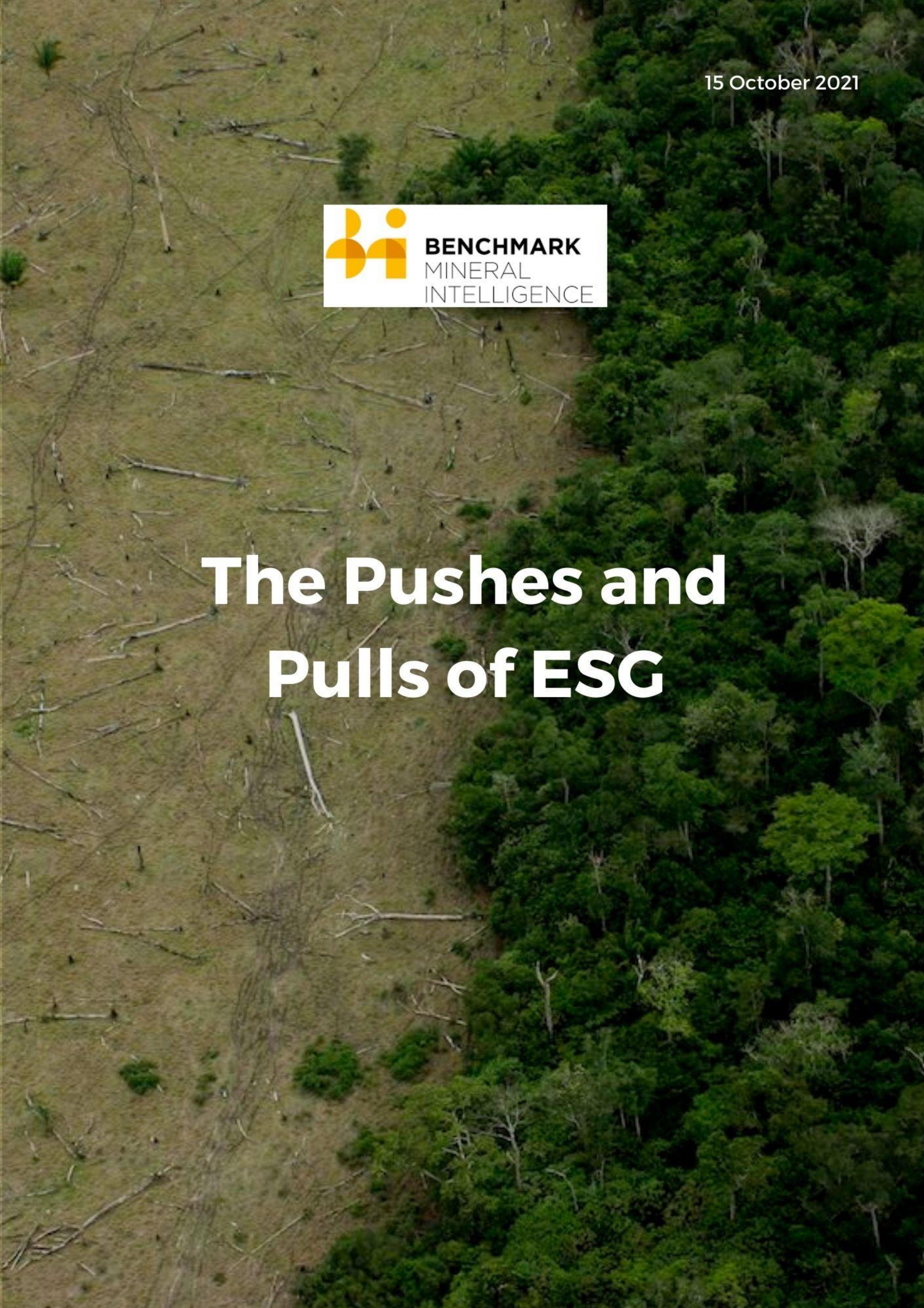

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The Pushes and Pulls of ESG

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As the world seeks to respond to net zero, we are seeing the rapid growth in green technologies, especially in the rapidly moving electric vehicle (EV) market. The climate benefits of a technology shift from internal combustion engines (ICE) to EVs are clear, but rapid market growth means growing demand for critical materials that are vital for the highest value component in an EV: the lithium ion battery.

Eyes are on the EV market and its supply chain; whether it be an investor looking to the industry as a capital venture, or an upstream operator sourcing their raw materials. There is a need from these market players to understand what risks are present to inform decision making. Increasingly, looking at risk does not just mean looking at a company's financial sustainability. More than ever, Environmental, Social and Governance (ESG) issues form an integral part of risk management and corporate strategy.

Sustainability reporting is not new, having emerged initially to help investors. However, ESG now underpins a range of frameworks and disclosure requirements, and provides a tangible, universal, and transparent means of reporting on impact and risk. Investor requirements on ESG have pulled companies they invest in into the ESG space. There is awareness and recognition, across industries and the globe, that ESG reporting and criteria is currently in the spotlight and it is likely to remain this way.

The term ESG was coined in the early 2000s when the then United Nations Secretary-General, Kofi Annan, invited 20 of the world's largest institutional investors to join a process to develop the Principles for Responsible Investment (PRI) to incorporate ESG issues into investment practice.

A fundamental part of ESG reporting is assessing the materiality of a company: this is determining the material topics that are most relevant and important to address to make a business sustainable. Defining, prioritising and managing these material topics and risks varies across different industries, sectors and individual companies. Although the ESG reporting landscape is in some ways complex, because of the varying standards and frameworks, what these methodologies seek to do is provide clarity and a way to consider data holistically and strategically.

The pushes and pulls for the industry to engage with ESG is growing. The push has come from evolving consumer habits, developments at policy level, nudges from the corporate world, changing political landscapes, and from the impacts of the COVID-19 pandemic.

CHANGING HABITS, SHIFTING LANDSCAPES

We are inarguably entering what is described as the 'Anthropocene epoch'. Humans are now the dominant influence on our planet through our impact on natural environments, biodiversity, and changes to the climate.

The Anthropocene epoch

- The 'Anthropocene' is a term coined by Paul Crutzen and Eugene Stoermer in 2000 to refer to the present geological time
- This period in Earth's existence is characterised by human activity impacting the climate, rather than the climate working independently
- There is a range of associated implications of progressing into this new epoch, including global warming, sea-level rise, ocean acidification, and the explosion of domestic animal populations and species invasions, among many others
- The 'Anthropocene' is not an officially recognised geological unit, we are formally considered to still be living in Holocene Epoch
- There are movements to use the term to draw attention to the influence that humans have on the state of the planet

Consequently, there are changes in business and consumer behaviour, as well as efforts by lawmakers to stop damaging activities, or nudge behaviours in a sustainable direction. We are seeing a collaborative approach, across governments, businesses, and other institutions, to address these issues. For example in an initiative to increase nature and biodiversity, the EU banned neonicotinoids as a plant spray as they impacted pollinators, such as bees, and farm support programmes encouraged farmers to put aside land to encourage wildflowers.

At the consumer level there is change too. Whether it be abandoning single-use plastic, the adoption of solar panels on roofs, or the global shift away from finite resources and towards renewables. As the rapid uptake of EVs shows, policymakers can use regulation and incentives to encourage change, harnessing consumer demand for new technologies like EVs to accelerate action to address climate change.

Beyond the environment; social movements are continually emerging and drawing attention to issues regarding gender, race, labour rights, and other areas of concern. Companies now have responsibilities to their employees and wider society to address potential social and governance issues head on. For example, in the Atacama Desert – one of the world's major sources of lithium – companies based their need to continually manage with the view to ultimately mitigate a set of complex challenges relating to environmental impact, indigenous land rights and local development alongside their day-to-day management of their activities.

Pulling these topics together, whether they are environmental, social or governance related, we can see how they interact with one another. Individuals and communities who are often most affected by environmental issues are also among the most vulnerable groups of society. The blurring of the 'E' and 'S' in ESG demonstrates the complex nature of addressing sustainability as a whole and signals the need to think of these issues in tandem with one another, rather than separating them from each other.

Shifts in politics are shaping the ESG landscape too. In the US, the change in administration has resulted in significant changes in terms of environmental policies. The Trump administration stalled various measures aimed at curbing greenhouse gas emissions and direct air pollutants, whereas, since coming into power, Biden has ordered his administration to help accelerate the rollout of clean energy and has vowed to turn the federal fleet electric.

Most recently, at the G7 in Cornwall this June, climate change was among the key issues at the top of the agenda. G7 finance ministers backed the creation of an International Sustainability Standards Board (ISSB) to write 'baseline' rules for disclosures on how climate change will affect companies' performance. The ISSB is set to be launched ahead of the UN COP26 climate change conference in Glasgow in November to inject global consistency and comparability in disclosures. We can anticipate further climate and sustainability-reporting related developments to emerge from this event.

PUSHES FROM POLICY MOMENTUM

The EU has also been active on sustainability reporting, with EU Financial Services Chief, Mairead McGuiness, pushing for sustainability reporting to be held up to the same standards as financial reporting. We are reaching a watershed moment – international institutions, governments and bodies are investing time and money into sustainability and ESG reporting and cannot backtrack.

Proposals and regulations introduced by the European Commission in recent years have fuelled activity here. In 2018, the EC announced the revision of the EU Emissions Trading System (EU ETS), an initiative which seeks to combat climate change and reduce greenhouse gas emissions through a 'cap and trade' carbon market. Launched in 2005, and now entering its 'fourth trading phase' for 2021-2030, the ETS has proven to be a productive framework by which to reduce greenhouse gas emissions.

The EC's Sustainable Finance Action Plan published updated guidelines on corporate climate-related information reporting in June 2019, giving companies direction on how to report the environmental impact their operations most diligently. These guidelines are set to encourage 'green investing' and confront greenwashing. We are starting to see a drive to address the 'S' and 'G' in ESG too, with the EU releasing expert reports that include a standard of ESG disclosures.

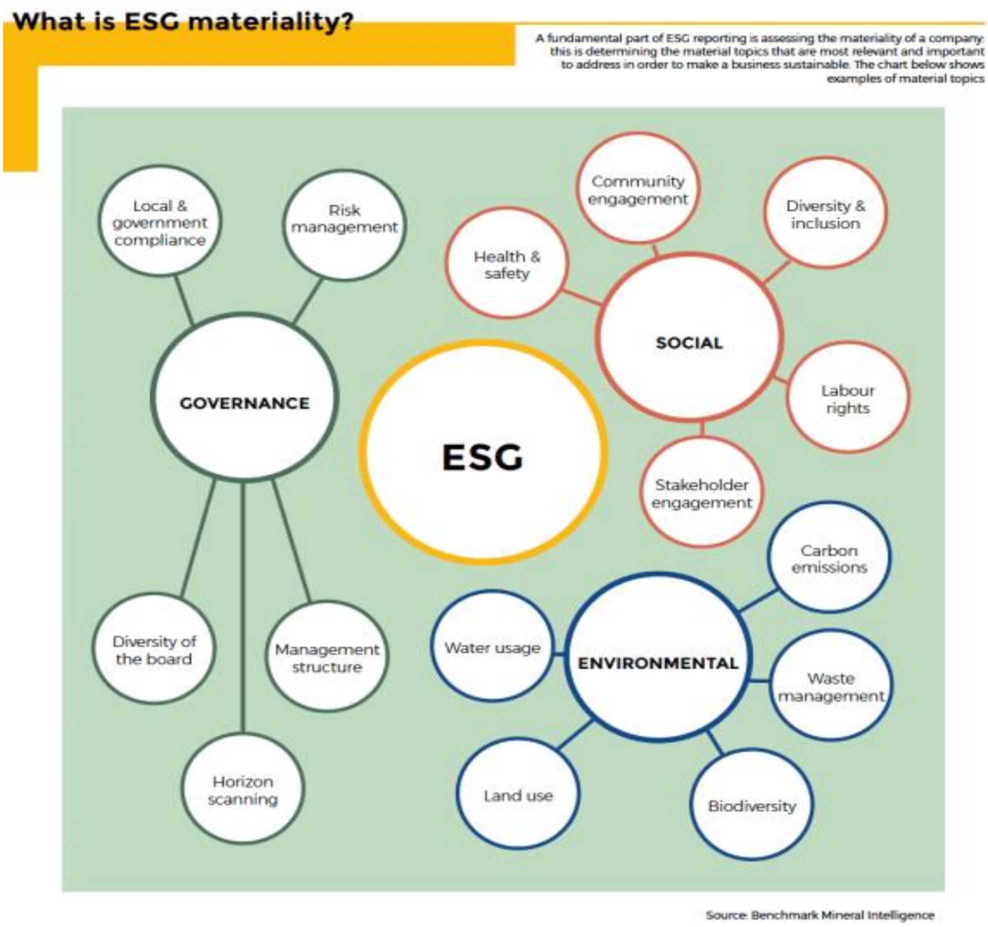
Beyond regulations focused on guidelines for disclosures and ESG reporting, the EU and EC are paying significant attention to the lithium ion battery supply chain. March 2020 saw the EC introduce their Circular Economy Action Plan – one of the main building blocks for the European Green Deal. In December 2020, as part of the plan's first initiative, the EC proposed changes to the 2006 Batteries Directive. These amendments seek to ensure that the batteries placed on the EU market are sustainable throughout their entire life cycle and cooperate with the European Green Deal's goal of zero pollution.

The amendments seek to encourage companies operating within the lithium ion battery market to confront any social, economic, and environmental risks linked to these batteries, giving the supply chain a legislative push to engage with sustainability and ESG.

Upon the announcement of the EC's proposals to the Batteries Directive, Frans Timmermans, Executive VP for the European Green Deal, made clear that a shift from ICE to EVs and batteries must not be compromised by environmental harm. Considering these policy and regulation developments in the last few years – whether addressing disclosure guidelines or the lithium ion battery supply specifically – it is clear that ESG materiality and reporting is a vital tool for this sector to demonstrate its responsibility.

To report on actual impact, sustainability reporting must be transparent, reliable, and backed up by robust data and risk management plans, at a minimum. Some companies have used it as an opportunity to systematically incorporate wider policy, such as catastrophic hazard strategies, supply chain due diligence, and land stewardship. Examples of this include a community initiative which funds infrastructure projects, including a new sewage system for the local communities.

As **Benchmark's Lithium ESG** report shows, ESG momentum is building rapidly across the lithium supply chain. Policy changes and questions from investors are a major driver in this rapid adoption. With more policy changes coming down the track in the next few years, this means continued adaptation and evolution in how the lithium supply chain reports on and manages its impacts is vital.



CORPORATE WORLD PULLS

Within the corporate world it has been widely acknowledged that the 17 Sustainable Development Goals (SDGs) goals ratified by the United Nations cannot be achieved by the public sector alone.

ESG raters and rankers (companies which position organisations based on their ESG performance) often use artificial intelligence (AI) to data-mine companies' public documents, media coverage, either in the formal press or in social media. In turn this applies pressure on companies to engage in ESG. The cobalt supply chain, for example, has high profile media coverage: Amnesty's 2016 report on labour and human rights issues within the industry, brought the supply chain under scrutiny. The awareness in this sector amongst companies has resulted in some real ESG gains regarding these complex and sensitive issues. This is also an example of the media focusing on one issue, whilst underplaying or ignoring other issues that are important to address. Despite this, the cobalt industry is addressing environmental issues that are not in the spotlight.

Other stakeholders like governments and NGOs want, and expect, a company to act as a 'good' corporate citizen, making it equally important for companies to cooperate with ESG and sustainability reporting. There is an increasing desire to cooperate with, and be part of, companies who act in the interests of the environment and communities.

Although time consuming, and potentially exposing, a company filing an annual ESG report aids several stakeholders. ESG activity is a type of risk management tool, and it is commonly known that by acting responsibly and consciously, a company minimises the likelihood of them being caught up in an event that could put their business at risk. Complying with ESG standards and completing an annual ESG report in alignment with specific frameworks is therefore beneficial to a company, and in turn makes them more attractive to potential investors. This is where we are seeing definite 'pulls' for companies to enter into the world of ESG.

As ESG develops, companies are responding to the increasing attention being paid to supply chain due diligence processes within ESG reporting. This has in part been pushed by the Organisation for Economic Co-operation and Development's (OECD) Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence. First adopted in 2012 and further revised in April 2016, it sets common approaches for undertaking environmental and social due diligence to identify, consider, and address the potential environmental and social impacts and risks. Although not legally binding, it is generally accepted that it is important for political commitment to OECD membership, and as such is a driver in the battery value chain.

The International Organisation of Securities Commission (IOSCO) is set to introduce new standards for ESG raters to improve comparability and reliability of sustainability reporting in order to eliminate any concerns over ESG greenwashing. This type of regulatory guidance and standards will certainly frame many discussions in company board meetings, putting

ESG at the top of the agenda.

THE COVID-19 EFFECT

The COVID-19 pandemic has highlighted that global issues need both a local and global response. The need to take action to address climate change will intensify as countries prepare for, and then deliver on, commitments made at COP26 in November. COVID-19 brought global lockdowns resulting in a temporary cut of 7% in global carbon dioxide (CO_2) emissions in 2020. There is a widespread desire to 'build back better' following the pandemic in a way that confronts the climate crisis. Attitudes were changing pre-COVID-19, but there is certainly another dimension to these movements now.

The pandemic has changed our behaviours, and perhaps our attitude to new technologies and global issues like climate change. It is now the norm to take meetings from home. Online webinars and conferences have built momentum within the industry, rather than slowing it down, keeping the industry and their supply chains connected through a virtual space where the sharing of knowledge and information is critical to relationships. This virtual space has given room to discuss ESG properly, pushing the issue up everyone's agenda. Raised awareness of our global interconnections has also pushed the issue into the limelight, with media coverage on EVs andsupply chain issues moving out of business or environment pages and onto the front page. At Benchmark we have felt this shift too and see the sense of urgency for the industry to demonstrate the many ways it is taking action, through better reporting and transparency.

HOW ARE WE RESPONDING?

Given the role that the lithium ion battery industry is set to play in the future, there is an opportunity for all players involved to make a real difference to society and the planet. There is significant momentum at policy level to mandate companies to operate in an environmentally responsible and socially conscious manner.

Responding to the pushes and pulls of the ESG landscape and the need for sound science and insight in the industry, Benchmark set up its ESG division in January 2020.

Our approach is to use quantitative data alongside qualitative criteria to fill the void in many ESG frameworks and to better address and explain materiality and other key ESG components. These core topics differ by raw material, supply chain and stakeholder. Plotting trends and discovering where and why materiality differs so much in the industry is part of Benchmark ESG division's expertise.

Rigid frameworks can oversimplify data or miss out on qualitative points, our goal is to provide an opportunity to gather data and expertise to tell the sector's story through case studies and inputs from industry.

As part of our ESG reports for all key materials, we will be publishing a matrix – an up-todate datasheet, providing an overview of where each company is with their ESG reporting and implementation. Another key component of our division which is an important parallel of ESG, is our Life Cycle Assessment (LCA) work. Our unique ability to gather accurate data from experts across the industry has allowed us to create global LCA averages for all the key lithium ion battery materials, for companies to compare against. The supply chain is set to play a fundamental role in the road to electrification and the green revolution, and in bringing together discussions surrounding this industry and ESG, our division is here to navigate this landscape diligently.

Rather than incorporating everything that is going on in the ESG space for the lithium ion battery industry, this article has sought to provide a snapshot in time whilst the ESG forum gathers momentum. There is constant evolution and adaptation in this sphere, in terms of regulations and requirements, standards and frameworks, and how these varying methodologies are used in practice. The pushes and pulls are getting stronger and this is only fitting as the demands on our environment, and society, are getting more urgent.

BENCHMARK LAUNCHES LITHIUM ESG REPORT

Industry-specific ESG intelligence is essential for stakeholders across the lithium supply chain. The Benchmark Lithium ESG Report, launched this week, provides expert analysis and insight to support those working on the delivery of a sustainable future in the face of the climate crisis.