



Water in the supply chain and CSDDD

Understanding upcoming EU legislation: Corporate Sustainability Due Diligence Directive

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WATER AS A SUPPLY CHAIN TOPIC

Agenda

- Why is a supply chain perspective on water important?
- Status of supply chain regulations
- Overview of the CSDDD
- Comparing CSDDD & CSRD: Similarities and differences
- Tools & methods for water topics in the supply chain
- How to start?



WHY IS IT IMPORTANT?

There is an increasing focus on international value chains in the context of water management and risks

South Africa: Gold mine pollution is poisoning Soweto's water and soil – study finds food gardens are at risk

Published May 23, 2024 3:59pm CEST

Investors press corporations for water risk data as extreme weather bites

Almost 300 investors, collectively representing more than \$21trn in assets, are urging the firms they invest in to enhance how they are tracking and reporting water-related risks.

CLIMATE & NATURE FINANCE REPORTING AND DISCLOSURE STRATEGY AND DELIVERY SUPPLY CHAIN MANAGEMENT

No rain on the plain: Spain fruit-and-veg industry's climate fight

Droughts, irrigation restrictions and underinvestment in agri-tech are demanding an overhaul in water governance and sourcing.

Half of Bangladeshi drinking water is polluted with arsenic - and climate change is making it worse

U.S. mining companies leave lasting trail of contamination across Peru



ROBERT ORIHUELA

10 JAN 2024 LATIN AMERICA INVESTIGATION

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WHY IS SUPPLY CHAIN DUE DILIGENCE RELEVANT?



77 billion \$ under threat due to water risks in supply chain, according to CDP research¹



Global water demand is predicted to rise by up to **30% by 2050** causing direct impacts on global complex and interwoven supply chains, according to the UN²



1 in 5 companies are facing **supply chain risks** resulting in substantive financial or strategic impact on their business³

(1): US\$ 77 billion across 623 companies responding to the CDP questionnaire <https://www.cdp.net/en/articles/media/water-now-a-major-risk-for-worlds-supply-chains-reports-cdp>

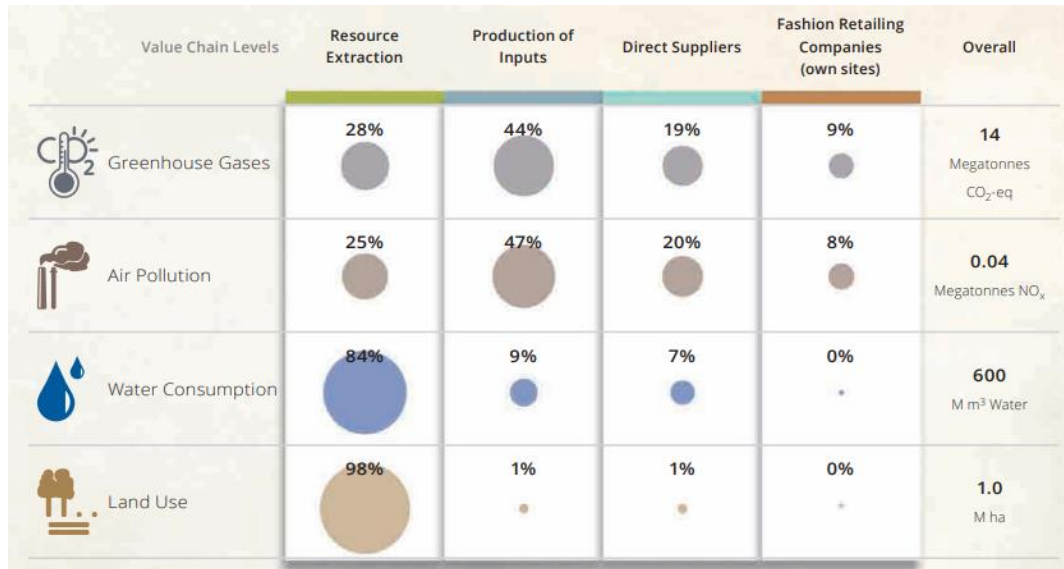
(2) [Understanding Risk and Investing in Solutions for Water Security | World Resources Institute \(wri.org\)](https://www.wri.org/publications/2019/05/understanding-risk-and-investing-in-solutions-for-water-security)

(3) <https://www.cdp.net/en/articles/media/water-now-a-major-risk-for-worlds-supply-chains-reports-cdp>

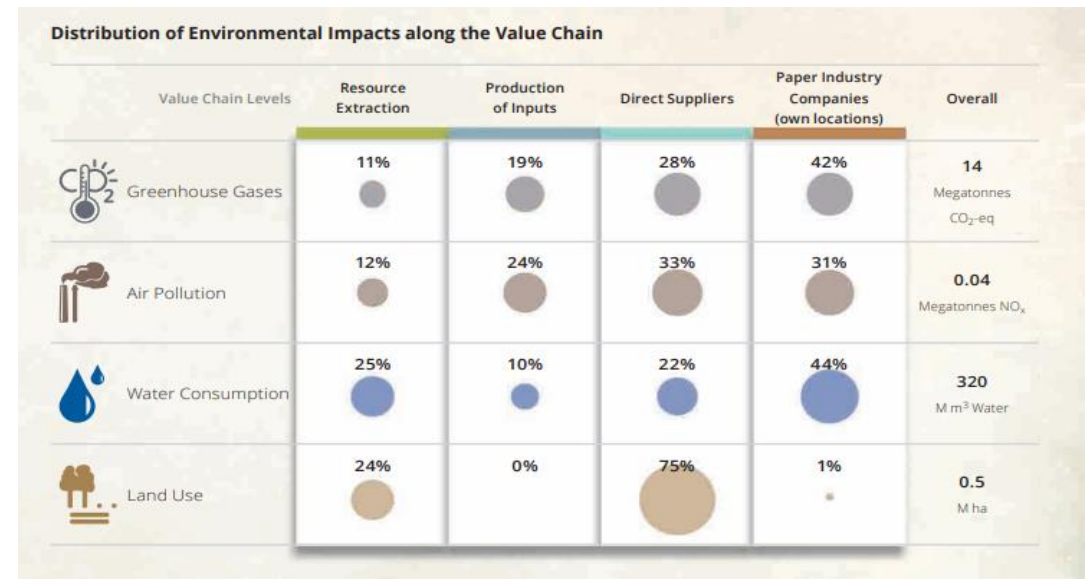
WHY IS IT IMPORTANT?

Water consumption is a key value chain topic

FASHION RETAILING INDUSTRY*



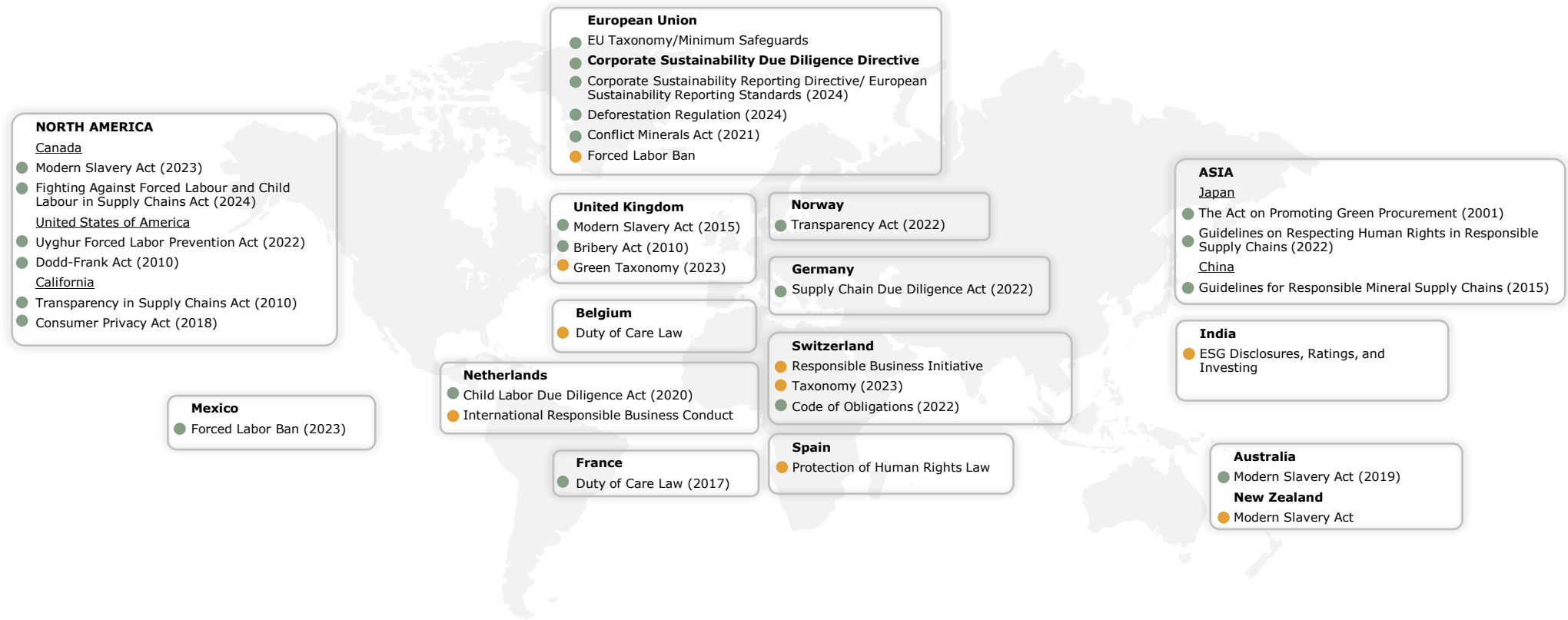
PAPER INDUSTRY*



* <https://adelphi.de/en/system/files/mediathek/bilder/Atlas%20on%20Environmental%20Impacts%20Supply%20Chains%20-%20adelphi%20Sustain.pdf>
 Note: Data is from 2017

Supply chain legislation is developing around the world

● In Force/adopted (year)
● Proposed



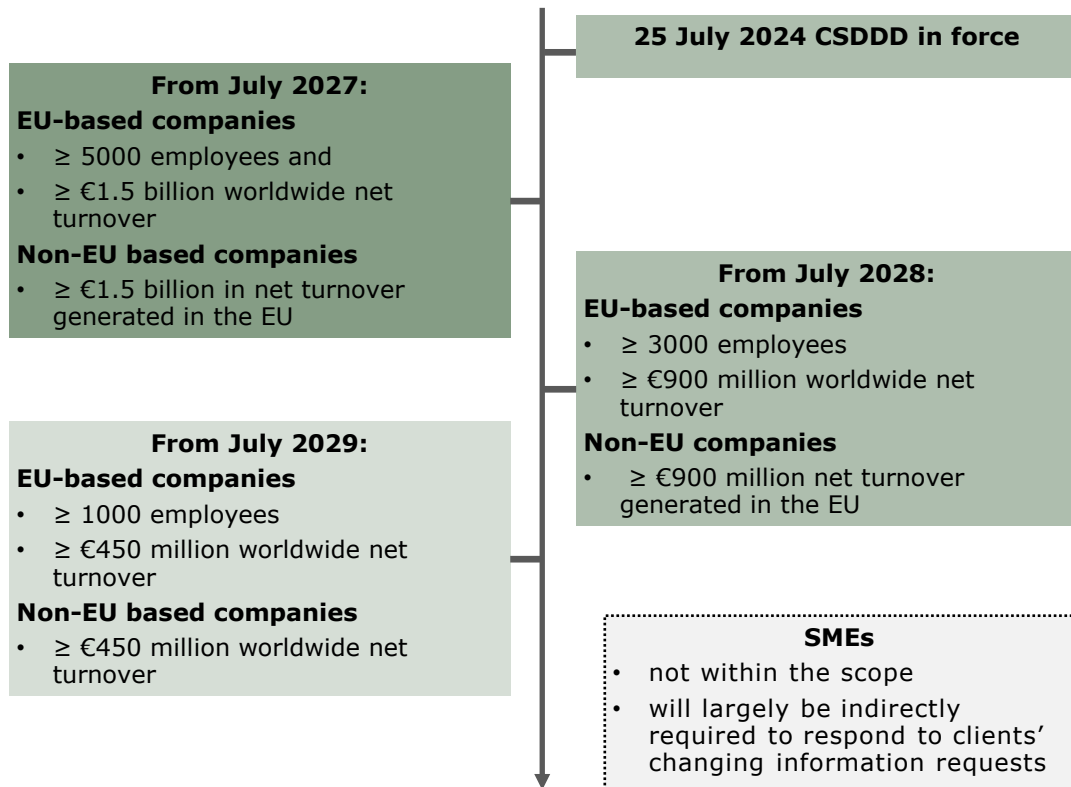
Source: <https://www.lrq.com/en/supply-chain-due-diligence-legislation-map/> (07.08.2023), AFRY update

Corporate Sustainability Due Diligence Directive (CSDDD)



AFFECTED COMPANIES

The CSDDD will apply to certain that place products and services into the EU market



Source: <https://eur-lex.europa.eu/eli/dir/2024/1760/oj>



FACTSHEET AND REQUIREMENTS

Aim	...is to foster sustainable and responsible corporate behaviour in companies' operations and across their global value chains
Implementing due diligence	Companies must implement a due diligence process along their entire value chain and take steps to prevent, end or mitigate adverse human rights and environmental impacts (based on OECD Guidelines)
Supervisory authorities in a European network	... will be responsible for imposing fines and compliance orders. National authorities will ensure a coordinated approach
Sanctions	Penalties can amount to up to 5% of the global net turnover
Civil liability	Affected individuals or their representatives can claim damages in court if harm is caused by a company's failure to comply with due diligence obligations
Climate Transition Plan	Companies must define a plan to ensure their business strategy is aligned with the Paris Agreement

CSDDD addresses both human rights and environmental topics – water is covered in various ways



Source: <https://eur-lex.europa.eu/eli/dir/2024/1760/oj>

Comparative analysis: Overlaps and differences

	CSDDD	CSRD	Summary
Focus	<ul style="list-style-type: none"> • Focuses on responsible business conduct • Aims to mitigate harmful social and environmental practices across the companies' value chain 	<ul style="list-style-type: none"> • Focuses on improving transparency in corporate sustainability and its reporting 	<p>≠ CSDDD aims to prevent, end or mitigate impacts and enhance visualisation of supply chains, while CSRD aims to enhance transparency of sustainability reporting</p>
Focus and main objective	<ul style="list-style-type: none"> • Setting up due diligence/supply chain management processes 	<ul style="list-style-type: none"> • Definition of material topics and KPI-based reporting on these topics 	<p>= Key CSRD data points (in particular S1-S3) are reflecting CSDDD management processes approach</p>
Core scope EU	<ul style="list-style-type: none"> • Listed companies (except micro-companies) • Companies with >250 employees, 50m EUR turnover and/or 25m balance sheet* 	<ul style="list-style-type: none"> • Companies with >1.000 employees and >450m EUR worldwide net-turnover** 	<p>≠ Smaller scope covered in CSDDD</p>
Transparency and data	<ul style="list-style-type: none"> • Defined set of human rights and environmental issues (international law) 	<ul style="list-style-type: none"> • Defined set of environmental, social and governance topics 	<p>= CSDDD data can be utilized to integrate into CSRD processes, e.g. DMA and reporting, CSRD E3 data can be used to inform CSDDD process (e.g consumption, water risks)</p>
Stakeholder engagement	<ul style="list-style-type: none"> • Active engagement with affected stakeholders is required (e.g. people impacted by business operations or their representatives) at several stages of the due diligence process 	<ul style="list-style-type: none"> • Active engagement with stakeholders is required to collect information, assess risks, and understand the impacts of the company's activities along the value chain 	<p>= Engagement with a similar set of internal and external stakeholders Building a synchronized stakeholder engagement approach will avoid the need for duplicative information gathering</p>
Frameworks and guidelines	<ul style="list-style-type: none"> • Direct alignment with pre-established international law, EU guidelines and taxonomy, e.g. ILO, TCFD, OECD 	<ul style="list-style-type: none"> • Falls under the European Sustainability Reporting Standards, combining a comprehensive set of frameworks, e.g. TCFD, EU Taxonomy 	<p>≠ EFRAG has drafted a new set of standards for the CSRD, whose level of detail exceeds that of the CSDDD</p>

* Two of three criteria have to be met; non-EU companies fall under the CSRD in case they are above certain thresholds.

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Overview of tools and methods (also for CSRD)

- **World Resources Institute Aqueduct Water Risk Atlas:** Map and analyze current and future water risks such as floods, droughts and stress across multiple locations. Understand water-related risks and assess exposure to water risk.
- **WWF Water Risk Filter:** Screening tool at company and portfolio level, including water-related risk map, value chain perspective. Provides maps of physical, regulatory, and reputational water risks, and provides operational risk questionnaires to use at site-level.
- **ISO 14046:2014 – Environmental management & water footprint:** Principles, requirements and guidelines related to water footprint assessment of products, processes and organizations based on life cycle assessment (LCA).
- **Water Footprint Network, Water Footprint Assessment Tool:** Calculate and map the water footprint, assess its sustainability, and identify strategic actions to improve the sustainability, efficiency and equitability of water use. Geographic assessment at country, river basin and global levels.
- **WASH Pledge Self-assessment tool:** Tool that can be used by companies to evaluate their implementation of access to safe water at the workplace in comparison to leading practice.



How to start?

Step	Approach (examples)
Conduct broad risk analysis to create transparency and identify priority issues	<ul style="list-style-type: none">• Use of tools such as WWF Water Risk Filter or Aqueduct• Link with CSRD DMA
Conduct in-depth risk analysis for priority topics	<ul style="list-style-type: none">• Exchange with sector associations• In-depth studies• Interviews• LCAs/water footprint analysis
Prioritize areas of action for prevention and mitigation measures	<ul style="list-style-type: none">• Internal governance: Responsibility, targets, etc.• Internal capacity building (e.g. production sites, suppliers in areas exposed to water risks)• Assess standards and initiatives (e.g. Water Stewardship Alliance)• Pilot project with supplier

CONTACT DETAILS

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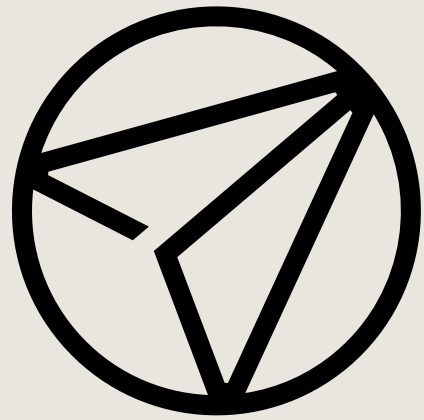
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