

Enact[®]

**HRDD and evolving
regulatory landscape**

FIBS & Enact Business & Human Rights Group

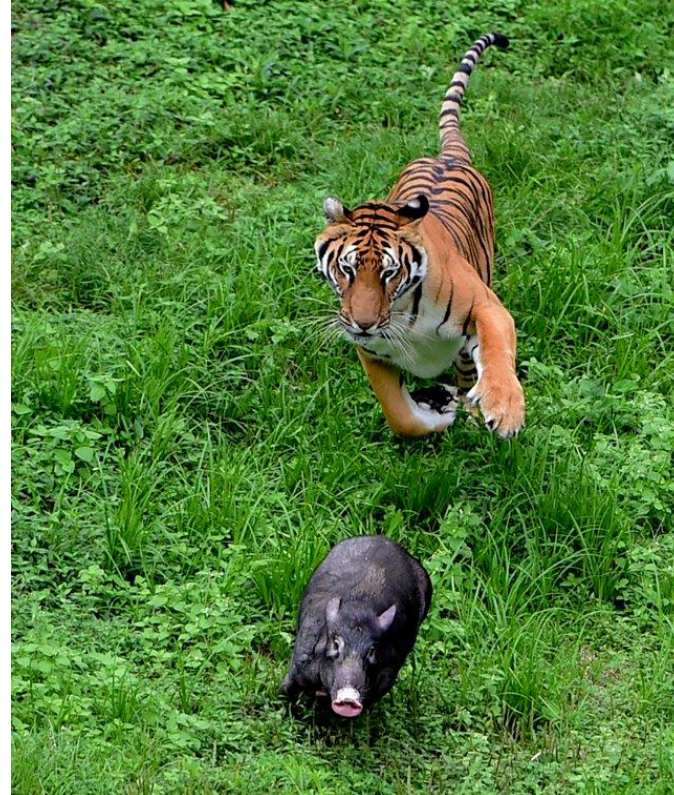
2024

Session 1/2024

13.02.2024

**Warming up
& getting to know
each other!**

My (and our) morning mamal



Agenda of the day

- 9.00 Opening and warm-ups
FIBS & Enact
- 9.30 Overview on regulation around HRDD
Sandra Adler, Enact
- 10.10 CS3D, other EU sustainability initiatives and international trade:
where are we now
Linda Piirto, Ministry of Foreign Affairs
- 10:35 *BREAK*
- 10.40 What makes a good DD policy?
Irene Leino, Enact
Group work
- 11.25 Developing HRDD at Neste
Case: Neste, Nina Norjama
- 12.00 Ending the session

Today we are focusing on how to develop human rights due diligence and due diligence policy in the light of upcoming sustainability regulation.

1. Let's keep the session as interactive – ASK & DISCUSS
2. Use this session to INTERACT AND LEARN from your peers.

Enact Sustainable Strategies – who are we?

About Enact

We are a spearheading Nordic consultancy specialized in sustainable business development and corporate responsibility.

We service clients worldwide with specific expertise on business and human rights. We are excellent at translating human rights requirements to concrete steps for a corporate audience.

We have offices in Stockholm, Malmo, Amsterdam and Helsinki.

We offer advisory, coaching and training services and work with clients in all sectors across the globe.

We are over 20 consultants and a global network of partners and associated experts.

Enact in Finland



Ulla Roiha



Irene Leino



Jenni Strengell



Tuuli Nummelin

With over 20 consultants in other locations and a global network of partners and associated experts.

Overview on regulation around HRDD

Sandra Atler, Enact

Why DD is relevant

- International expected standard of business conduct
- Soft law → hard law
- EU negotiations
- Reporting obligations
- Increasing domestic legislations in EU, and beyond
- Part of contract law
- Codes
- Court liability referencing DD

Key facts

Application date	<ul style="list-style-type: none">• In force
Requirements	<ul style="list-style-type: none">• Establish and implement an effective vigilance plan• To include:<ul style="list-style-type: none">• Mapping that identifies, analyses and ranks risks• Procedures to regularly assess subsidiaries, subcontractors, and suppliers with whom the company maintains established commercial relationships• Actions to mitigate risks and prevent serious violations• Alert mechanism for reporting of risks• Monitoring scheme to evaluate implemented measures and assess their efficiency
Sanctions	<ul style="list-style-type: none">• Formal notice• Order (e.g. to develop or improve vigilance plan)• Civil liability

Key facts



Application date	<ul style="list-style-type: none">• Entry into force on 1 July 2022, first reporting from 30 June 2023
Purpose	<ul style="list-style-type: none">• To ensure companies' respect for human rights and decent working conditions• To ensure transparency and publicly available information• To give clarity on requirements and a more level playing field.
Requirements	<ul style="list-style-type: none">• A duty to carry out due diligence in accordance with the OECD Guidelines for Multinational Enterprises• A duty to account for due diligence (publish an account of due diligence)• A right to information for the public
Sanctions	<ul style="list-style-type: none">• Prohibitions and orders• Enforcement penalties• Infringement penalties

Key facts



Application date

- Entry into force on **1 January 2023**

Purpose

- To ensure that companies identify, prevent and address human rights and environmental abuses within their own and their direct suppliers' operations.

Requirements

- Establish a **risk management system**
- Designate a responsible person(s)
- Perform regular risk analyses
- Issue policy statement
- Lay down preventive measures in own area of business and with direct suppliers
- Take remedial action
- Establish complaints procedure
- Implement due diligence for indirect suppliers
- Document and report

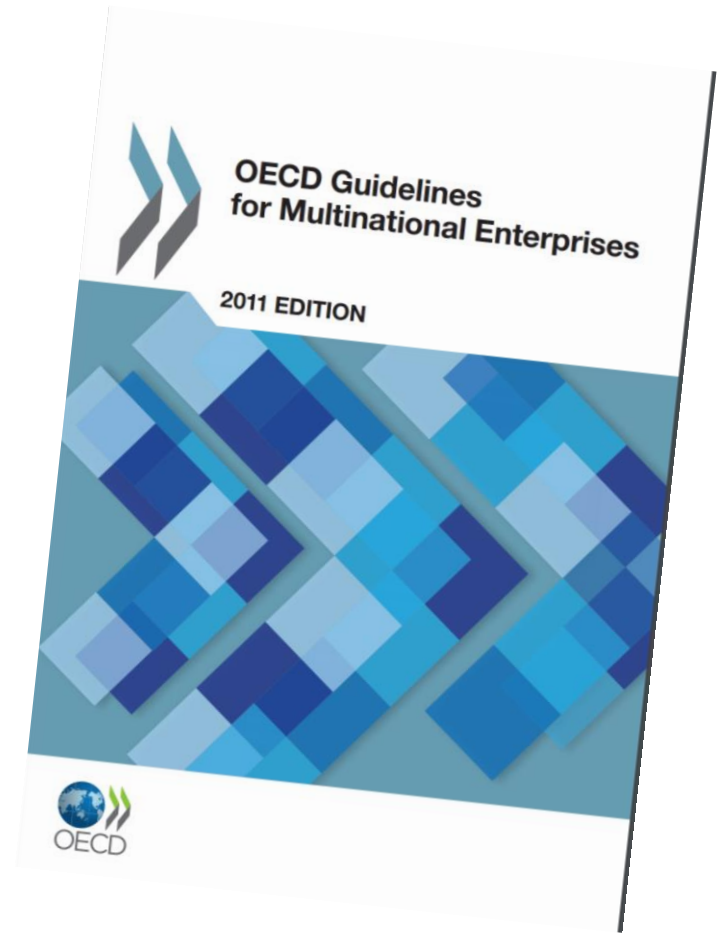
Sanctions

- Civil proceedings
- Orders and measures (e.g. order for corrective action plan)
- Exclusion from public procurement
- Financial penalties and administrative fees

Aim of legislation

Human Rights Due Diligence

Responsible Business Conduct



Aim



Foster sustainable and responsible corporate behaviour throughout global value chains



Advance green transition



Protect human rights in Europe and beyond

What does it mean?



For business:

- Legal certainty
- Level playing field
- More sustainable competitiveness
- Greater customer trust and employee commitment
- Better risk management and adaptability
- Increased attractiveness for talent, investors and public procurers



For consumers and investors:

More transparency

What does it mean?



For people:

- Better protection of human rights
- Healthier environment for present and future generations,
- More trust and transparency
- Better access to justice for victims

Obligations

The DD obligation

- *The obligation will be **proportionate**, creating legal certainty*
- *The DD obligation will be adapted to the **risk and ability** and capacity of companies (e.g. size)*
- *Making those companies with more resources more capacity, to **lead***
- *This will be an **evolutionary** process*

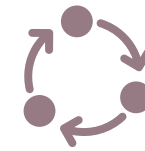
Conclusion:

- Severity and likelihood
- Reasonableness



Companies have to...

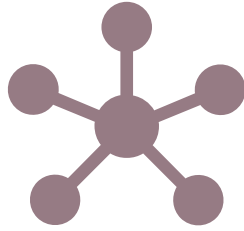
Identify and manage negative impacts on people and environment



In...

In own operations
Supply chain
Parts of upstream value chain

The Core DD obligation



POLICY

Integrate due diligence into policies and risk-management systems, including descriptions of a company's approach, processes and code of conduct



MANAGE IMPACTS

Take appropriate measures to:

- Identify, assess and prioritise (where needed)
- Prevent, Mitigate, bring to an end, minimise
- Remedy

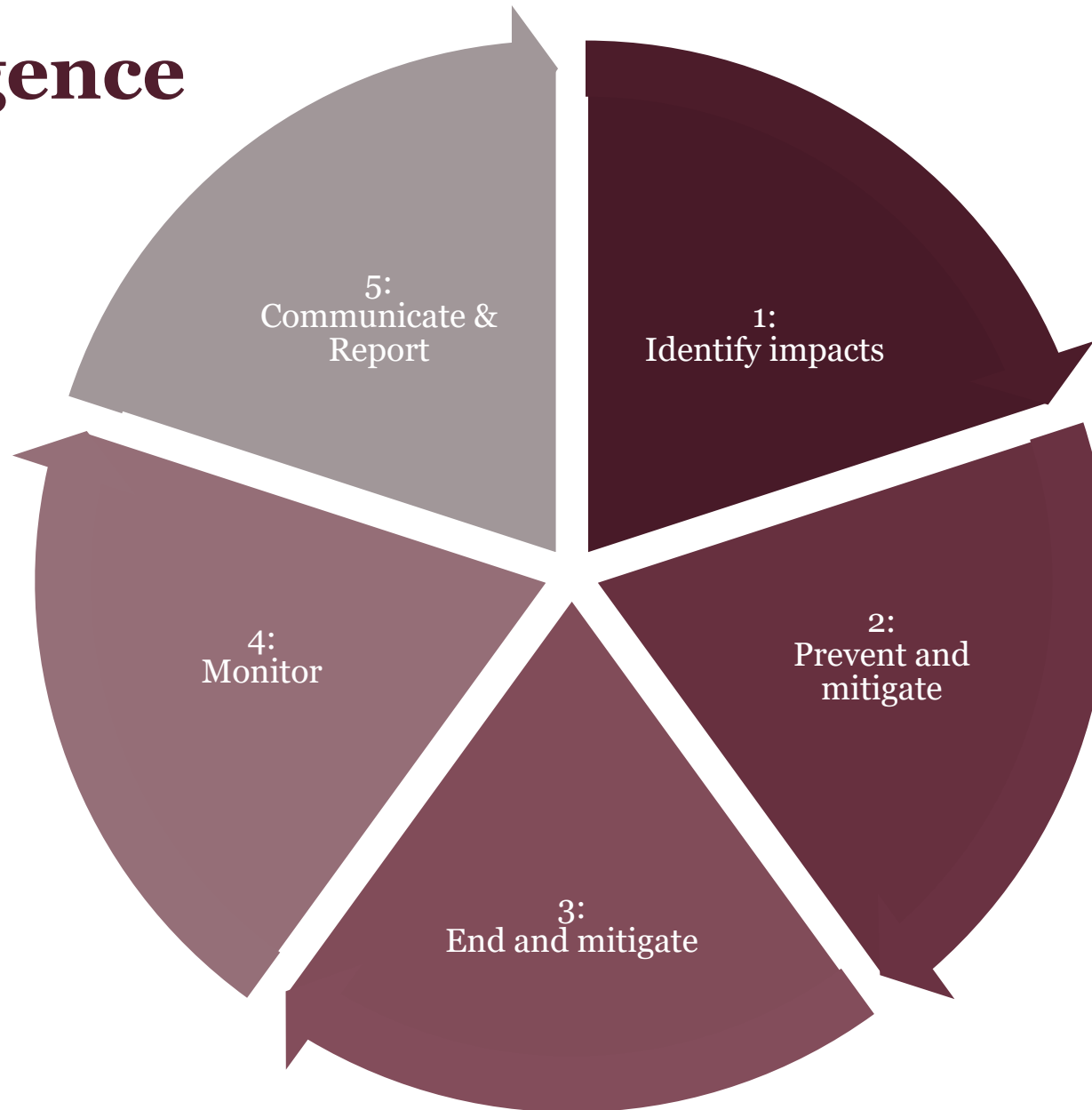
actual or potential adverse human rights and environmental impacts



ENGAGE and LISTEN

- Meaningfully engage with stakeholders
- Establish and maintain a notification mechanism and complaints procedure

The due diligence cycle



If you identify harm?



Action plan



Investments



Contract



Improve
business plan



Engage affected
stakeholders



Support to
SMEs



Remediation



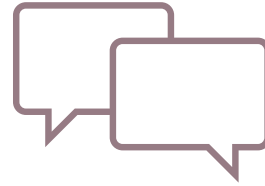
Termination as
a last resort

Also significant



MONITOR

Monitor the effectiveness of the due diligence policy and measures



COMMUNICATE

Publicly communicate on due diligence



CLIMATE TRANSITION PLAN

Adopt a plan ensuring business model complies with limiting global warming to 1.5°C

Scope

Who does it apply to?

EU limited liability companies of substantial size and economic power

- with more than 500 employees; and
- a net global turnover of more than €150 million

EU limited liability companies that;

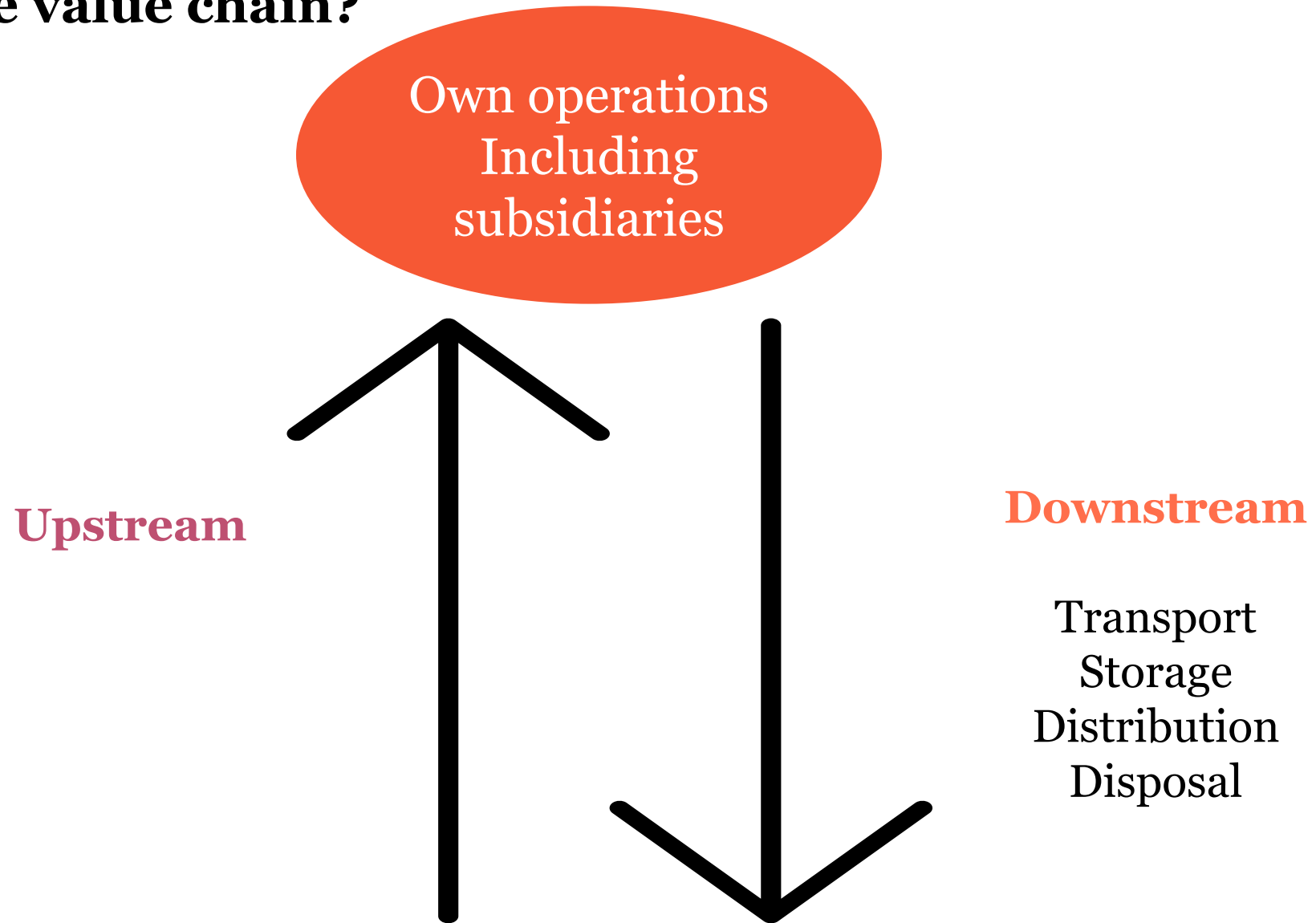
- operate in specific high-impact sectors; and
- more than 250 employees; and
- a net global turnover of €40 million

High impact sectors

- *manufacture and wholesale trade of textiles, clothing and footwear,*
- *agriculture including forestry and fisheries, manufacture of food and trade of raw agricultural materials,*
- *extraction and wholesale trade of mineral resources or manufacture of related products*
- *construction*

Non-EU companies meeting the above thresholds with turnover **generated in the EU**

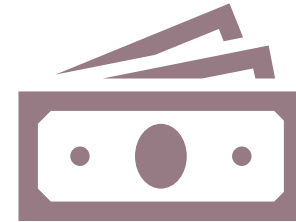
How far in the value chain?



Who does it not apply to?



SMES



FINANCE SECTOR
DOWNSTREAM ACTIVITIES

Which impacts?

Human rights

Civil and political
rights

Economic, social
and cultural rights

Labour rights

Vulnerable
groups, incl.
children



Environmental impacts

Any measurable environmental degradation, such as
harmful soil change
water or air pollution
harmful emissions
excessive water consumption
other impacts on natural resources

Enforcement

How will DD be enforced

Administrative supervision

Administrative sanctions

Support from EU and government

Civil liability



National Supervisory authority

- Monitor company compliance
- Launch inspections and investigations
- Impose penalties for non-compliance
- Naming and shaming
- Fines up to 5 % of NWT
- Injunction measures



EU level

- European Network of Supervisory Authorities
- Best practice
- Cooperation
- Guidance and support

From stick...



Inspections and investigations



Fines up to 5% of net worldwide turnover



Naming and shaming



Civil liability

... to support and carrot



Public
procurement



Portals with
information



Guidance



Financial support
for SMEs
(potentially)



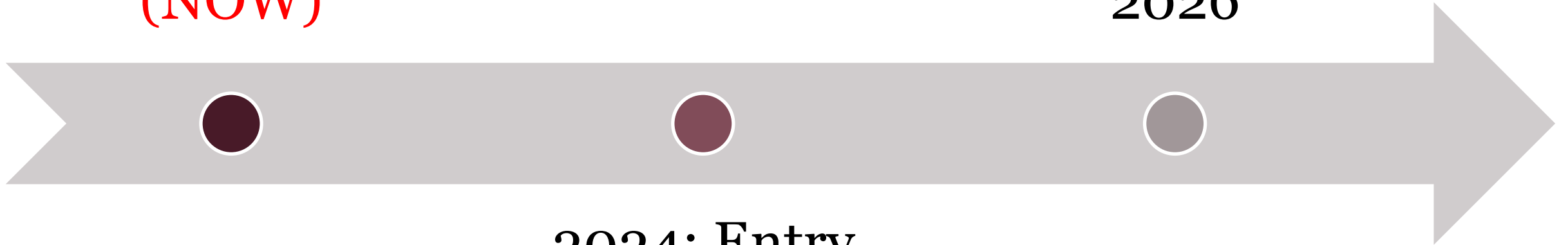
Model contract
clauses

Next steps

Timeline

Final text
negotiated
(NOW)

2 years to
transpose =
2026



2024: Entry
into force

**Concluding
remarks**

5 tips for moving ahead



Risk and impact review

Make sure you understand your impacts in own operations and value chain → benchmark with CS3D list



Align with reporting

Take the opportunity to dovetail with the DD components of your ESRS alignment efforts



Policy and governance

Get DD into your policies and governance



Internal controls

Talk with Risk, Internal Audit, Compliance, Legal about how prepared they are



Engage

Externally
Internally

**CS3D, other EU sustainability
initiatives and international
trade: where are we now?**

Linda Piirto, Ministry of Foreign Affairs

Coffee break

10 min



Creating a due diligence policy

Irene Leino, Enact

Sustainability due diligence in short

*“Due Diligence is a continuous approach to identify and address the negative **impacts** of the direct and indirect activities of the company on people and the environment”.*

- The focus is on **risk to people and the environment**; not on risks for the company;
 - The **full value chain** is included;
- Focuses on **ceasing, preventing or mitigating** of the **negative effects** of the company’s activities.

International guidelines expect a human rights (and environmental) due diligence policy to...

Reference international human rights standards

- ✓ At a minimum refer to:
 - The Universal Declaration of Human Rights;
 - The International Covenant of Civil and Political Rights;
 - The International Covenant on Economic, Social and Cultural Rights;
 - The International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work.
- ✓ Good practice to consider UN Guiding Principles and OECD guidelines

Describe company's expectations

- ✓ Describe what the company expects from its personnel, business partners and other relevant partners in terms of respecting its social and environmental commitments.

Describe company's actions

- ✓ Describe the **actions** the company takes **to implement** its human rights and environmental commitments.

Be approved

- ✓ Be approved by the most senior decision maker

Be publicly available

- ✓ Be made publicly available

International guidelines don't expect a due diligence policy to...

Follow a specific form or template

✓ Adhere to a specific form or template; a sustainability due diligence statement or policy can take many different forms.

Be a stand-alone policy.

✓ Be a stand-alone policy. Most companies decide to have a stand-alone policy and integrate its sustainability due diligence commitments into other relevant documents (e.g. Code of Conduct). A company can however also decide to only integrate its sustainability due diligence commitments into other policies (as long as these other documents are externally available).

CSDDD (draft)

Integrating due diligence into corporate policies and risk management systems



1. Companies should **integrate** due diligence **into** their **relevant** corporate **policies and risk management systems** at all relevant levels of operation and have in place a **due diligence policy**.
2. The due diligence policy should:
 - be developed in prior **consultation with** the company's employees and their representatives;
 - contain a description of the **company's approach**, including in the long term, to due diligence;
 - contain a description of a **code of conduct describing the rules and principles to be followed** throughout the company and its subsidiaries, and where relevant, the company's direct and indirect business partners; and
 - a description of the **processes put in place to integrate** due diligence into relevant policies **and to implement** due diligence, including the measures taken to verify compliance with the code of conduct and to extend its application into business partners.
3. The due diligence policy should ensure a risk-based due diligence.
4. The code of conduct should apply in all relevant corporate functions and operations, including procurement, employment and purchasing decisions.

Examples of due diligence policies

ACTION

Human Rights and Environmental

Due Diligence Policy

Version 1.1
December 2023

Table of Contents

1. Foreword	3
2. Introduction	3
3. Due diligence at Action	3
3.1 Embed responsible business conduct	3
3.2 Identify and assess adverse impacts	5
3.3 Cease, prevent or mitigate adverse impacts	5
3.4 Track implementation and monitor results	6
3.5 Communicate how impacts are addressed	7
3.6 Provide access to remedy	8
4. Glossary	9

3.3 Cease, prevent or mitigate adverse impacts

Action is committed to ensure good ethical practice throughout our supply chain and operations. We take our responsibility to cease, prevent and/or mitigate the identified adverse impacts. We recognize that we cannot deal with complex global risks and challenges alone, which is why we aim to work closely with our suppliers and partners to address and mitigate identified risks.

Supplier selection

The suppliers we work with play an essential role in our due diligence activities. We believe it is our shared responsibility to ensure good ethical and environmental practices throughout our supply chain and the communities in which we operate. Therefore, we carefully select our suppliers and set clear expectations on social and environmental performance at the beginning of our relationship:

- All contractual suppliers accept and comply with our ethical sourcing policy and cascade its principles down the supply chain.
- Our domestic suppliers that source from risk countries¹ are members of amfori BSCI to demonstrate their commitment to social compliance and transparency in supply chains (exemptions may apply).
- All producers and subcontractors in risk countries are required to have a valid social audit that complies with our Social Compliance Guidance for Suppliers. All subcontractors need to be authorized by Action prior to production.
- Our direct import China-based producers are monitored on environmental alerts by the Institute of Public & Environmental Affairs (IPE) and required to remediate open violations.

Supplier training

We organize various trainings for our (commercial) suppliers in order to raise awareness about our policies and sustainability expectations. Training on social compliance is part of the onboarding procedure for direct suppliers. Our partner Li & Fung also trains our suppliers throughout the year via vendor summits in which our expectations on social and environmental compliance are shared.

Supplier disengagement

We strive for a good and trusting collaboration with our suppliers and partners, a relationship where open and honest dialogue is possible. When critical cases are identified through audits at our suppliers we follow our critical escalation policy to remediate the identified risk. If all attempts for improvement fail, our last resort is to end the relationship with the business partner in a responsible manner. The impact of severing ties with the business partner is not taken lightly, and any impact that it may have on the risk identified is taken into consideration.

Sourcing sustainable raw materials

Our sustainable raw material policies and targets aim to ensure that human rights and the environment are respected in our supply chain. Our focus is on our private- and white label assortment. We periodically evaluate and update our policies and targets to further mitigate potential adverse impacts. Our partners are key in achieving the various raw material ambitions.

Examples of due diligence policies

01 Introduction	04
02 Creating Value Responsibly	06
Human Rights and Good Working Conditions	07
Abolition of Child Labor	07
Abolition of Forced Labor	07
Freedom of Association, the Right to Collective Bargaining and the Right to Strike	07
Equal Opportunity and Non-Discrimination	08
The Right to Health and Safety at Work	08
Working Time	08
Compensation and Benefits	08
Education and Training	09
Protection of Human Rights Defenders	09
Protection of Local Communities and Indigenous Peoples	09
Security Personnel and Human Rights Protection	09
Handling Data	09
Handling Artificial Intelligence	10
Human Rights and the Environment	11
03 Our Human Rights Due Diligence Approach	12
Mercedes-Benz and Controlled Group Companies	14
Business Partners	14
Suppliers	15
04 Implementation of These Principles	16
Obligation and Compliance	17
Communication and Notification	17
Governance	18
Handling Violations of These Principles	18
Contact, Questions and Information	19
Miscellaneous	19
Assessments and Regular Reporting	19

Principles of Social Responsibility and Human Rights

Mercedes-Benz



Ola Källenius
Chairman of the Board of Management,
Mercedes-Benz Group AG

Renata Jungo Brüngger
Member of the Board of Management, Integrity
and Legal Affairs, Mercedes-Benz Group AG

Sabine Kohleisen
Member of the Board of Management,
Human Resources, Mercedes-Benz Group AG

Ergun Lümali
Chairman of the General Works Council,
Mercedes-Benz Group AG

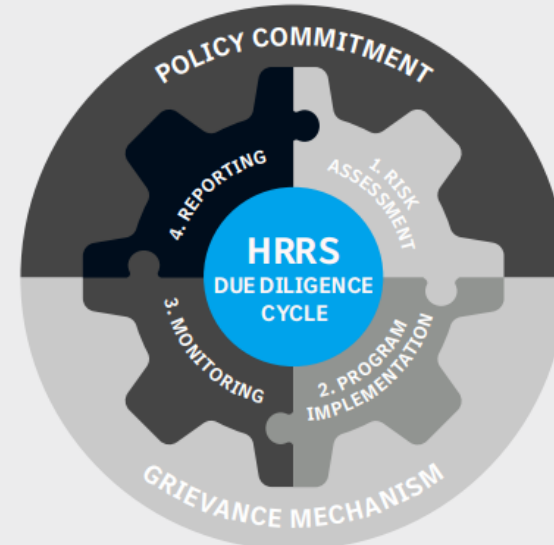
Michael Brecht
Interim Chairman of the World Employee
Committee, Mercedes-Benz Group AG

Mitchell Smith
Interim Vice Chairman of the World
Employee Committee

Atle Høie
General Secretary,
IndustriALL Global Union

Our due diligence approach to respecting and upholding human rights in four steps.

- 1. Risk assessment**
Systematic assessment and evaluation of human rights risks
- 2. Program implementation**
Definition and implementation of human rights measures, dependent on Group companies' or supply chains' specific *risk assessment*
- 3. Monitoring**
Evaluation of adequacy/effectiveness of the *risk assessment* and program-implementation
- 4. Reporting**
Regular and standardized reporting



04 Implementation of These Principles

In this chapter we describe responsibilities and obligations regarding these Principles as well as how we handle violations within Mercedes-Benz Group and our controlled Group companies.

Obligation and Compliance

The members of our managing bodies at Mercedes-Benz Group put these Principles into practice. Local implementation is tasked to those responsible at the respective site.

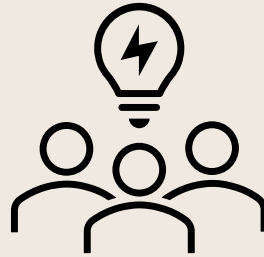
These Principles were adopted jointly by corporate management, Mercedes-Benz Group General Works Council, the World Employee Committee and IndustriALL Global Union as **binding requirements within Mercedes-Benz Group for the implementation of the core elements of human rights due diligence**. These Principles are binding around the world for all managers and employees of Mercedes-Benz Group as well as all controlled Group companies and designate contact persons to assist business partners, customers and employees.

Keep in mind

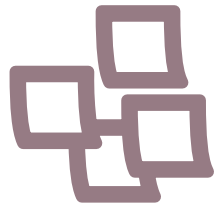
- No need to start from scratch
 - You can use for instance the company's human rights policy, code of conduct or other relevant policies as a starting point
- Include your company's salient issues
- Consider different regulatory requirements when operating in various markets
 - Some specific requirements in different national laws (i.e., Germany)
- Be practical
 - Explain what you are already doing on due diligence steps
 - Aspirational vs. de facto management of human rights topics today
- Remember approaches to grievance and remedy
- Engage internal stakeholders
 - Company-wide commitment is key
 - Remember that it takes time to build the commitment internally
- Due diligence policy needs the highest-level approval
 - From Management team to the Board of Directors

Time to get to work!

Group task



Planning a due diligence policy



Select a DD policy/policies for review. Use examples or choose one of the participating companies' policies.



Quickly review the policy/-ies. Write down what's good and what does not work. (individual work 10 min).

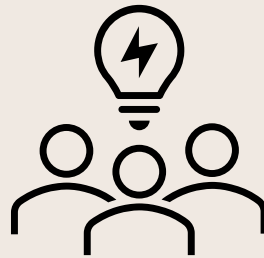


Come together and share views on 'the goods' and 'the bads' (15 min).



List the main take aways for your own company's DD policy development

Sharing



CASE NESTE

Developing HRDD at Neste

Nina Norjama, Head of Human Rights

Upcoming sessions during 2024

1. Evolving regulatory landscape around human rights	2. Embedding human rights	3. Ensuring effective grievance mechanisms and remedy	4. Collecting data and reporting on HRDD
Overview on current regulatory frameworks and their implications.	How to support embedding human rights into relevant functions and processes. Means and best practices to secure buy in and to build human rights capacity across the organization.	UNGPs require companies to establish effective grievance mechanisms. The same is expected in CSDDD. Companies typically have their online channels for stakeholders to report on concerns and grievances. How make these more effective and how to establish other means? How to develop and communicate access to remedy?	Reporting on HRDD is one of the crucial requirements under CSRD and social ESRS standards. In addition, How to report on HRDD under CSRD? What are some of the best practices to collect data from suppliers?
Face to face meeting on 13.2.2024 at 8.30-12	Face to face on 28.5.2024 at 8.30-12	Face to face meeting on 10.9.2024 at 8.30-12	Online meeting on 19.11.2024 at 9.00-12

Enact[®]

Thanks!

Enact Sustainable
Strategies Group AB
www.enact.se

Klarabergsgatan 60,
111 21 Stockholm, Sweden
Tel. +46 8 522 03 450

Stora Varvsgatan 6A,
211 19 Malmö, Sweden
Tel. +46 70 247 94 44

Workland, Lautatarhankatu 10,
00580 Helsinki, Finland
Tel. +358 400 011 211

James Wattstraat 100, 8th floor
1097 DM Amsterdam, The Netherlands

No. 181, Sichuan Middle Road,
Shanghai, 200002, China
Tel. +86 1381-637-0747