

ESG Fact Sheet Paper & Packaging

DILIGENCE

ESG SERIES

Introduction

Environmental, social and governance (ESG) factors have quickly grown to be a critical part of credit analysis in the European leveraged finance market. 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](#) including a report highlighting valuable insights from fund managers on why certain ESG data matter to them in light of the recent [EU Sustainable Finance Disclosure Regulation \(SFDR\)](#) and the subsequent rise of Article 8 and 9 funds in the market.

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.

ELFA believes the ESG Fact Sheets can help align market expectations, serve as an important engagement tool for investors and ultimately help streamline the disclosure process for borrowers. 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, and are not intended to be the definitive industry ESG disclosure standard nor replace customised investor ESG due diligence.

The ESG Fact Sheets have been updated to include the Principal Adverse Impact (PAI) indicators which are increasingly being used by investors to satisfy regulatory reporting requirements in line with the [EU SFDR](#). The PAI indicators may also be used by investors as sustainability indicators used to measure the attainment of the environmental or social characteristics or to demonstrate that an investment qualifies as a sustainable investment. 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 resources that can be used are:

- The [EU Corporate Sustainability Reporting Directive \(CSRD\)](#) and the [draft European Sustainability Reporting Standards \(ESRS\)](#)
- The [SASB Standards](#), now part of the IFRS Foundation
- The Global Reporting Initiative ([GRI](#))
- The ESG Integrated Disclosure Project ([ESG IDP](#)) template

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 organisations/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 Advisors to 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	September 2021	
Version 2.0	February 2022	Annual update to add ESG KPI table and further minor non-substantive changes.
Version 3.0	March 2023	Update to introductory section, further clarification added to carbon data requests and additional questions on executive pay structures, anti-bribery, anti-corruption and whistle blower policies and procedures. Sector-specific ESG considerations are highlighted in bold. Additional ESG KPIs are also added in the Excel table.

ESG Fact Sheet – Paper & Packaging

Sector-specific ESG considerations are highlighted in bold

General

- **What are the most material ESG risks for Paper and Packaging 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?
- Is there a C-suite/board member with responsibility for ESG matters?
- 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 employees¹
- Describe measures in place to monitor supply chain risks, performance on supply chain metrics and how this compares to peers²
- 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

Environmental Pillar

- **Description of environmental/climate change policy**
- **Any targets set in relation to greenhouse gas emissions (split between scope 1/2/3 if available) and using best efforts estimates, what % of emissions the targets cover**
- **If you have emissions targets, describe your emissions reduction targets in as much detail as you can³**
- **Describe how new technologies are factored into your emission targets and which ones you see as the most promising**
- **Disclosure of sites/operations located in or near to biodiversity-sensitive areas⁴**
- **Disclosure of policies around any exposure to hazardous substances, water consumption and waste**
- **Disclosure of policies around air quality and air contamination**
- **Disclosure of policies around energy management and any projects to reduce energy usage**
- **Disclosure of forest management targets and policies, if applicable**
- **Description of the deforestation policy and how this is monitored, if applicable**
- **Describe exposure to single use plastics and any plastics recycling initiatives**
- **Details of any circular economy, recycling or product life-cycle initiatives**
- **Disclosure of certified sources and sustainable sourcing of key raw materials**
- **Details on sustainable product development initiatives, including product carbon footprint labelling and percentage of revenues derived from sustainable products**
- Describe the impact you believe you may have in reducing customers' climate impact

Social Pillar

1. Employees

- **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 on employee training programmes, including training hours per employee
- 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

¹Include disclosure on environmental incidents, litigations and legal proceedings linked to ESG in the last 12 months

²Examples 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

³Carbon targets: the details to include for best-in-class disclosure would include information such as the base year, target year, reduction amounts (including how to reach these and if targets include a plan to use carbon offsets), the scopes covered and the % of emissions these cover, and if you will seek external verification of targets

⁴Biodiversity 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: [Natura 2000 Network Viewer \(europa.eu\)](http://Natura2000NetworkViewer.europa.eu)

Governance Pillar

- Describe how you manage compliance with applicable regulations, including competition legislation, 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, if any is linked to ESG targets and if yes, what % is linked to ESG
- Describe any written anti-corruption and anti-bribery policies and procedures, including whistle-blower policies and which, if any, policies are missing. Provide information on any significant past 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	2022
SFDR requirements	PAI					
Environmental	Revenues	Millions (reporting currency)				
	5 Non-renewable energy consumption	GWh				
	5 Renewable energy consumption	GWh				
	5 Share of non-renewable energy consumption	% of total				
	5 Share of non-renewable energy production	% of total				
	6 Energy consumption	GWh				
	6 Energy consumption intensity	GWh/1m revenues				
	5 Non-renewable energy production	GWh				
	5 Renewable energy production	GWh				
	8 Emissions to water	Tonnes				
	9 Hazardous waste and radioactive waste	Tonnes				
	4 Fossil fuel exposure	% of revenues				
	7 Activities negatively impacting biodiversity sensitive areas					
	Carbon disclosures	1 Gross Scope 1 GHG emissions	Metric tonnes			
1 Gross Scope 2 GHG emissions: location based		Metric tonnes				
1 Gross Scope 2 GHG emissions: market based		Metric tonnes				
1 Gross Scope 3 GHG emissions		Metric tonnes				
1 Total GHG emissions		Metric tonnes				
2 Carbon footprint		Metric tonnes				
3 GHG intensity		Tonnes/1m revenues				
Carbon offsets		Metric tonnes				
Social	10 Violations of UN Global Compact (UNGC) and OECD Guidelines for Multinational Enterprises	Total number				
	11 Does the company have active policies to monitor compliance with the UNGC and OECD Guidelines for Multinational Enterprises?	Yes/no				
	12 Unadjusted gender pay gap	Female-male difference in gross hourly salary, as % of male gross hourly salary				
	13 Female board members	Number				
	13 Male board members	Number				
	13 Board gender diversity	Ratio female to male, expressed as % of all board members				
	14 Exposure to controversial weapons	% of revenues				

Additional SFDR Indicators**				2019	2020	2021	2022
Environmental	4	Any carbon emission reduction initiatives aimed at aligning with the Paris Agreement?	Yes / No				
Social	6	Any policies on the protection of whistleblowers?	Yes / No				
Governance	15	Anti-corruption policy in place?	Yes / No				
	15	Anti-bribery policy in place?	Yes / No				
	17	Number of convictions and amount of fines for violation of anti-bribery laws	Number/millions				
	17	Number of convictions and amount of fines for violation of anti-corruption laws	Number/millions				
Non-SFDR KPIs							
Environmental	Water consumption		m3				
		Annual cost of CO2 credits	Millions				
		CO2 credits	Metric tonnes				
		Annual capex spent on sustainable production	Millions				
		Annual capex spent on energy efficiency initiatives	Millions				
		% of raw materials from recycled materials	%				
		% of products that can be recycled	%				
		% of products that are economical/practical to recycle	%				
		Waste to landfill	m3				
Social		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				
		Number of work related fatalities	Number				
		TRIR (Total Recordable Injury Rate)	Number				
	LTIR (Lost Time Incident rate)	Number					

*Statement on principal adverse impacts of investment decisions on sustainability factors, Table 1, EU SFDR Annex I

**Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters – Table 3 under EU SFDR Annex I

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

About the ESG Exclusion Checklist:

The ELFA ESG Exclusion Checklist is a resource designed to streamline the ESG screening process for credit managers, borrowers, and arranging banks. It is designed for arranging banks to complete at the time of a new corporate loan or bond syndication, enabling borrowers to publish this information in a concise format directly to their syndicate. Based on the information provided, credit investors will be able to quickly and easily determine if the business activities of a corporate borrower breaches any of their internal ESG guidelines.

Note that the ESG Exclusion Checklist is not meant to be a template for the exclusions that a fund or credit manager may decide to use, as it is designed to include most common exclusions used by managers in the European leverage finance market.

This version of the ESG Exclusion Checklist incorporates feedback received during a public consultation process conducted in the second half of 2021. We will aim to update the ESG Exclusion Checklist annually in line with updates to the ELFA ESG Fact Sheets.

ESG Exclusion Checklist -

Percent of revenue from the following:

100->50% >50->25% >25->15% >15->10% >10->5% >5->0% NA

Controversial weapons
 Weapon support systems and services
 Weapons and/or tailor-made components for civilian firearms (production)
 Weapons and/or tailor-made components for civilian firearms (retail)
 Weapons and/or tailor-made components for military/police

Tobacco (production)
 Tobacco (sale)
 Tobacco (services)
 Alcohol (production)
 Alcohol (sale)
 Alcohol (services)
 Trade of recreational cannabis
 Production of recreational cannabis
 Opioid manufacturing
 Opioid distribution

Thermal coal mining or sale
 Oil sands extraction or sale
 Oil sands related pipeline industry
 Fossil fuel extraction from unconventional sources, including arctic O&G
 If oil and gas producer: revenue from natural gas
 If oil and gas producer: revenue from renewables
 If oil and gas producer: % of reserves deriving from natural gas
 Nuclear energy
 Revenues from fossil fuels
 Oil exploration, including equipment for exploration and storage

Physical casinos
 Online gaming platforms
 Gaming revenues from unregulated markets
 Services to the gaming industry
 Predatory or payday lending
 Pornography/adult entertainment
 Private prisons

Hazardous chemicals
 Hazardous pesticides and/or non biological pesticides
 Hazardous waste
 Asbestos production or extraction
 Ozone-depleting substances

Activities contributing to deforestation or in protected areas
 Speculation in food/soft commodity derivatives
 Intensive animal farming (production)
 Intensive animal farming (retail)
 Animal testing
 Drift net fishing
 GMOs
 Cloning
 Non-sustainable palm oil production or processing

For utilities, percent of electricity generated by the following:

100->50% >50->25% >25->15% >15->10% >10->5% >5->0% NA

Thermal coal
 Liquid fuels (aka oil)
 Natural gas
 Nuclear generation
 Renewables

UN Global Compact Principles

Are you a signatory?	Yes	No
Are you in breach of any the UN Global Compact principles ?	Yes	No

ILO Conventions

Are you in breach of any the ILO conventions?	Yes	No	A breach means as determined by a court, tribunal, government agency or multilateral organisation
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OECD Guidelines for Multinational Enterprises

Are you in breach of any the OECD Guidelines for Multinational Enterprises?	Yes	No	A breach means as determined by a court, tribunal, government agency or multilateral organisation
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UN Guiding Principles on Business and Human Rights (UNGPs)

Are you in breach of any the UN Guiding Principles on Business and Human Rights (UNGPs)?	Yes	No	A breach means as determined by a court, tribunal, government agency or multilateral organisation
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Definitions

Controversial weapons	The manufacture of anti-personnel mines, cluster weapons, depleted uranium, nuclear weapons, weapons of mass destruction, white phosphorus, biological, toxin and chemical weapons
Weapon support systems and services	Weapon control systems, target navigation systems, etc
Tobacco	Cigars, cigarettes, e-cigarettes, smokeless tobacco, dissolvable and chewing tobacco, or any obligor that is classified as "tobacco" by S&P & GICs
Fossil fuel extraction from unconventional sources, including arctic O&G	E.g. Arctic drilling, shale oil and shale gas or other fracking activities
Services to the gaming industry	E.g. sale or manufacturing of machines, payments support, data services
Predatory or payday lending	E.g. Payday lending means the extension of high-cost short-term credit as such term is defined in the FCA Handbook
Hazardous chemicals	E.g. substances on the UNECE list of hazardous substances and mixtures or on the OSHA (Occupational Safety and Health Administration (US Department of Labor)) list
Hazardous pesticides and/or non biological pesticides	E.g. pesticides that are considered as such by the WHO or GHS (Global Harmonized System)
Hazardous waste	e.g. Waste associated with hazardous chemicals or pesticides
Ozone-depleting substances	As covered by the Montreal Protocol on Substances that Deplete the Ozone Layer (1989)

Please include below any additional comments in respect to your answers