

VCIG

The value chain – a crucial concept in CSRD

Value Chain Implementation Guidance

1. The undertaking's sustainability statement shall **include information about all material impacts, risks and opportunities (IROs)** including those that arise or may arise in the context of its **business relationships* in the upstream and downstream value chain.**
2. The undertaking is **not required to include value chain (VC) information in all disclosures**, but only when it is **connected with material IROs beyond its own operations**, due to its business relationships.

*Business relationships are not limited to direct contractual relationships.

As the reporting boundaries of the CSRD not only include the own operations, but also the value chain, a number of questions arise:

- What is the value chain?
- Where does it start and end?
- Is it relevant for all datapoints?

In this lesson we focus on the definition, practical implications, and datapoints.

To start with, not all DR's and datapoints require value chain information.

Why does VC matter?

The value chain is a huge part of the sustainability reporting, and company, because in the value chain major impacts, risks and opportunities can appear, from impacts or dependencies.

To clarify, this does not mean that you as a company can directly solve or even influence this. However, a proper materiality assessment will indicate which parts of the value chain have material IRO's and your action plan might influence.

Numerous type of companies have a value chain where IRO's appear in the system.

- Textile
- Construction work
- Logistics
- ...

The goal is not to fingerpoint, nor to say that as a company you bear all responsibility. However, as a company you should be aware of the IRO, and secondly, your policies can influence the set-up of your value chain.

Value Chain Implementation - Definitions

The value chain & supply chain are not the same! The supply chain entails a direct link between the company and the business partners. The value chain can include 3rd parties outside of the organisation that do not directly interact with the company.

The definitions foreseen by the European Commission:

Term	Definition
Value Chain	<p>The full range of activities, resources and relationships related to the undertaking's business model and the external environment in which it operates.</p> <p>A value chain encompasses the activities, resources and relationships the undertaking uses and relies on to create its products or services from conception to delivery, consumption and end-of- life. Relevant activities, resources and relationships include:</p> <ul style="list-style-type: none"> • those in the undertaking's own operations, such as human resources; • those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and • the financing, geographical, geopolitical and regulatory environments in which the undertaking operates. • Value chain includes actors upstream and downstream from the undertaking. Actors upstream from the undertaking (e.g., suppliers) provide products or services that are used in the development of the undertaking's products or services. Entities downstream from the undertaking (e.g., distributors, customers) receive products or services from the undertaking. • ESRS use the term "value chain" in the singular, although it is recognised that undertakings may have multiple value chains.
Actor in the value chain	<p>Individuals or entities in the upstream or downstream value chain. The actor is considered downstream from the undertaking (e.g., distributors, customers) when it receives products or services from the undertaking; it is considered upstream from the undertaking (e.g., suppliers) when it provides products or services that are used in the production of the undertaking's own products or services.</p>

Value Chain Implementation - Definitions

The definitions foreseen by the European Commission:

Term	Definition
Value chain worker	An individual performing work in the value chain of the undertaking, regardless of the existence or nature of any contractual relationship with the undertaking. In the ESRS, the scope of workers in the value chain include all workers in the undertaking's upstream and downstream value chain who are or can be materially impacted by the undertaking. This includes impacts that are connected to the undertaking's own operations, and value chain, including through its products or services, as well as through its business relationships. This includes all workers who are not in the scope of 'Own Workforce' ('Own Workforce' includes people who are in an employment relationship with the undertaking ('employees') and non-employees who are either individual contractors supplying labour to the undertaking ('self-employed people') or people provided by undertakings primarily engaged in employment activities. (NACE Code N78)
Business relationships	The relationships the undertaking has with business partners, entities in its value chain, and any other non-State or State entity directly linked to its business operations, products or services. Business relationships are not limited to direct contractual relationships. They include indirect business relationships in the undertaking's value chain beyond the first tier, and shareholding positions in joint ventures or investments.

Are there transitional requirements?

Yes, the transitional provisions are in place for the first three years of reporting, on the element of data-gathering. Reporting on the materiality of certain aspects is mandatory, whilst data gathering can be explained through:

- Efforts made to obtain necessary information
- Reason why it could not obtain necessary information
- Plans to obtain information in the future.

A development could entail:

- Stakeholder engagement to activate the value chain
- Prepare the technological and other infrastructure for the reporting
- Update the contracts in the VC to ensure the possibility of datagathering
- A construction of and improved knowledge of the structure of the VC

After 4 years the undertaking shall include upstream and downstream information according to par. 63. However, this does still imply a listed SME cap, and other transitional provisions.

- Scope 3 on GHG may be omitted the first year if smaller than 750 employees
- ESRS S2 – S3 and S4 may be omitted the first year if smaller than 750 employees

What is the LSME Cap?

The LSME cap is a term used to indicate the limits of sustainability content for SME's. LSME's or Listed SME's have a limited scope of reporting, as do VSME's, voluntary SME's.

The ESRS for LSME is still under development, and currently under consultation by third parties in the market.

By the end of June 2024 it is expected that the L SME's and V SME's will be ready.

To ensure your first understanding of this, the next lesson includes the VSRS (Voluntary Sustainability Reporting Standards)

A number of questions arise on value chain

- 1. Should VC information be included for Policies, Actions or Targets (PATs) Disclosure Requirements?**
 1. Yes, if they are available. (E.g.: supplier code of conduct on ethics)
- 2. Should VC information be included for Metrics Disclosure Requirements?**
 1. Mostly not. Some are included: ESRS E1-6, ESRS E1-7, ESRS E5-4
- 3. How to assess and quantify the impacts of the VC resulting from business relationships?**
 1. Explain the sources used, with process of gathering, level of accuracy and planned actions to improve
- 4. What is 'reasonable effort' to collect VC data?**
 1. No clear definition, but strongly dependent on contractual arrangements, buying power, consolidation perimeter. It is worthwhile to document the efforts, outcomes and information incorporated in the process
- 5. How can estimates be used when primary data cannot be collected.**
 1. After showcasing reasonable effort, you can use existing data schemes such as a Wage Indicator for that specific nation.

VC Coverage Map

VC coverage map of Set 1 ESRS

Level of VC coverage	Disclosure Requirements with this level of VC coverage				
1. The undertaking shall assess its material IROs across its VC	IRO-1				
2. The undertaking shall describe its VC	SBM-1 ^a				
3. The undertaking shall describe its material IROs and report where in the VC they arise	SBM-3 ^a				
4. The undertaking shall reflect whether and how policies, actions or targets (PAT) cover VC.	BP-1/2 ^a , SBM-2, GOV-4/5	E1-2 to E1-4 E2-1 to E2-3, E3-1 to E3-3,	E4-1 to E4-4, E5-1 to E5-3, S1-1 to S1-5	S2-1 to S2-5 S3-1 to S3-5 S4-1 to S4-5	G1-1, G1-2, G1-3
5. The standard covers PAT for IROs that are linked to people in the VC . The undertaking shall disclose whether and how PAT cover VC.	S2 S3 ⁴ S4				
6. The disclosure only reflects own operations , as no coverage of VC is required	GOV-1/3, IRO-2, E1-5	E1-8 -E1-9, E2-4 ^a , E2-6,	E3-4/5 E4-5/6 E5-4 par 31	S1-1 to S1-17 ⁵	G1-4 to G1-6
7. Disclosure of procured materials	E2-5 ^a E5-5 ^a				
8. There are specific quantitative datapoints in this DR that requires VC coverage ⁶	E1-6 E1-7				
9. There are specific qualitative datapoints in this DR that requires VC coverage ⁷	E1-1 E4-1 par 13 E4 IRO 1 par 17(a) E4-4 par 32(c) E5-4 par 30				
10. SFDR indicators ⁸ listed in ESRS 2 Appendix B	VC to be covered to the extent that foreseen in the relevant technical standards				
11. Other EU law (excluding SFDR) in ESRS 2 Appendix B	VC to be covered				

DR	Content
BP-1	To what extent the sustainability statement covers the undertaking's upstream and downstream VC.
BP-2	When metrics include VC data estimated using indirect sources, such as sector-average data or other proxies, the undertaking shall: <ul style="list-style-type: none"> i. identify the metrics; and ii. describe the basis for preparation, E4-1 par 13 iii. the resulting level of accuracy and, iv. where applicable, the planned actions to improve the accuracy in the future.
SBM-1	Requires that value chain is covered but is not expected to trigger data requests to actors in the value chain, i.e. can be covered by internal or public information.
SBM-3	For each material IRO identified in the materiality assessment, the undertaking shall report whether the undertaking is involved with the negative or positive impact through its activities or because of its business relationships.
E2-4	AR 20 refers to procurement of microplastics
E2-5	Relates to the products/materials and/or substances procured which ends up in products / manufacturing.
E5-5	Includes supplied material but does not expand to suppliers
E5-6	Waste treatment may sometimes require information from supplier who treats waste

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