

ESG implications across a company's value chain

An in-house counsel's view

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One vision of ESG...

... A bridge between multiple internal constituencies, with a tailored and preemptive approach

Environment

- Sustainability
- Climate change
- Waste & recycling
- Product circularity
- Water resources
- Biodiversity
- Deforestation
- Minerals

Social

- Human rights
- Labor rights
- Employee wellbeing
- Compensation and incentives
- Community impact
- Diversity, equality and inclusion
- Quality
- Product safety and security
- Health & people safety
- Supply chains

Governance

- Leadership: Board and executive team
- Executive Pay
- Reporting and disclosures
- Strategy
- Culture and Values
- Business Ethics
- Data

Technology

- Responsible and ethical technology
- Cybersecurity
- Privacy
- Industrial regulation
- Business strategy

Financial/operational issues

- Budgeting
- M&A
- Innovation
- Financial reporting and disclosures:
- Risk management
- Investors' relations

ESG Stewardship

ESG as an integral part of a company's business model, essential to value creation



Much more than a compliance exercise



Asymmetry of legal and regulatory frameworks



Fragmented guidelines, codes of conduct and metrics



Opacity of data



Discrepancies between business sectors



Shifting investors' expectations

Sustainability disclosures and reporting landscape

Evolving requirements

Selective Legislation

EU legislative framework developments
Corporate Sustainability Reporting Directive (CSRD)
EU Taxonomy Delegated Acts
EU Corporate Due Diligence Directive
EU Forced Labor Directive
U.S. SEC proposals on ESG and Cybersecurity, human capital and board diversity disclosures
Conflict mineral legislation
U.S. Uyghur Forced Labor Prevention Act
Other country-specific legislation on human rights and related due diligence, supply chain transparency and due diligence (UK, Australia, France, Norway, Germany)

Reporting standards and frameworks

EFRAG Sustainability Standards
Global Reporting Initiative (GRI) – coordination ongoing with ISSB
UN Global Compact
CDP
GHG protocol – update process ongoing
ISSB Sustainability Standards
Value Reporting Foundation (Sustainability Accounting Standards Board “SASB”+ International Integrated Reporting Council “IIRC”)
Taskforce on Climate-Related Disclosures (TCFD)
World Economic Forum white paper
Value Balancing Alliance
IFRS climate standards (with support from G7, G20, IOSCO and the Financial Stability Board)
Task Force for Nature-related Financial Disclosures (TNFD)

Ratings & stakeholder requirements

CDP Climate Change
MSCI ESG Rating
Bloomberg Gender Equality Index
EcoVadis
Sustainalytics ESG Risk Rating
Corporate Equality Index
Digital Inclusion Benchmark
FTSE4Good
Ethisphere World’s Most Ethical Companies
Global100
ISS Corporate ESG Rating
Know the Chain
V.E. (former VigeoEiris)
Workforce Disclosure Initiative
RE100

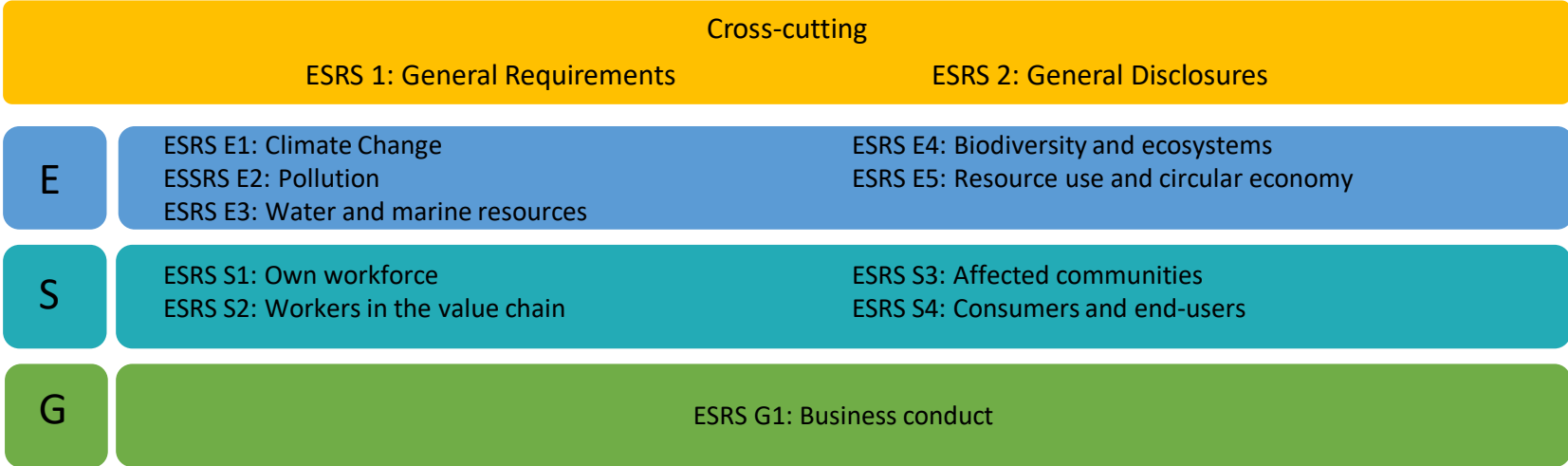
Global principles and initiatives used for goal setting and reporting

UN Global Compact
UN SDGs
UN Guiding Principles for Business and Human Rights
UN Standards of Conduct for Business
The Universal Declaration of Human Rights
ILO Declaration on Fundamental Principles and Rights at Work
GNI Principles
Science Based Targets initiative
OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas

EU CSRD & European Sustainability Reporting Standards

Impact Disclose how sustainability is embedded across the business and how material ESG impacts, risks, and opportunities are identified and managed.

Disclosure Policies, targets, action plans, and performance measurement metrics. Additional details required in the updated versions of the ESRS across the four areas:



Application The CSRD was officially published on Dec 16, 2022, it entered into force in Jan 2023. European Commission is expected to adopt the ESRS by June 30, 2023, followed by ESRS sector-specific standards by June 30, 2024. Large listed companies will have to apply the CSRD as of FY 2024.

EU Corporate Sustainability Due Diligence Directive

Impact Human rights, environmental harms

These are defined by reference to a set of international conventions, and are broad in scope.

Due diligence requirement Identify and mitigate human rights and environmental risks in value chain.

Publicly communicate how they are fulfilling these obligations.

Climate change issues are not explicitly within the scope of the proposed due diligence, however they are incorporated into directors' duties by other provisions .

Application EU companies, and international companies doing business in the EU, with over 500 employees and EUR150m turnover EU companies, and international companies doing business in the EU, with over 250 employees and EUR40m turnover in the textiles, agriculture, forestry (and related industries), and mineral extraction and processing industries.

ESG-RELATED RISKS IN VALUE CHAINS

'Value chain' is a broad concept, with various legal definitions. It generally includes: the company itself, its subsidiaries and direct and indirect suppliers, and the actions and processes used by these entities to bring a product to the end consumer and dispose of it.

EU Corporate Sustainability Due Diligence Directive proposal definition:

'Value chain' means activities related to the production of goods or the provision of services by a company, including the development of the product or the service and the use and disposal of the product as well as the related activities of upstream and downstream established business relationships of the company.

New legislation and existing guidance focus on due diligence over value chains

Climate change impact

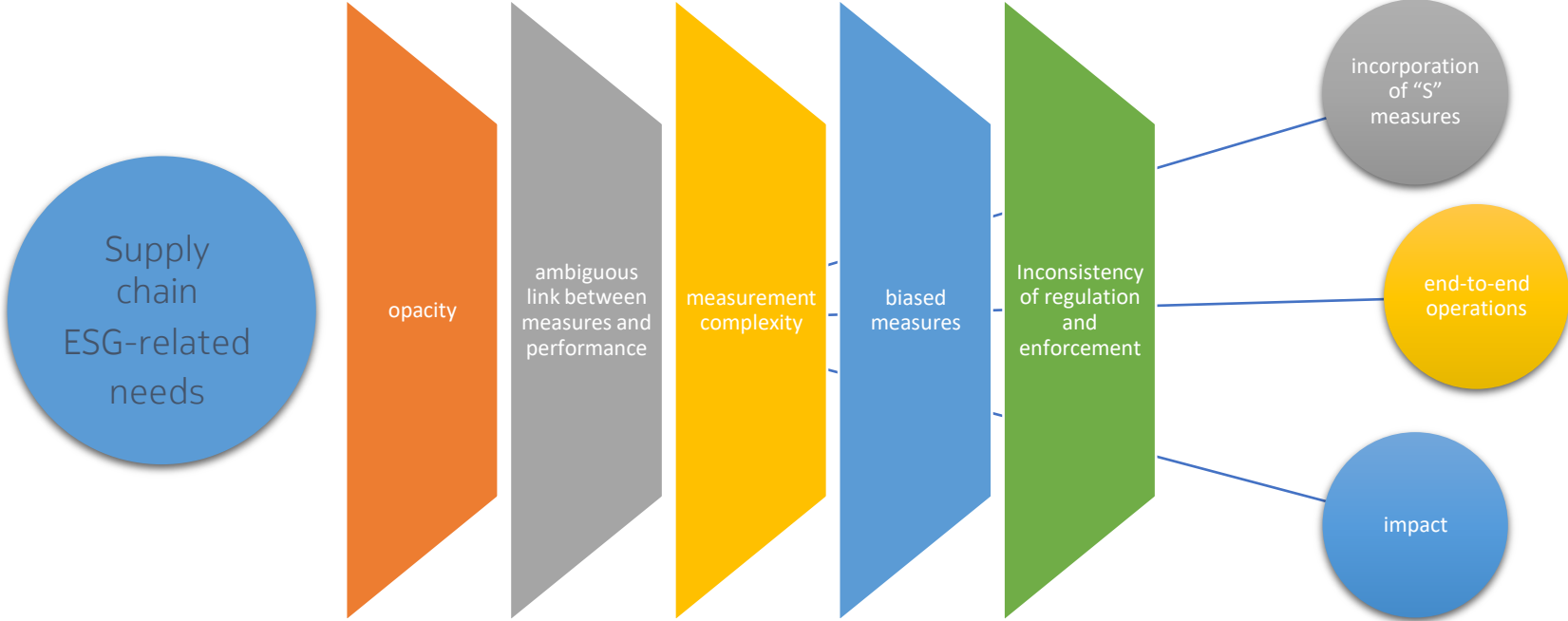
Increased importance in EU CS3D

Impact on GHG emission disclosures

Multiple jurisdictions and legal entities involved

ESG and supply chain

Challenges and gaps



Approaching ESG from an in-house team's perspective

Multi-disciplinarity

Curiosity and continuous learning

Horizon scanning

Holistic approach

Risk prioritization

Re-alignment of corporate purpose

Authentic commitment

ESG integration

Trustworthiness

Strategy and astuteness

