

ESG Fact Sheet Chemicals

DILIGENCE

ESG SERIES

Introduction

Environmental, social and governance (ESG) factors have quickly grown to be a critical part of credit analysis in European leveraged finance. Despite the increasing focus on ESG, efforts have been fragmented as the market lacks consensus on the type of ESG disclosure that is necessary.

To foster a discussion about what ESG information investors would like companies to disclose and to build consensus, the European Leveraged Finance Association (ELFA) has arranged a series of workshops with sub-investment grade borrowers, investors, credit rating agencies, private equity sponsors, bankers and lawyers.

The willingness to improve ESG disclosure has been apparent on all sides, but borrowers have requested more specific and consistent guidance on what investors would like to see. For further findings from the workshops, please find the related briefing papers [here](#).

The ELFA aims to address the above challenges by publishing sector-specific ESG Fact Sheets. The ESG Fact Sheets reflect the input of credit analysts, corporate borrowers and ESG specialists who discussed the key ESG factors for each specific industry.

The ELFA believes the ESG Fact Sheets can help align market expectations and streamline the disclosure process. They are intended to serve as a starting point for ESG discussion between issuers, the buy-side, the sell-side and third-party service providers, but are not intended to be the definitive industry ESG disclosure standard nor replace customised investor ESG due diligence.

The ELFA expects the ESG Fact Sheets to evolve over time with the benefit of your feedback. Please send any comments [here](#).

For issuers looking for further guidance around how to disclose ESG factors some of the resources that can be used are:

- The [EU Non-Financial Reporting Directive \(NFRD\)](#)
- The [SASB reporting guidelines](#), note that SASB is merging with the IIRC to form the Value Reporting Foundation.
- The Global Reporting Initiative ([GRI](#))

Specifically for climate related disclosures, there are multiple different frameworks but irrespective of the framework it is important to disclose the baseline that is used. Some of the organizations / frameworks are:

- The [TCFD](#) for disclosure on climate-related risks
- The [CDP](#) for disclosure on climate, forests and water
- The Climate Disclosure Standards board ([CDSB](#))
- The [SBTi](#) for GHG emission targets
- The [TPI](#) to assess preparedness for a low carbon economy

The ESG Fact Sheets have been published in conjunction with the “[Guide for Company Advisers on ESG Disclosure in Leveraged Finance Transactions](#)” which is designed to assist company advisers in their incorporation of ESG factors in the diligence and drafting process for corporate borrowers.

Publication / Version no.	Date	Change / Update to Content
Original Publication	March 2021	
Version 2.0	Jan 2022	Annual update to add ESG KPI table and further minor non-substantive changes.

ESG Fact Sheet – Chemicals

General

- What are the most material ESG risks for Chemical companies in your view and how have you determined these?
- How are you integrating the European Green Deal into your operations?
- How are ESG matters / considerations integrated within the business strategy?
- Details on how you may have contributed to helping achieve any of the UN Sustainable Development Goals
- Disclosure of any legal processes with third parties, including (environmental) regulators, unions and/or individual employees
- Describe measures in place to monitor supply chain risks, performance on supply chain metrics and how this compares to peers¹
- Details about affiliations with professional or industry standards business platforms
- Details about certifications which are linked to the E, S or G or all three

Environment Pillar

- Description of environmental / climate change policy
- Any targets set in relation to greenhouse gas emissions (split between scope 1/2/3 if available)
- Describe how new technologies are factored into your emissions targets and which ones you see as the most promising
- Disclosure of policies around energy management and any projects to reduce energy usage
- Disclosure of sites / operations located in or near to biodiversity-sensitive areas²
- Disclosure of policies around any exposure to hazardous substances, water consumption and waste
- Disclosure of policies around air quality and air contamination
- Describe any policies for the sustainable sourcing of materials
- Details of any circular economy / recycling initiatives
- Details on sustainable product development initiatives, including product carbon footprint labelling and percentage of revenues derived from sustainable products
- Describe exposure to single use plastics and any plastics recycling initiatives
- Disclosure of any manufactured products using substances banned in certain regions or which are under investigation by Regulators
- Describe the impact you believe you may have in reducing customers' climate impact

Social Pillar

1. Employees

- Disclosure of policies and processes to protect employees from chemical exposure and waste from hazardous materials
- Disclosure on occupational health and safety policies and track record
- Information about employee turnover, well-being and satisfaction, (e.g., how this is gathered and measured), including for any contracted workforce
- Information on the relationship with unions including LTIR relating to strike action or threats
- Disclosure on diversity and inclusion statistics and targets, how these are measured, and their achievement historically
- Disclosure about employee training programmes
- Describe policies on human rights, employee legislation and modern slavery
- Describe policies and processes in place to monitor labour standards across the supply chain

2. Customers and Community

- Details on how product safety is monitored, including any information on product recalls or any other controversies
- Details on how customer satisfaction is monitored and current performance (e.g., complaints, Net Promoter Score (NPS)) and how this compares to peers
- Details on how relationships with local communities are managed

3. IT Security

- Disclosure on cybersecurity breaches and processes in place to manage network security

¹ Examples of topics to include are: i) % of supply chain (by total cost) that is subject to ESG DD; ii) % of suppliers subject to ESG DD that have seen shortcomings; iii) % of suppliers where you have identified shortcomings that you have engaged with; iv) % of ESG engagements where the level of business you do with the supplier has changed post engagement

² Biodiversity sensitive areas could include: (i) UNESCO world heritage sites, (ii) Key biodiversity areas as mapped in <http://www.keybiodiversityareas.org/kba-data> and (iii) Natura 2000 protected areas mapped here: [Natura 2000 Network Viewer \(europa.eu\)](http://natura2000.europa.eu)



Governance Pillar

- Describe how you manage compliance with applicable regulations, including competition legislation, critical incident risk management and any other required industry practices
- Main criteria when constructing the board and if there is a specific representative for ESG issues
- Describe any targets and timeline for increasing diversity of the board
- Disclosure on all control committees (e.g., Audit, Remuneration, Investment), including involvement of independent directors
- Disclosure of the metrics to which management remuneration is linked, and if any is linked to ESG targets
- Describe anti-corruption and anti-bribery policies and procedures, including whistle-blower policies, and provide information on any past significant incidents
- Describe risk management policies, strategic planning process and business code of conduct
- Disclosure of the size of the financial control function and how this is adapted as the company grows
- Describe your financial policy in relation to acquisitions, asset sales and leverage
- Disclose information on your auditor, including how long they have been in place, process for selecting the auditors, and any audit related issues in the past
- Disclosure of your Revolving Credit Facility (RCF) and/or other material covenants including their current levels
- Disclosure of details of any ESG linked financing

ESG KPIs (for the table below in Excel format click [here](#))

Company Name	Metric	Units	2019	2020	2021
SFDR requirements					
Environmental	Revenues	Millions (reporting currency)			
	Non-renewable energy consumption	GWh			
	Renewable energy consumption	GWh			
	Share of non-renewable energy consumption	% of total			
	Share of non-renewable energy production	% of total			
	Energy consumption	GWh			
	Energy consumption intensity	GWh/1m revenues			
	Non-renewable energy production	GWh			
	Renewable energy production	GWh			
	Emissions to water	Tonnes			
	Hazardous waste	Tonnes			
	Fossil Fuel exposure	% of revenues			
	Activities negatively impacting biodiversity sensitive areas				
Carbon disclosures	Gross Scope 1 GHG emissions	metric tonnes			
	Gross Scope 2 GHG emissions: location based	metric tonnes			
	Gross Scope 2 GHG emissions: market based	metric tonnes			
	Gross Scope 3 GHG emissions	metric tonnes			
	Total GHG emissions	metric tonnes			
	Carbon Offsets	metric tonnes			
	GHG intensity	Tonnes/1M revenues			
Social	Violations of UN Global Compact (UNGC) and OECD Guidelines for Multinational Enterprises	Total number			
	Does the company have active policies to monitor compliance with the UNGC?	Yes/no			
	Unadjusted gender pay gap	Female as a % of male gross hourly salary			
	Female board members	Number			
	Male board members	Number			
	Board gender diversity	Ratio female to male			
	Exposure to controversial weapons	% of revenues			
	Other ESG KPIs				
	Water consumption	m3			
	Annual cost of CO2 credits	millions			
	CO2 credits	metric tonnes			
	Overall Board diversity	%			
	Net new hires	Number			
	Annual employee attrition	%			
	Did you conduct an employee survey?	Yes/No			
	Employee survey participation rate	%			
	Proportion of employees covered by unions	%			
	Number of work related incidents				
	Number of work related fatalities				
	TRIR (Total Recordable Injury Rate)				
	LTIR (Lost Time Incident rate)				
	Waste to landfill	m3			

Definitions

Metric	Definition
Non-renewable energy consumption	Any energy that is not from renewable sources
Renewable energy consumption	"Energy from renewable sources' or 'renewable energy' means energy from renewable non-fossil sources, namely wind, solar (solar thermal and solar photovoltaic) and geothermal energy, ambient energy, tide, wave and other ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas, and biogas; "
Scope 1 Emissions	Direct emissions from owned or controlled sources
Scope 2 Emissions	Indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company
Scope 3 Emissions	All other indirect emissions that occur in a company's value chain
Total GHG Emissions	Sum of scope 1,2 and 3, all reported in metric tonnes for the whole company
GHG intensity	Carbon usage in relation to total revenues, using the reporting currency
Energy consumption intensity	Energy in GWh/revenues
Unadjusted Gender pay gap	'Unadjusted gender pay gap' means the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees
Activities negatively impacting biodiversity sensitive areas	% of footprint that is in biodiversity sensitive areas, could include; (i) UNESCO world heritage sites, (ii) Key Biodiversity areas as mapped in http://www.keybiodiversityareas.org/kba-data and (iii) Natura 2000 protected areas which are mapped here: https://ec.europa.eu/environment/nature/natura2000/data/index.en.htm
Board diversity	% of diverse board members