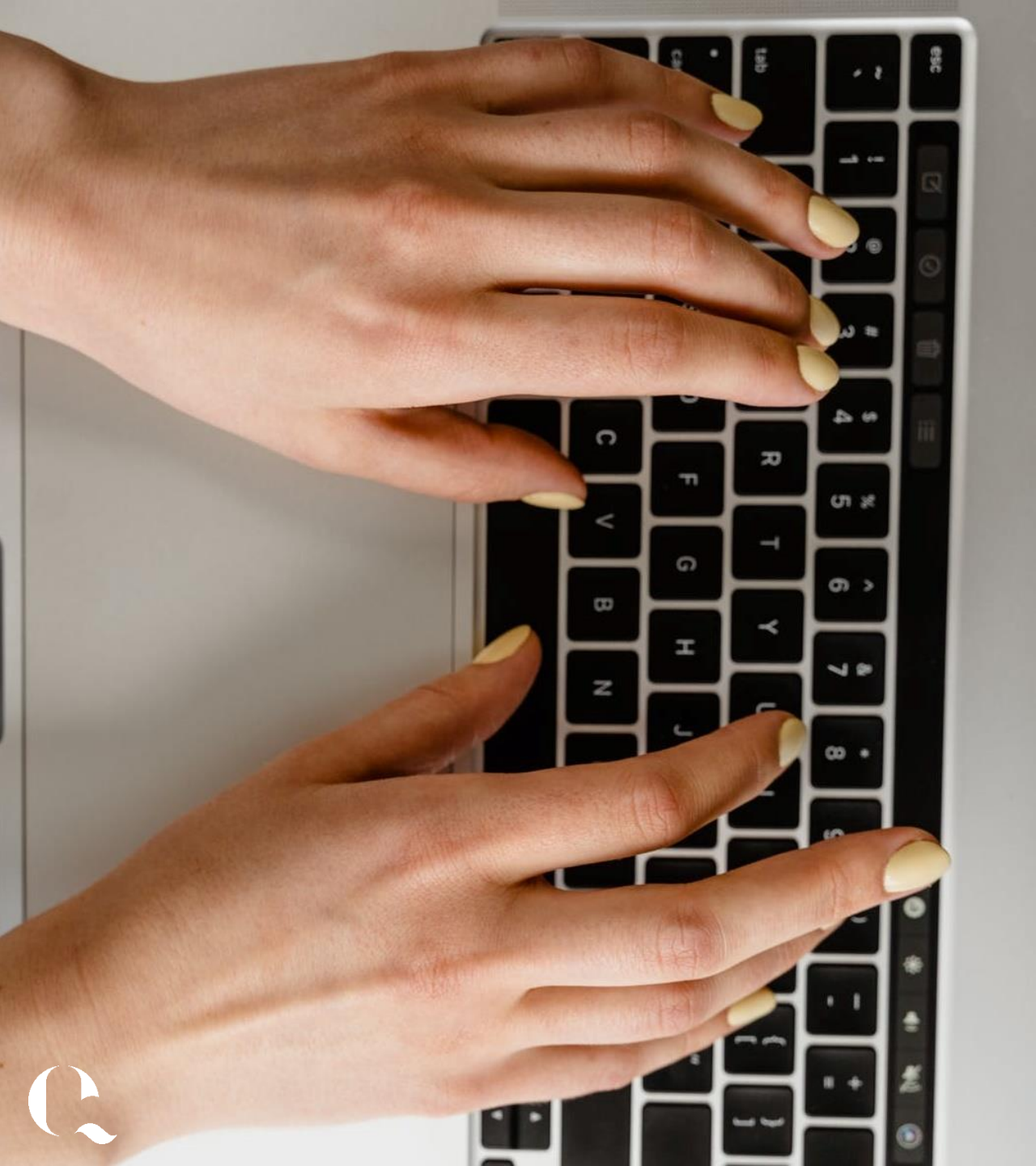


6. Publicly communicate

- Companies not subject to EU reporting requirements to publish an annual statement on their website
- The Commission will establish content and criteria for such reporting in delegated acts, specify information on the description of due diligence, potential and actual adverse impacts and actions taken on those



KEY TAKEAWAYS



Key takeaways

- Due diligence is becoming the norm and is an essential tool to prevent risks and mitigate negative impacts
- Get started by mapping out your value chain and using a risk-based approach
- Engage with stakeholders through all steps of the process
- Break down any sustainability silos
- Remember that it is a process of continuous improvement





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