



# Navigating ESG Throughout the Value Chain

*Mark Barrott, Laurie Hoose*





# Presenters



**Mark Barrott**

*Partner*

*Automotive and strategy practice*



**Laurie Hoose**

*Senior manager*

*Environmental, Social, Governance (ESG) practice*

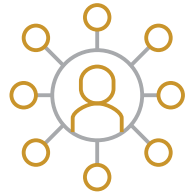


# About Plante Moran



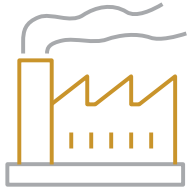
**99**

years serving clients  
(Founded in 1924)



## Mobility Intelligence Center

Research on  
critical automotive  
technologies  
to suppliers



**2,500+**

manufacturing &  
distribution clients



**39,000**

professionals  
worldwide



**25**

years on  
Fortune magazine's  
Best Workplace list

**3,500+**

in U.S.

## COMPREHENSIVE SERVICES

- Strategic planning; market/product analysis & planning
- Supplier: Customer relationship analytics
- Environmental, social, & governance (ESG) consulting
- Supply chain & operations consulting
- Product costing, quoting, & pricing consulting
- Audit & accounting
- Tax compliance & consulting (credits & structuring)
- ERP selection, implementation, & "rescue"
- Business analytics
- Cybersecurity
- Due diligence
- Investment banking (PM Corporate Finance)
- Real estate: Site selection, leases, & credits





# Future Mobility

*A Lot has Changed in 5 Years*

2018

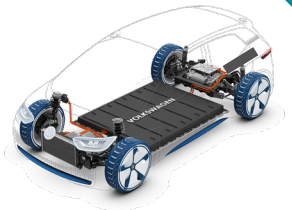
1 Autonomy



2 Mobility



3 Electrification

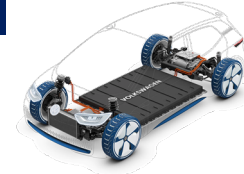


4 Manufacturing the vehicle



2023

1 Electrification



2 Connectivity



3 Mobility



4 Autonomy



5

Manufacturing Simplification

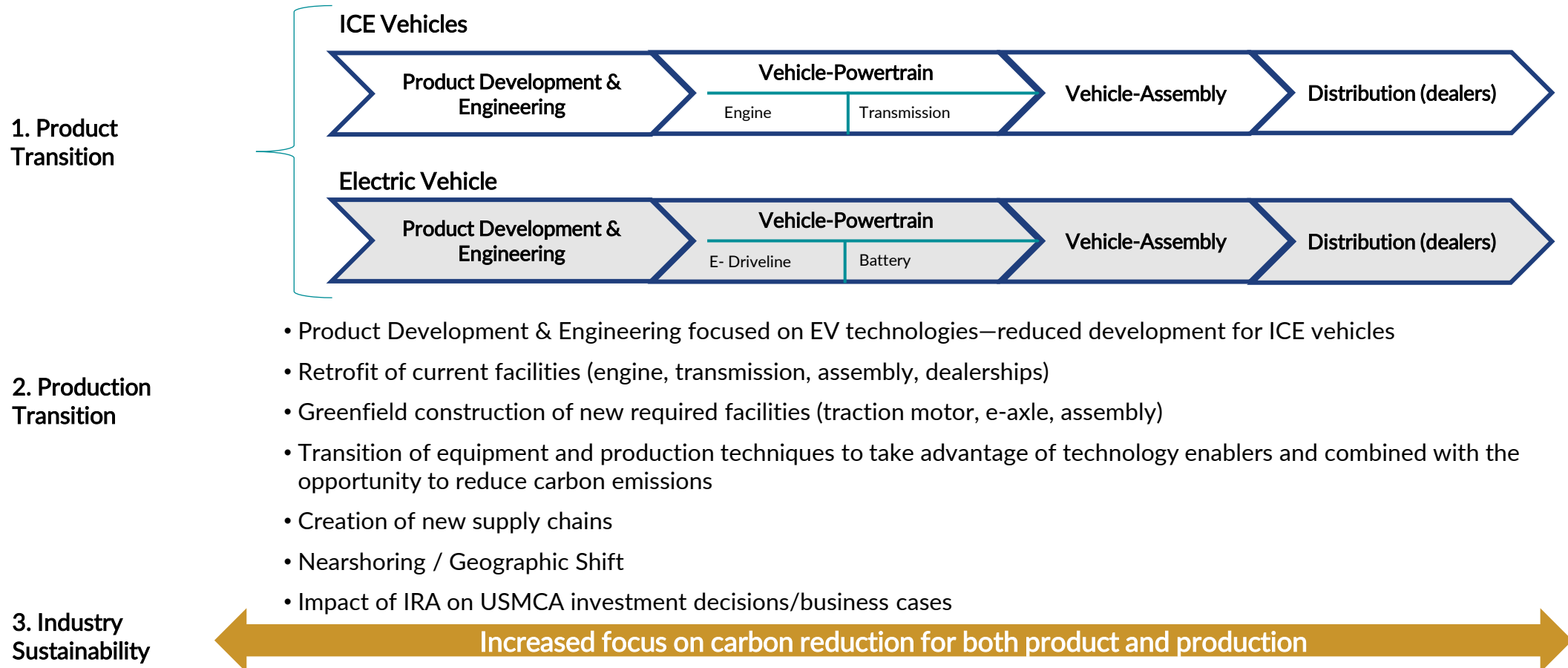




# Automotive Manufacturing Value Chain

## *Transition Across Automotive Industry*

To make the transition to electric vehicles the automotive industry has to change both product and production approaches and do so in a “smart” and sustainable way





# ESG Disclosure Topics



## Environmental

- Emissions
- Air quality
- Energy management
- Water & wastewater management
- Waste & hazardous materials management
- Ecological impacts



## Social

- Employee health & safety
- Diversity, equity, & inclusion
- Customer privacy
- Data security
- Product quality & safety
- Access & affordability
- Labor practices
- Community relations
- Human rights



## Governance

- Supplier relations & supply chain
- Product Design & Lifecycle Management
- Materials Sourcing
- Ethics & integrity
- Legal/regulatory compliance
- Risk management
- Business resilience
- Competitive behavior
- Public policy



# Carbon Emissions

For OEMs to be able to disclose their own scope 3 emissions, they need suppliers to provide scope 1 & 2 emissions data

## Scope 1

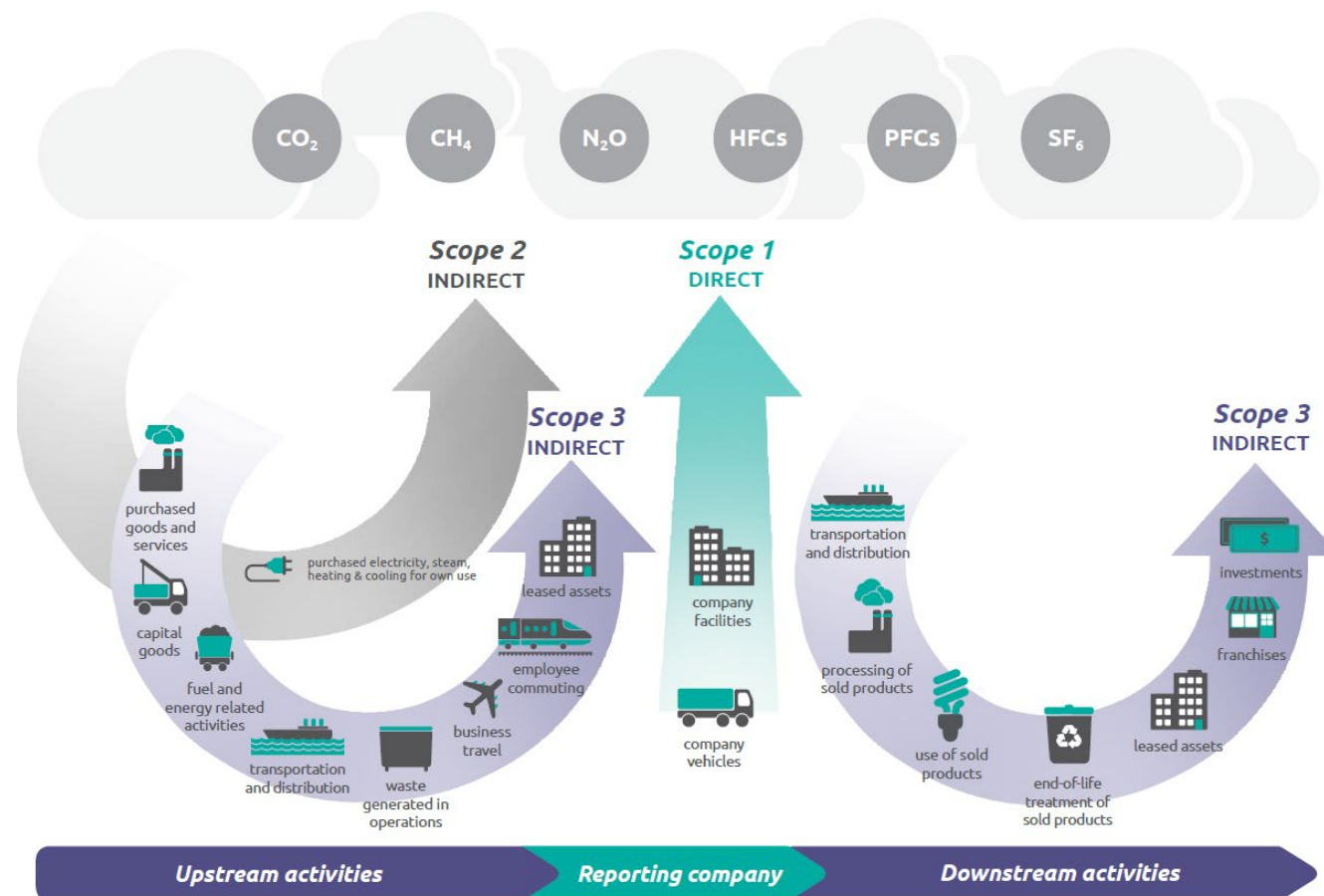
- Direct GHG emissions occur from sources that are owned or controlled by the company
- Include emissions covered by the Kyoto Protocol

## Scope 2

- Indirect GHG emissions from the generation of purchased electricity consumed by the company
- Physically occur at the facility where electricity is generated

## Scope 3

- **Consequence** of the activities of the company
- Occur from sources owned or controlled by other entities in the value chain
- Include all sources not within an organization's scope 1 and 2 boundary



Source: GHG protocol Corporate Value Chain (Scope 3) Standard



# Science Based Targets (SBTi)



- ✓ A partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF)
- ✓ Defines and promotes best practice in science-based target setting
- ✓ Offers a range of target-setting resources and guidance
- ✓ Independently assesses and approves companies' targets in line with its strict criteria

Source: Data from the [Science Based Targets initiative](#)





# Targets

## Near-term

- Outline how organizations will reduce their emissions over the next 5-10 years.  
Are a requirement for companies wishing to set net-zero targets.

## Long-term

- Indicate the degree of emission reductions organizations need to reach to achieve net-zero according to the SBTi's [Corporate Net-Zero Standard criteria](#).














## Net-zero

- Encompass both near and long-term targets.





# OEM emission targets

								 <sup>1</sup>	 <sup>2</sup>				
Near term target	2030	2035	2035	N/A	2030	2030	2030	N/A	N/A	✓	2030/ 2035	2025/ 2030	2030
Net zero commitment	✓	✓	✓	N/A	✓	N/A	✓	N/A	N/A	N/A	N/A	N/A	✓
Business ambition for 1.5°C commitment	✓	✓	✓	N/A	✓	N/A	✓	N/A	N/A	✓	N/A	N/A	✓
Scope 1+2 target	80% (I)	76% (A)	72% (A)	N/A	46% (A)	50% (A)	30% (A)	N/A	N/A	N/A	68% (A)	50% (A)	60% (A)
Scope 3 target- purchased goods & services (category 1)	22% (I)	N/A	N/A	N/A	54% (I)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Scope 3 target- Use of sold products (category 11)	50% (I)	50% (I)	51% (I)	N/A	60% (I)	42% (I)	33% (I)	N/A	N/A	N/A	33%/12% <sup>3</sup> (I)	30% (I)	52% (I)

N/A – no commitments made

1 - Stellantis has made commitments to achieve carbon net zero by 2038, but not through SBTi

2 - Subaru has set a target of achieving carbon neutrality by 2050, but not through SBTi

3 - Light duty vehicles and light commercial vehicles/medium and heavy freight trucks

**Target Type:**

(A) - Absolute

(I) – Intensity



# ESG Hot Topics with Automotive Suppliers

## Environmental

- What do the OEMs want? Is this going away?
- Do I know what goes into my overall greenhouse gas (GHG) emissions/carbon footprint? How do I measure/manage/report it?
- Am I able to identify opportunities to increase energy efficiency?
- How do I build a sustainable program to report and lower the reporting burden?

## Social

- Is anyone in my supply chain using forced or child labor?
- Is anyone in my supply chain unethically sourcing materials?

## Governance

- Do we have strategies to manage enterprise risk?
- Are we building resiliency into our business model?
- Who is in charge of disclosures and program development? Is the Board involved?



## JULY 25.2023

*Request advances committee's inquiry into possible forced labor in auto supply chains*

The letter comes as part of Wyden's ongoing inquiry into forced labor in auto supply chains. Wyden has [written to major automakers](#) and [their tier 1 suppliers](#) regarding evidence of parts made with forced labor in Xinjiang, China, as part of his investigation into the effectiveness of customs enforcement regarding forced labor. In June, he held a [Finance Committee hearing](#) investigating how cattle supply chains contribute to Amazon deforestation.

- b.
- c.
- 1) Does Lear conduct production, beginning with the cow is held, through the supply chain, through the diligence framework, involve tracking whether Lear monitors?
- 2) Does Lear conduct that were illegal laws, or from rural property, it validate?
- a. If so, please
- b. In its 2022 claims to direct suppliers and whether suppliers
- c. Specifically hides by
- 3) Does Lear require detect forced labor of suppliers' due
- 4) Has Lear ever the relationship with slaughterhouses, of its use of materials, the actual incident, the actual and whether the
- 5) Has Lear ever the relationship with slaughterhouses, of its failure to do compliance activities, curtailment and
- 6) Has any shipments Customs and Border Act of 1930? If
- a. describe

<sup>12</sup> Lear, 2022 10-K filing with <https://ir.lear.com/static-files>

Such abuses include more than 1,300 labor-related deaths, with this number likely to increase due to the murder.<sup>7</sup> In 2022, the cattle as one of the pr

For the past two year cattle ranching and de business practices of chain through indirec chains, JBS's indirec occupation and defor investigation and pus its supply chains bun undercut American ra

I have also been in Xinjiang, China, where an "ongoing genocide" is taking place and their direct suppliers are using forced labor and com

Section 307 of the Tariff Act of 1930, as amended, which gives CBP the authority to prohibit the importation of goods that are prohibited by the laws of the United States, is being amended to give CBP the authority to prohibit the importation of goods that are prohibited by the laws of the United States.

<sup>5</sup> *Id.*; Deforestation in the

<sup>6</sup> *Slaves to Deforestation:* 2021, <https://www.reuters.com/brazil-amazon-destructive>

<sup>7</sup> *Id.*

<sup>8</sup> US Department of Labor at 24, (2022) <https://www.dhs.gov/sites/default/files/2022/05/US-Department-of-Labor-at-24.pdf>

RON WYSEN, OREGON, CHAIRMAN

DEBBE STARNICK, MICHIGAN	MIKE CRAPO, IOWA
MARIA CARTWELL, WASHINGTON	JOHN GRASSLEY, IOWA
ROBERT MENENDEZ, NEW JERSEY	JOHN CORNYN, TEX.
THOMAS R. CARPER, DELAWARE	JOHN THUNE, SOUTH DAKOTA
MICHAEL L. CARLON, MARYLAND	ROBERT BINDER, NORTH CAROLINA
DEBBIE IRONSON, OHIO	JOHN CANTWELL, OHIO
JEANETTE F. BENNETT, COLORADO	PATRICK J. TOOMEY, PENNSYLVANIA
ROBERT F. CASEY, JR., PENNSYLVANIA	TIM SCOTT, SOUTH CAROLINA
MARIA R. GARDNER, VIRGINIA	JOHN CASTLE, GEORGIA
SHELDON WHITEHOUSE, RHODE ISLAND	JAMES LAMFORD, OKLAHOMA
MAURICE HAGGAN, NEW HAMPSHIRE	TIMES BATES, MONTANA
JOHN E. COFFEE, WYOMING	JOHN BLOOM, IDAHO
ELIZABETH WAHREN, MASSACHUSETTS	STEVE SANDS, NEBRASKA

United States Senate  
COMMITTEE ON FINANCE  
WASHINGTON, DC 20510-6200

July 24, 2023

Mr. Ray Scott  
President & CEO  
Lear Corporation  
21557 Telegraph Road  
Southfield, MI 48033

Dear Mr. Scott:

I write concerning recent reporting about potential links between Lear Corporation's (Lear) leather supply chains and illegally deforested land in the Brazilian Amazon.<sup>1</sup> These links may also expose Lear's Brazilian supply chains to products produced with forced labor. The information I am requesting from Lear will aid the Senate Finance Committee's investigation of the effectiveness of trade-based efforts by the United States to combat forced labor and environmental abuses in the supply chains of products sold in the United States.

A report from the Environmental Investigation Agency (EIA) found that Lear, the largest supplier worldwide of leather car seats, sources 70% of its leather supply from Brazil.<sup>1</sup> There, Lear predominantly does business with JBS S.A., Vancursos Comercio de Couros LTDA, and Viposa S.A., hide producers known to source cattle from areas of the Amazon that have been illegally used for cattle production and which receive weak oversight from the Brazilian government.<sup>2</sup> A 2021 New York Times exposé revealed that Lear's major direct suppliers each source cattle from illegally deforested ranches in protected areas of the Amazon. These ranches evade supply chain monitoring by moving cattle repeatedly over their lifetimes from illegal to legal ranches in a process known as "cattle laundering."<sup>3</sup> In addition to encouraging deforestation, illegal ranching in the Amazon drives violent land-grabs and human rights abuses.

<sup>1</sup> *Deforestation in the Driver's Seat: Illegal Cattle Ranching, Amazon Deforestation, and the Automotive Leather Industry*, Environmental Investigation Agency, 2022, [https://eia.org/wp-content/uploads/2022/12/EIA\\_US\\_Brazil\\_Leather\\_report\\_1022\\_US\\_Format\\_FINAL\\_EDITS\\_09-02-23.pdf](https://eia.org/wp-content/uploads/2022/12/EIA_US_Brazil_Leather_report_1022_US_Format_FINAL_EDITS_09-02-23.pdf)

<sup>4</sup> *How Americans' Appetite for Leather in Luxury SUVs Worzens Amazon Deforestation*, The New York Times, Nov. 17, 2021, <https://www.nytimes.com/2021/11/17/climate/leather-seats-cars-rainforest.html>.





# ESG Guidance Landscape

## Frameworks:

A set of principles and guidance for **how** a report is structured.



## Standards:

Specific, repeatable, detailed requirements for **what** should be reported for each topic.



## Analytics/rating platforms:

Uses a unique methodology to **score** a company's ESG disclosures.





# OEM Codes Of Conduct

## *Established requirements & expectations*

### CONTENTS

- Introduction
  - Why do we have a Code of Conduct?
  - What are our individual responsibilities under the Code?
  - Do Supervisors Have Special Responsibilities?
  - How does the Code Fit with the Law?
  - When to Report Code Violations and What Happens?
  - How is the Code Enforced?
  - How is the Code Changed?
- Principles
  - PROTECTING OUR WORKFORCE
    - Commitment to Diversity, and Maintaining a Fair and Safe Work Environment
    - Ensuring Health and Safety
  - CONDUCTING BUSINESS
    - Engaging in Sustainable Practices
    - Our Respect for the Law
  - INTERACTING WITH EXTERNAL PARTIES
    - Avoiding Conflicts of Interest
    - Supporting our Communities
  - MANAGING OUR ASSETS AND INFORMATION
    - Communicating Effectively
    - Protecting our Assets
    - Maintaining Appropriate Records

### Introduction

#### The Purpose of This Supplier Code

Ford's We Are Committed to Protecting Human Rights policy establishes how we conduct our business regarding human rights, the environment, responsible material and the environment, including with our suppliers and business partners. Accordingly, this Supplier Code of Conduct ("Code") outlines our requirements and our expectations for supplier relations to human rights, the environment, responsible material and the environment, and the associated implementation principles.

This Code applies to each member of Ford's supply chain. Requirements and expectations reflect applicable laws, international human rights frameworks and charters, and policies and procedures. We require suppliers to follow policies and comply with or exceed all applicable laws and regulations.

#### Supplier Obligations

Every Ford Motor Company supplier must:

- Know and follow this Code.
- Report and remediate any non-compliance and, where appropriate, report their remediation progress.
- Demonstrate appropriate internal controls upon Ford's request.
- Enforce a similar code of practice and require that all subcontractors do the same.
- Identify and use subcontractors who adhere to the Code and monitor subcontractor compliance.

For more detailed information, implementation section at the end of the Code.

### general motors

#### SUPPLIER CODE OF CONDUCT

This Supplier Code of Conduct ("Code") articulates General Motors' expectations of the conduct of suppliers and business partners doing business with GM. This Code is based on our corporate values for responsible products and operations and aligns with the ten principles of the United Nations Global Compact, of which, GM is a signatory. Suppliers are expected to understand and align with GM's approach to integrity, responsible sourcing, and supply chain expectations. Suppliers will cascade similar expectations through their own supply chain.

GM endeavors to do business with suppliers that meet our standard with, and positively reflect, GM's values throughout the supply chain. Suppliers are expected to understand and align with GM's approach to integrity, responsible sourcing, and supply chain expectations, consistently with the principles and values of our GM Code of Conduct and this Code.

#### HUMAN RIGHTS

GM expects all suppliers to have processes in place to prevent, mitigate, and remediate adverse human rights impacts. Suppliers are expected to adhere to and cascade GM's Human Rights Policy or equivalent expectations throughout their supply chain.

The United Nations Guiding Principles on Business and Human Rights framework for GM's work related to human rights. GM is also committed to the OECD Guidelines for Multinational Enterprises; the Organization's (ILO) Declaration on Fundamental Principles and Rights at Work; the International Bill of Human Rights; the Universal Declaration of Human Rights; the International Covenant on Economic, Social and Cultural Rights. Suppliers are expected to comply with these internationally recognized standards.

#### Freely Chosen Employment

Suppliers and their employment agencies will not use slave, forced, indentured, or any other form of forced or involuntary labor. Suppliers are expected to ensure that their employment agencies do not engage in human trafficking. Suppliers will provide all employment agreement or notification that contains a description of employment as part of the hiring process, and foreign migrant work employment agreement prior to the worker departing from their country of origin.

### RENAULT NISSAN

#### Renault-Nissan Corporate Social Responsibility Guidelines for Suppliers

December, 2015

Renault S.A.S.  
Nissan Motor Co., Ltd.  
RENAULT-NISSAN PURCHASING ORGANIZATION

### BMW GROUP DAIMLER FCA Ford GM HONDA JAGUAR LAND ROVER NISSAN SCANIA TOYOTA VOLKSWAGEN VOLVO

#### Automotive Industry Guiding Principles for Suppliers

We endeavor/endeavour to achieve excellence, innovation and the highest standards in the automotive industry's most important areas: business ethics, working conditions, human rights, and environmental protection. We expect that suppliers will uphold these standards throughout their supply chain.

The automotive industry supply chain has a high degree of complexity. The following guidelines are based on fundamental principles of business ethics, working conditions, human rights, and environmental protection. These guidelines are based on fundamental principles of business ethics, working conditions, human rights, and environmental protection. These guidelines are based on fundamental principles of business ethics, working conditions, human rights, and environmental protection.

#### Business

Companies are expected to uphold the highest standards of business ethics, working conditions, human rights, and environmental protection in their supply chain in accordance with local laws.

- Responsible Sourcing of Materials: Companies are expected to ensure that their suppliers are not using forced or involuntary labor, slave labor, or any other form of forced or involuntary labor.
- Anti-Corruption: Companies are expected to work against bribery and corruption.
- Privacy: Companies are expected to put in place appropriate measures to protect personal data against loss and unauthorized/unauthorised access.
- Financial Responsibility/Accurate Records: All business transactions and financial records must be accurately reflected on the company's financial reports.
- Disclosure of Information: Companies are expected to provide accurate and complete information to their suppliers and stakeholders.
- Fair Competition/Anti-Trust: Companies are expected to engage in fair competition and avoid anti-competitive practices.
- Conflicts of Interest: Companies are expected to avoid conflicts of interest.
- Counterfeit Parts: Companies are expected to minimize and eliminate counterfeit parts from their supply chain.
- Intellectual Property: Companies are expected to respect the intellectual property rights of others and protect their own intellectual property.
- Export Controls and Economic Sanctions: Companies are expected to comply with applicable restrictions on the export or re-export of goods, services and technology, as well as with applicable restrictions on trade involving certain countries, regions, companies or entities and individuals.
- Protection of Identity and Non-Retaliation: Companies are expected to establish processes that allow concerns to be raised anonymously with confidentiality and without retaliation.

Dated: 12-6-17

### VOLKSWAGEN

#### Code of Conduct for Business Partners

Volkswagen Group requirements regarding sustainability in its relationships with business partners

#### Código de Conducta para socios comerciales

Requerimientos del Grupo Volkswagen con respecto a la sostenibilidad en sus relaciones con los socios comerciales

Ford, GM, Honda, Nissan, Stellantis, VW, AIAG, Drive Sustainability



plante moran

Audit. Tax. Consulting.  
Wealth Management.



# Code of Conduct Topics



## Environmental

- Emissions
- Air quality
- Energy management
- Water & wastewater management
- Waste & hazardous materials management
- Chemical management
- Ecological impacts



## Social

- Cybersecurity
- Diversity, equity & inclusion
- Freedom of association
- Freedom of movement
- Harassment/Non-discrimination
- Health & safety
- Human rights/land rights/modern slavery
- Labor rights (e.g., force, child, etc.)
- Privacy/Data security
- Product quality & safety
- Recruitment practices
- Employment
  - Wages and benefits
  - Working and living conditions
  - Working hours



## Governance

- Anti-corruption/money laundering
- Anti-trust/competition
- Conflicts of interest
- Counterfeit parts
- Disclosure of information
- Ethical behavior
- Grievance mechanisms/remediation
- Intellectual property
- Non-retaliation
- Product design
- Responsible product/materials sourcing
- Trade/export controls, sanctions



# OEM Disclosure Program Overview



- **Platform:** EcoVadis and CDP
- **Coverage:** Top 500 suppliers, based on spend
- **Geography:** Global requirement
- **Score:** Part of overall scorecards
- **Corrective action:** None currently
- **Training:** Provide some training/assistance



- **Platform:** no 3<sup>rd</sup> party system, scope is:
  1. Compliance and Ethics
  2. Governance
  3. Diversity
  4. Health safety
  5. Environmental
  6. Responsible sourcing
  7. Trade compliance
- **Coverage:** All suppliers, ask to cascade
- **Geography:** Currently North America, plan to expand
- **Score:** Separate sustainability scorecard, use SAQ
- **Corrective Action:** none currently
- **Training:** 3<sup>rd</sup> party tools



- **Platform:** CDP and NQC
- **Coverage:** Tier 1 suppliers
- **Geography:** Global requirements
- **Score:** Not currently part of scorecard
- **Corrective action:** None currently
- **Training:** Partnering with 3<sup>rd</sup> party for training/assistance



- **Platform:** EcoVadis
- **Coverage:** Suppliers from tier 1: 2,000-3,000
- **Geography:** Global requirements
- **Score:** Not currently part of scorecard
- **Corrective action:** Currently no "consequences" for low
- **Training:** No formal training/ assistance, provide computer-based training



- **Platform:** EcoVadis and CDP
- **Coverage:** All tier 1 suppliers, encouraged to cascade down
- **Geography:** Global requirements
- **Score:** EcoVadis score blended into scorecard
- **Corrective action:** develop a plan
- **Training:** Partnering for training/ assistance



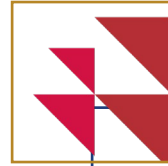


# Rating Platforms



EcoVadis

- Scope: Full ESG
- Focus: Historic data
- Fees: Subscription scaled to size and geography
- Reporting: Requesting companies get scorecard view



CDP

- Scope: Climate, Water, Forests
- Focus: Historic data
- Fees: None in 2023 for disclosing companies – nominal fee in 2024
- Reporting: Requesting companies have dashboard/reports of their suppliers



M2030

- Scope: Carbon only, focused on scope 3
- Focus: Mainly forward looking
- Fee: Supplier pays per site (\$750)
- Reporting: OEMs have visibility into % output by topic/category for reduction projects



Drive Sustainability SAQ

- Scope: Full ESG
- Focus: Historic data
- Fee: Most OEMs don't ask for a fee
- Reporting: Requesting companies get scorecard view, OEMs receive score, can apply their internal requirements





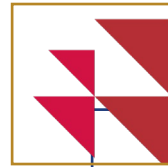
# Rating Platforms by OEM



EcoVadis



STELLANTIS



CDP



STELLANTIS



M2030



Drive Sustainability SAQ



TOYOTA



HONDA



GEELY



DAIMLER TRUCK

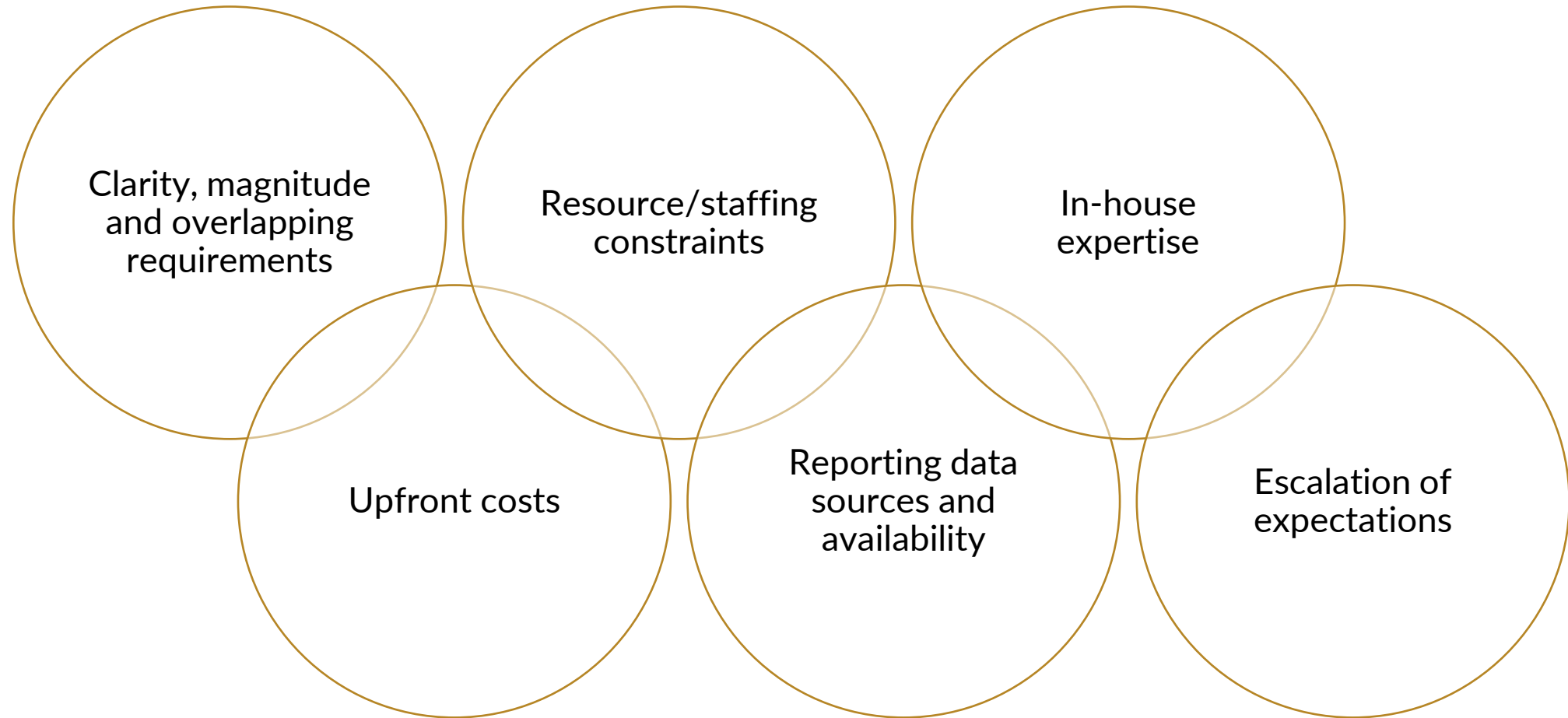


plante moran

Audit. Tax. Consulting.  
Wealth Management.



# Challenges









# ESG-Related Supplier Comments

Industry wide automotive survey provides insights into supplier ESG concerns

Theme	Comment
Supplier Cost	Greater interest from OEMs on ESG has increased supplier financial burden. ESG is noted as a primary factor driving unintended costs
Limitation of resources	Supplier notes OEM ESG requirements consume supplier resources which limits ability to focus on core competencies and deliver value-add
Scorecard Inclusion	Suppliers are concerned with scorecard metric changes from historical ratings based on actual performance drivers like quality, delivery, service and cost
ESG Strategy Articulation	Supplier concerned about extent to which OEM's ESG strategy is articulated clearly enough to align with supplier investment strategy
ESG Strategy Changes	Suppliers concerned about OEM ESG strategy changes that could result in high sunk costs to supplier

Supplier Question						
OEM Environmental objectives is articulated well enough to determine your firm's investment strategy	2.29	2.52	3.16	3.10	2.53	3.26
OEM provides your firm support to meet its environmental targets	1.85	2.01	2.46	2.62	2.07	2.67

Scale:  
1 – To a very little or no extent;  
2 – To a little extent;  
3 – To some extent;  
4 – To a great extent;  
5 – To a very great extent

Source: Plante Moran WRI® Study





# Potential Stakeholders



Customers



Staff/  
prospects



Peers



Industry  
organizations



Communities



Business  
partners/vendors



Investors



Government/  
regulatory  
agencies



Internal  
resources



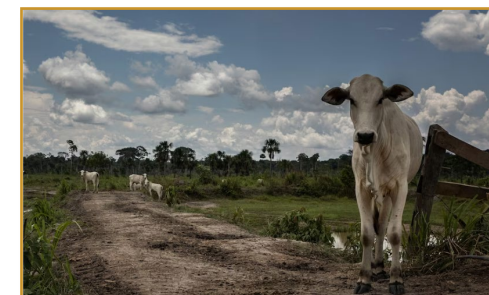
# Lear Corp - Materials Sourcing



- Senate Finance Committee chair sent letter demanding that Lear account for its relationships with firms suspected of engaging in Amazon deforestation and forced labor
- The letter aims at automotive industry practices that boast of accountability and sustainability but allow suppliers to use bookkeeping tactics to mask abuses
- Big automakers and tiered suppliers do not aggressively enforce their ethics policies on their supply chain
- 2022 report traced transport permits to show thousands of cattle were illegally ranched in one of the most protected areas of the Amazon
- Weak oversight in Brazil has resulted in the proliferation of slave labor in deforested areas
- U.S. Department of Labor's Bureau of International Labor Affairs placed Brazilian cattle on the list of products produced by forced or child labor

## Key Takeaways

- ESG responsibility doesn't stop at your four walls.
- Scope of topics and stakeholders isn't always apparent
- Relevant topics are not just "Environmental", need to be aware of "Social" and "Governance" as well

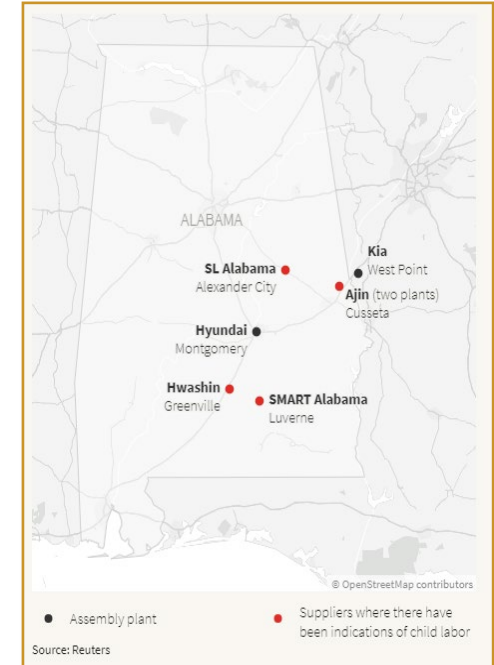
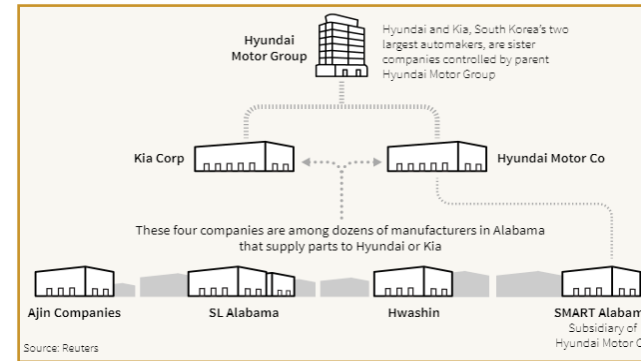




# Hyundai-Kia

## Child Labor Found in U.S. Supply Chain

- At least four Alabama parts suppliers to Hyundai-Kia have employed child labor in recent years
- As many as 10 Alabama plants that supply parts to Hyundai or Kia have been investigated for child labor by various state and federal law enforcement or regulatory agencies
  - SL Alabama is the only Hyundai-Kia supplier to be charged with violating child labor laws
- Hyundai-Kia suppliers deny knowingly employing underage workers and place blame on third-party staffing agencies who fill the jobs



### Key Takeaways

- “Passing the buck” to a third-party staffing agency does not eradicate ESG responsibility of OEM or supplier
- Suppliers can make you liable for violations
- What is your audit program to evaluate risks?





# Rolls Royce—Supplier Code of Conduct



- Rolls Royce provides their commitment to become net carbon neutral by 2030 in their Global Supplier Code of Conduct
- Rolls Royce provides the expectation that suppliers set near-term and long term emissions reductions targets to meet net-zero no later than 2050

## Key Takeaways

- ESG inclusion in OEM supplier code of conduct with expectation for compliance – requirements may be hidden
- Specific target dates provide that OEM is no longer asking, but mandating, suppliers target emissions reductions



## 2.3 Climate Action

Our principles:	What this means for our suppliers:
<p>We have committed to</p> <ul style="list-style-type: none"><li>• become net zero carbon in our operations by 2030;</li><li>• ensure all our new products are compatible with net zero carbon operation by 2030; and</li><li>• ensure that all of our products are compatible with net zero carbon operation by 2050.</li></ul> <p>We have committed to use of science-based targets to assist and measure reductions in our greenhouse gas emissions.</p>	<p>Suppliers shall set near-term and long-term science-based emissions reductions targets. With the near-term targets set on or before 31<sup>st</sup> December 2027 and long-term targets set to meet net-zero by no later than 2050.</p> <p>Suppliers shall share copies of their near-term and long-term targets with us.</p> <p>Supplier shall agree targets with us to continuously improve energy efficiency and the use of renewable energy sources in your operations.</p>





# Response strategy



## Get Details

Understand OEM strategy and expectations of supplier

Focus immediate efforts on what matters most for OEM compliance

- » What is minimum requirement to become compliant
- » Avoid efforts outside of passing the immediate test

Identify, analyze and document steps to become compliant supplier

- » Required data and resources
- » OEM submission platform(s)



## Get Practical

Perform self-assessment to identify the current state

- » Preparedness of data
- » Alignment of organization's goals and priorities

Prioritize achievable OEM expectations and roadmap to compliance

- » Identify easy wins
- » Assess key steps to compliance

Develop action plan

- » Identify a realistic path to compliance



## Advocate for Yourself

Create your story

- » How are you making progress
- » Where are you falling short

Prepare a counter-proposal to illustrate detailed steps to compliance

- » Timing
- » Milestones
- » Other considerations

Have a conversation

- » Consider their goals
- » How do you fit in to that?





# Get the Details

1

## Understand OEM strategy/goals

- Commitments made
- How suppliers fit in
- What are they really asking for?

## Review OEM expectations

- What is the minimum requirement to become compliant
- What is the impact for non-compliance
- Understand data/platform request(s)

## Assess OEM requirements

- Data
- Resources
- Submission platform(s)





# Get Practical

2

## Perform self-assessment on data

Identify current gaps:

- » Missing data
- » Insufficient data
- » Inadequate data controls
- » Inadequate programs

## Perform self-assessment on strategy

Identify organization's:

- » Overall priorities
- » Commitments
- » Goals
- » Budget priorities

## Prioritize response

Identify:

- » Quick wins
- » High-value items
- » High-priority items

## Develop action plan

Determine a realistic path to compliance, including:

- » Governance Resources
- » Timing
- » Roles & Responsibilities
- » Alignment with goals
- » Cost impacts





# Advocate for Yourself

3

## Craft your story

- Identify if compliance can not be met
- How can progress be shown

## Prepare counter proposal

- Modified timeline
- Consideration of additional information
- Milestones for progress

## Have a conversation

- Understand overall goals
- How does your business fit into the overall goals of the OEM?



# Questions to Ask OEMs

- 1 What disclosure platforms will be required of the supplier to satisfy OEM ESG target/strategy?
- 2 What is the geographical scope required of the supplier to satisfy OEM ESG target/strategy (i.e. global or region specific)?
- 3 To what extent does the OEM support the supplier to meet its ESG targets?
- 4 To what extent will sourcing opportunities for current or future programs be impacted if supplier does not have an ESG program in place or if targets are not met?
- 5 What is the Tier 1 supplier expectation for tier 2 and tier 3 suppliers in terms of ESG reporting?



## Questions?



### Mark Barrott

*Partner*

248-223-3272

[mark.barrott@plantemoran.com](mailto:mark.barrott@plantemoran.com)



### Laurie Hoose

*Senior manager*

248-223-3337

[laurie.hoose@plantemoran.com](mailto:laurie.hoose@plantemoran.com)