



ESRS VALUE CHAIN CONSIDERATIONS

OVERVIEW

The European Sustainability Reporting Standards (ESRS) require companies to account for the sustainability impacts, risks, and opportunities throughout their entire value chain. This comprehensive approach includes both upstream and downstream activities, covering suppliers, customers, and all other business relationships beyond direct contractual partners.

DETAILS

Below are the key ESRS value chain considerations for companies:

1. Upstream Activities:

Companies must disclose information related to their upstream activities, which encompass resource inflows and the initial stages of production. This involves a qualitative description of resource inflows (ESRS E5-4) and the impacts arising from the upstream value chain, such as the environmental footprint of procured materials.

Key considerations include assessing the sustainability practices of suppliers, ensuring ethical sourcing, and evaluating the environmental impacts of raw material extraction and processing. By scrutinising these early stages, companies can mitigate risks associated with supply chain disruptions and enhance the sustainability of their procurement practices.

2. Downstream Activities:

Equally important are the downstream activities, which involve the distribution, use, and end-of-life treatment of products. Companies must consider the impacts of their products and services once they leave their control, addressing issues such as the environmental and social impacts of product use, customer health and safety, and the disposal and recycling of products. This comprehensive view ensures that companies are accountable not only for their direct operations but also for the broader impacts of their products throughout their lifecycle.

3. Entity-Specific Metrics:

Beyond standardised metrics, ESRS mandates that companies provide additional value chain metrics tailored to their specific context. This includes reporting on the impacts of suppliers when they have significant environmental effects, the social security coverage of workers in high-risk areas, and health and safety incident reductions. By offering these entity-specific disclosures, companies can present a more nuanced and complete picture of their sustainability performance, highlighting areas of significant impact and risk within their value chains.

4. Social Impacts:

Social impacts are another critical area under ESRS, with standards such as ESRS S2 (Workers in the Value Chain) and ESRS S3 (Affected Communities) requiring detailed disclosures. Companies must consider the broader social footprint of their operations, addressing the indirect relationships and community effects that extend beyond their immediate business activities. This involves evaluating labour practices within the supply chain, community engagement, and the socio-economic impacts of business operations. By addressing these social dimensions, companies can foster greater transparency and build stronger relationships with stakeholders.

5. Sector-Specific Guidance:

While current ESRS standards are sector-agnostic, future sector-specific standards will provide more detailed guidance on incorporating value chain data into sustainability metrics. In the interim, companies should draw from best reporting practices and industry benchmarks to meet these requirements effectively. This proactive approach ensures that companies remain compliant with evolving standards and can adapt to sector-specific expectations as they are introduced.

For more detailed information on value chain considerations under ESRS, please refer to the [European Financial Reporting Advisory Group \(EFRAG\)](https://www.efrag.org/) website, or alternatively, contact us at info@envisionas.com.