

ESG – Supply chain and financing: View from the field

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ESG – Supply chain and financing: View from the field

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ESG – Supply chain and financing: View from the field

November 17, 2021 / 12 – 1:15 p.m. ET

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CSL'S ESG JOURNEY

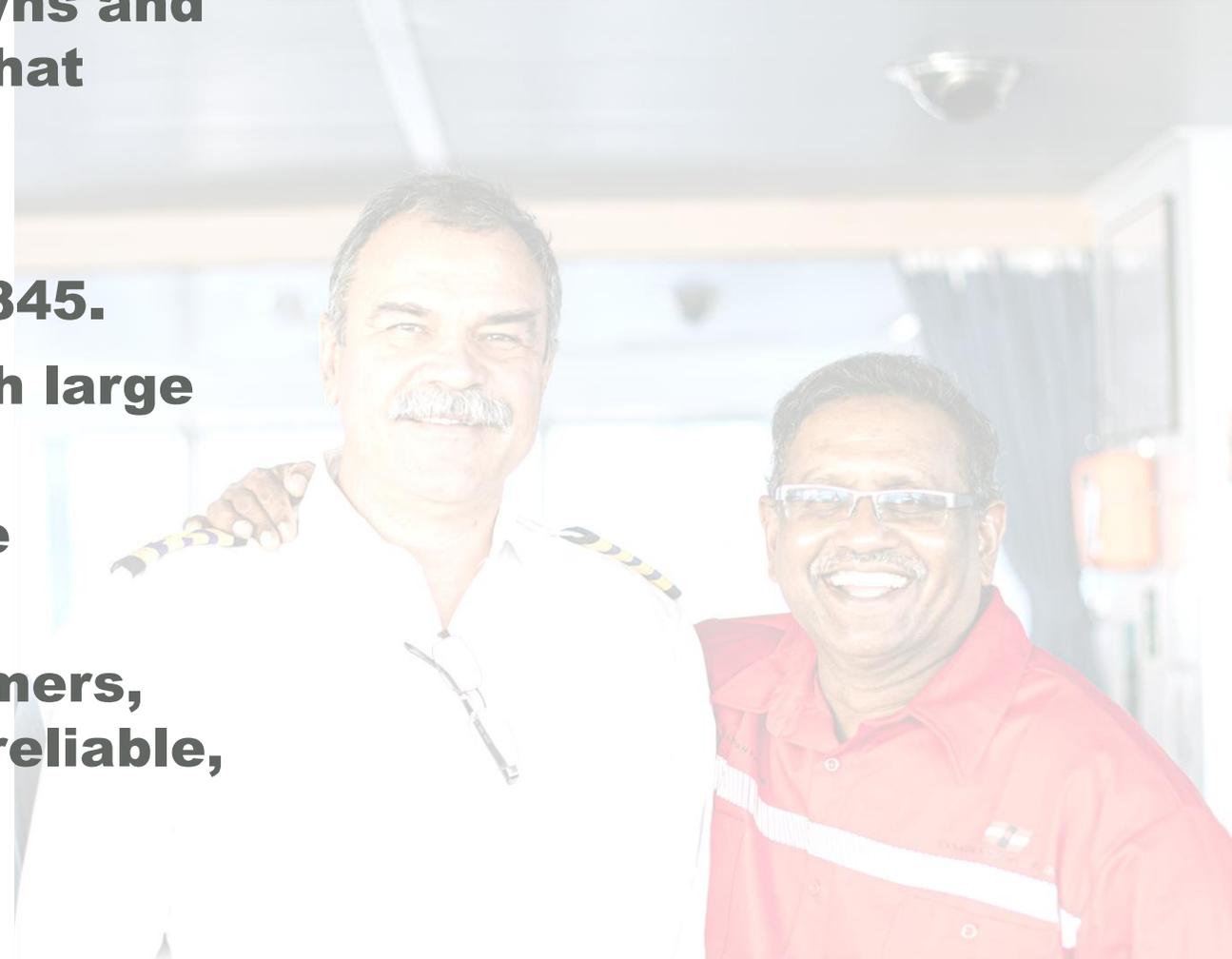
Supply Chain and Financing: View From the Field

Dentons Seminar November 17, 2021



HOW WE DO **BUSINESS**

- **CSL is a private company which owns and operates a fleet of self unloaders that operate around the world.**
- **It is owned by the Martin family.**
- **We have been in existence since 1845.**
- **We rely on long term contracts with large industrial customers.**
- **Our reputation is critical to how we operate.**
- **We need to be known by our customers, our suppliers and regulators to be reliable, sustainable, ethical and safe.**



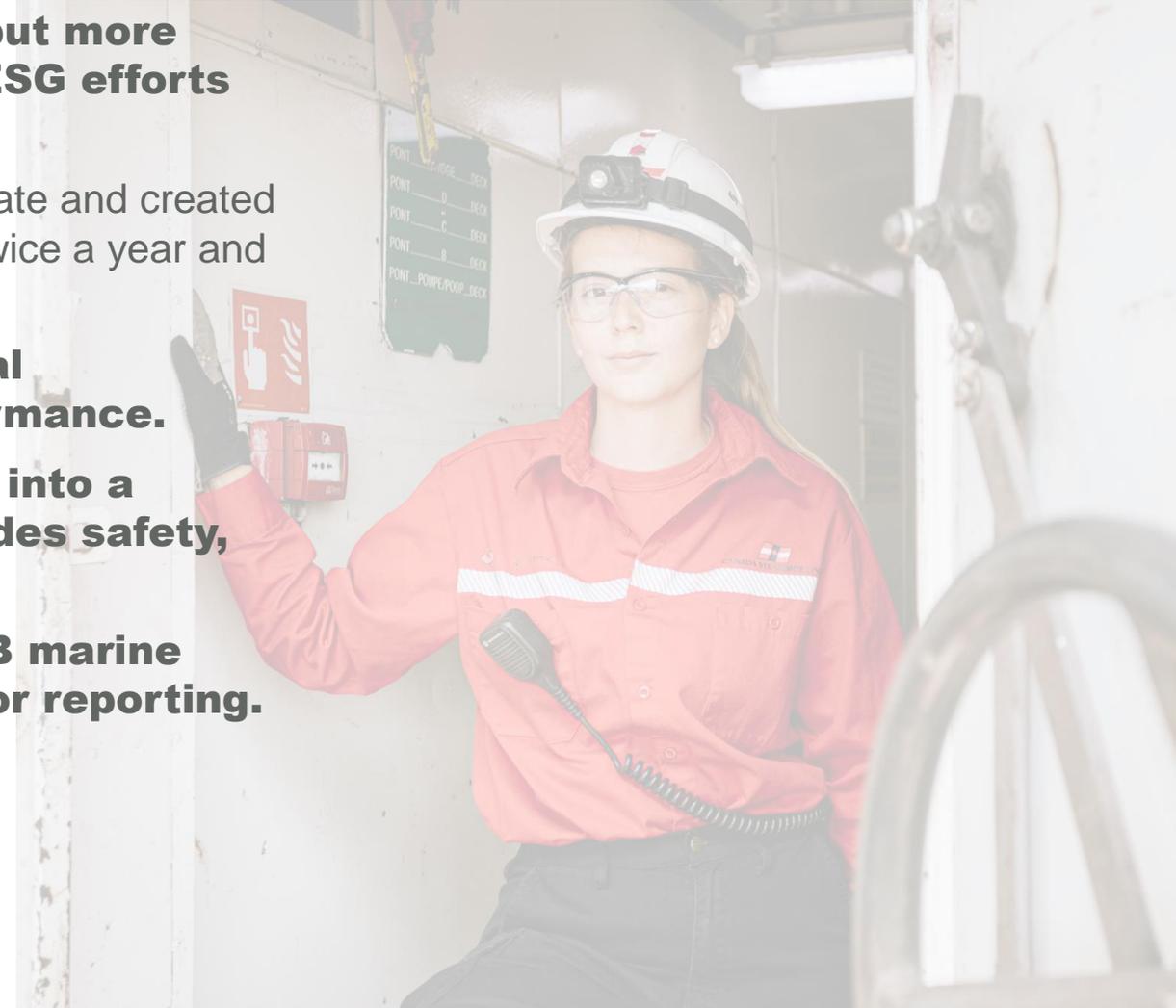
PART OF OUR **VALUES**

- **Operating responsibly has been a priority for our owners from the beginning.**
- **We will not do business if we can't do it ethically and responsibly.**
- **We turn away business if we don't think we can do it in accordance with our values and without negatively impacting the environment in which we operate.**
- **Environmental, social and governance are part of our core values.**



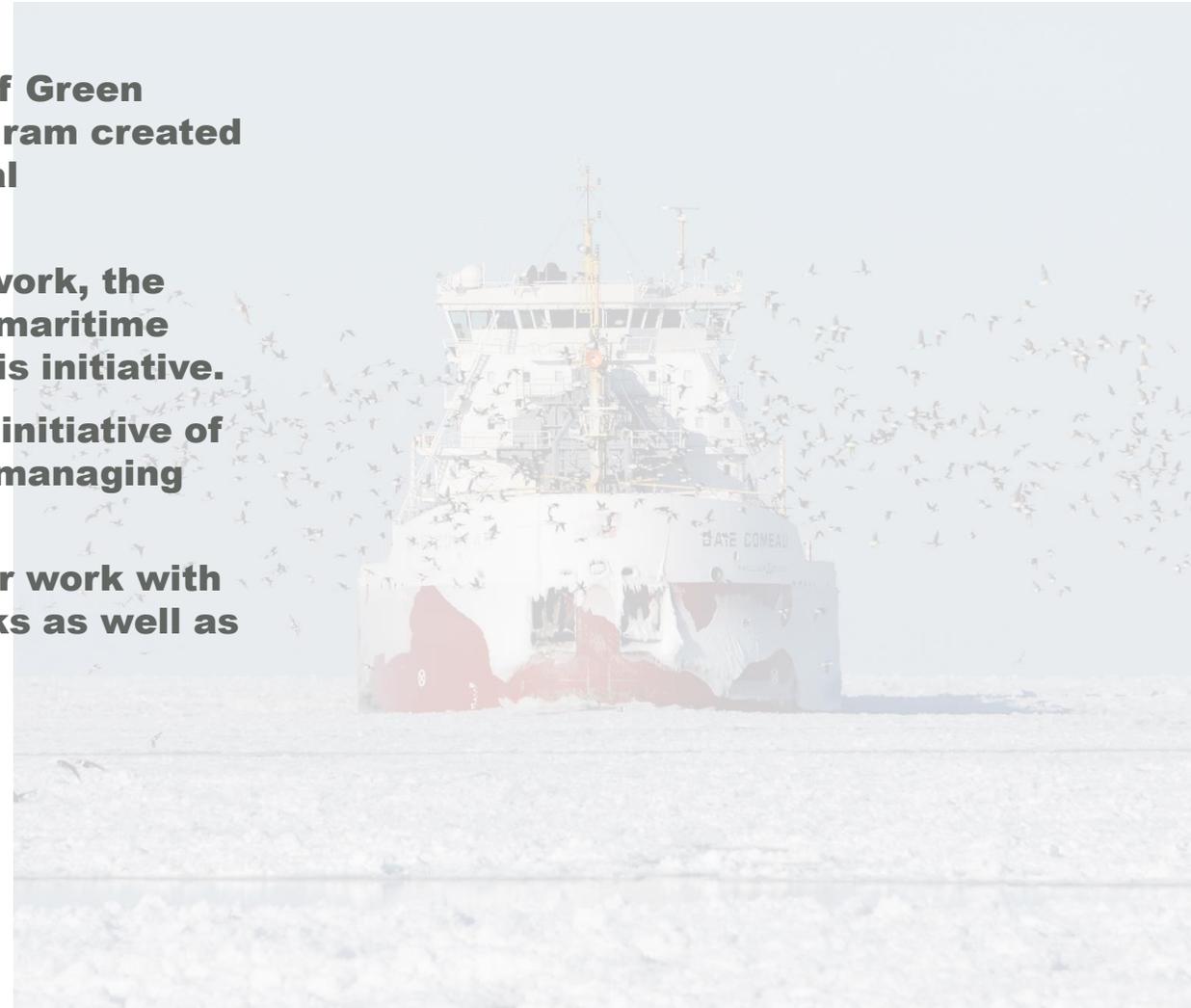
PUTTING ESG INTO **PRACTICE**

- **In the early 2000's as the business matured, we put more structure, reporting and governance around our ESG efforts and also saw a need to be advocates for change.**
- **Governance:** In 2009, we made sustainability a Board mandate and created a separate Board committee on sustainability, which meets twice a year and reports to the Board.
- **Reporting:** In 2008, we began publishing an annual environmental report on our environmental performance.
- **Since then, our environmental report has evolved into a comprehensive Sustainability Report which includes safety, ethics and anti-corruption.**
- **We now include an ESG scorecard using the SASB marine transportation disclosure framework as a basis for reporting.**



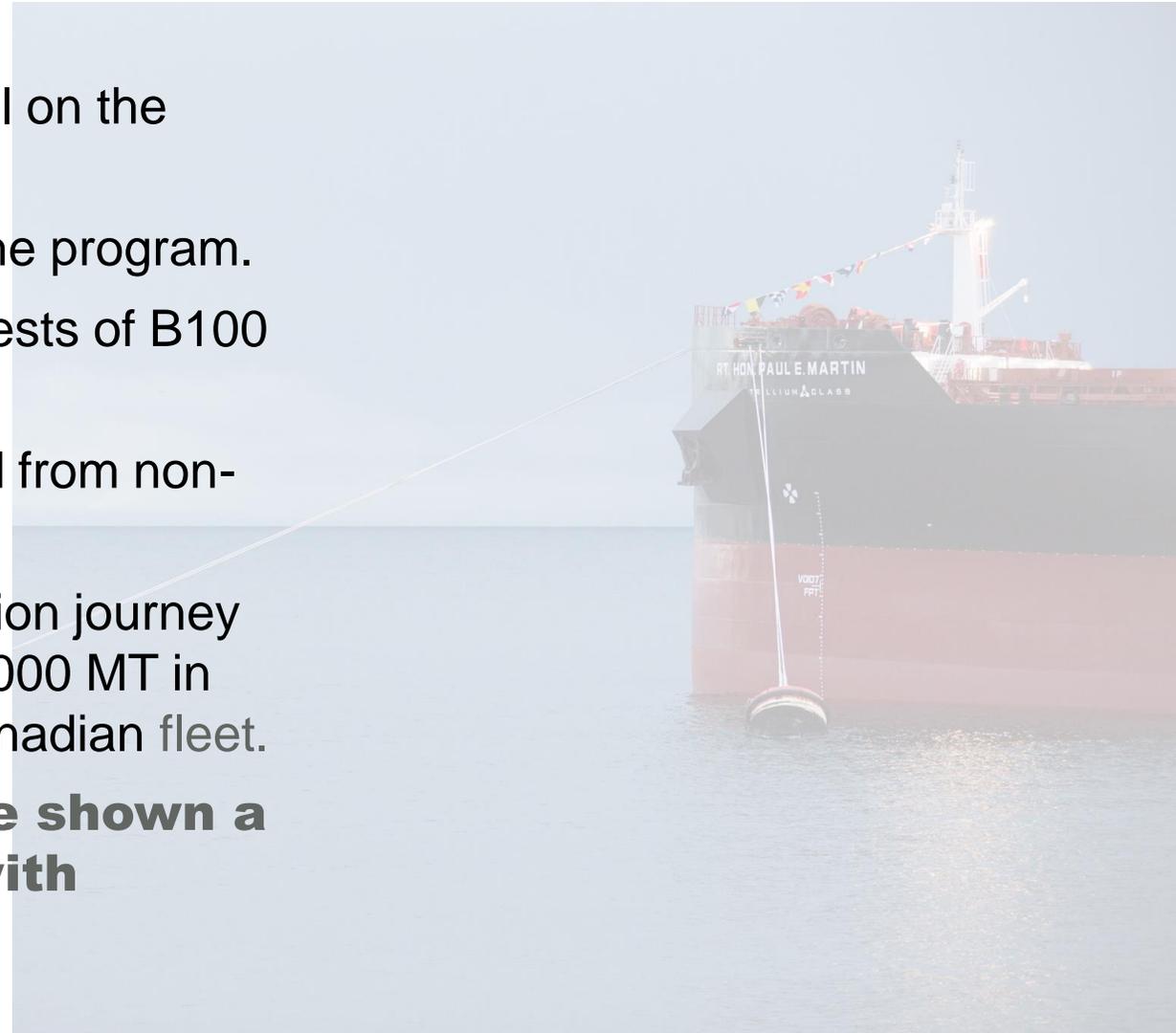
PUTTING ESG INTO **PRACTICE**

- **Industry Collaboration:** In 2007, we were a founder of Green Marine - a voluntary environmental certification program created to help the marine industry improve its environmental performance in a collaborative and measurable way.
- In 2011, we joined the Maritime Anti-Corruption Network, the leading industry-led group fighting corruption in the maritime industry and have since taken a leadership role in this initiative.
- **Supply Chain Management:** CSL joined IMPA ACT, an initiative of the International Marine Purchasing Association for managing supply chain sustainability.
- We are using this program and its principles to better work with our key suppliers in understanding potential ESG risks as well as ways to improve their impact.



PUTTING ESG INTO **PRACTICE**

- **Innovation:** In 2020, we began testing biofuel on the Great Lakes.
- We have now completed the second year of the program.
- The program constitutes the longest running tests of B100 biofuel on vessel engines in the world.
- The second-generation fuel we use is sourced from non-edible North American waste soy oil.
- The program is a key part of our decarbonization journey and has helped reduce emissions by over 40,000 MT in 2021 alone, this is a 24% reduction for the Canadian fleet.
- **On a lifecycle analysis, the tests have shown a 94% reduction in carbon compared with traditional fuel.**



THE WAY FORWARD

- **CSL believes our success in decarbonizing shipping relies on our customers embracing carbon-neutral transport as a value-added product.**
- **Our ESG strategy has evolved from a way of doing business based on our strong values to a strategy with its own governance and reporting, strong innovation and advocacy for change.**
- **It reflects the values of our employees, crew, customers, owners and the communities in which we operate.**
- **ESG for CSL has gone from simply doing the right thing to being an essential part of our business strategy.**





The Maritime Anti-Corruption Network



Supply Chain and Financing: View From the Field
Dentons Seminar November 17, 2021

The Problem

International marine transportation is highly vulnerable to corruption.

Why?

- **Ships are in and out of hundreds of ports a year.**
- **Ships sometimes call at the same port only once or twice a year.**
- **Language and culture issues are frequent where crew and port officials often don't speak the same language and come from very different cultures.**
- **Ships operate on strict schedules where delays are very expensive.**
- **Ports and shipping are highly regulated with rules different from one port to the next and inconsistently applied.**
- **Plenty of opportunities for corrupt demands.**
- **Shipping companies don't always have sophisticated compliance programs.**
- **Shipping companies don't speak as one voice and don't use its buying power to effect change.**

Solution?

Need an organization of shipowners who share best practices, use their buying power to effect change and speak as one voice.

The Maritime Anti-Corruption Network.



MACN in Brief

- 1. Created 10 years ago by 8 shipowners.**
- 2. Grown to 170 members.**
- 3. Represents more than half of global shipping industry.**
- 4. Represents all industry sectors and regions.**
- 5. Operates as a 'Network' for collective action and sharing best practices amongst members.**

MACN 2021: 170 Participating Members



MACN in Brief

Business Driven:

- MACN is **unique** in terms of its size, scope of work and outcomes.
- MACN was created by business and remains driven by **business**
- MACN is one of the world's **leading** anti-corruption initiatives.

Solution Oriented:

- MACN promotes the shipping industry as an industry that we and best practices on the water.
- We **avoid** a “blaming exercise” with stakeholders we work with.
- We focus on **results** not reports.

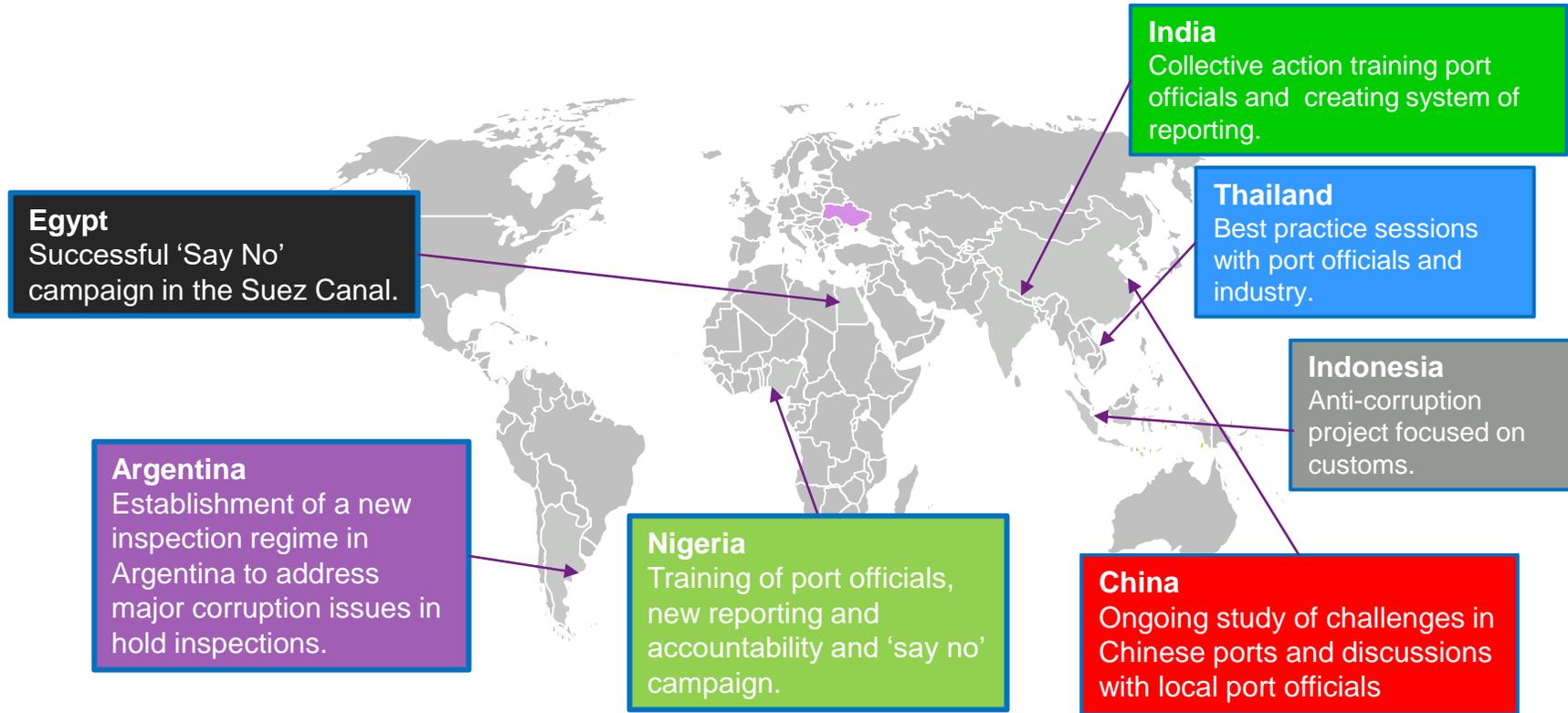
Collective Buying Power:

- We make it clear that the shipping industry is part of the **solution** - not the problem.
- We work with stakeholders in-country for real change on the ground.
- We use our **collective** buying power to effect change and share best practices.

MACN's Strategy – The 3 C's

- **Collective Action**
In-country projects in high corruption areas.
- **Capability Building**
Providing industry-leading innovative solutions to our members.
- **Collaboration**
Working with maritime universities, regional partners, industry associations and maritime authorities.

MACN Collective Actions Overview:



Implementation Partners















Empowered lives. Resilient nations.

Guillermo Jorge, Fernando Basch & Asoc.

BETTER POLICIES FOR BETTER LIVES

THE GLOBAL COMPACT

United Nations Global Compact

THE PARTNERSHIP FOR GOVERNANCE REFORM

Foreign & Commonwealth Office

THE FEDERAL CORRUPTION

Innovation in Anti-Bribery Compliance

TRANSPARENCY INTERNATIONAL

CHANGING LEADERSHIP PARTNERS



**MACN's vision:
A maritime industry free of corruption.**

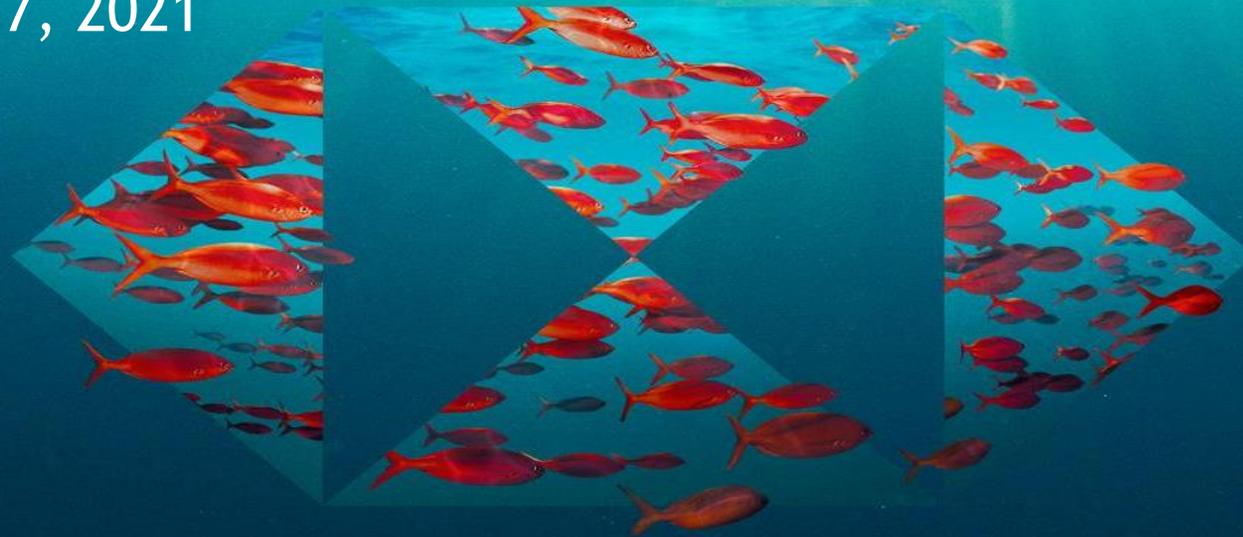
For more information:

Contact the MACN Secretariat: macn@macn.dk

Visit the MACN website: www.macn.dk

ESG: Financial Products - A View from the Field

Barbara Cox
Deputy General Counsel
HSBC Bank Canada
November 17, 2021



ESG: Financial Products

- The Glasgow Financial Alliance for Net Zero (GFANZ): leading financial institutions in making significant net zero commitments.
- 'ESG' for financial institutions encompasses a very broad range of activities and governance, including infrastructure and operations, technology, diversity and inclusion initiatives, employment and equity initiatives, supplier initiatives, customer initiatives, reporting/disclosure, and product and service innovations.
- In this presentation we'll explore some of the recently-developed ESG-related banking financial products, and legal considerations relating to those.

ESG-related Banking Products Include:

Green Bonds

Green Loans

Social Loans

Sustainability-Linked Loans

Green Trade Finance, Sustainable Trade Instruments & Supply Chain Finance

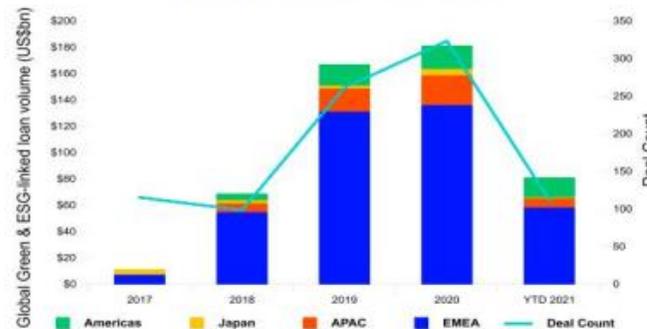
Green Deposits



ESG Principles

- The Green Loan Principles are a voluntary set of guidelines originally published in 2018 and updated in 2021
- The Principles are modeled on the Green Bond Principles published by the International Capital Markets Association, and are the product of the Loan Market Association, the Loan Syndications & Trading Association, and the Asia Pacific Loan Market Association
- The same group has also published:
 - *Social Loan Principles (modelled on the Social Bond Principles)*
 - *Sustainability Linked Loan Principles (a model for the Sustainability Linked Bond Principles)*
- Although ESG products developed under these Principles debuted outside North America, their use is rapidly increasing in the U.S. and Canada

Over US\$81bn of green & ESG loan volume comes to market in 1Q21



*Includes Schuldschein
*Reflects both in process and closed financings

Source: Refinitiv LPC, Refinitiv



ESG Principles

Green Loan Principles

What is a Green Loan?

- Simply, a Green Loan is any loan (including term loans and revolving loans) provided to exclusively finance a 'Green Project'.
- A 'Green Project' is an endeavor that falls within a list of indicative, non-exclusive categories of eligibility set out in the Green Loan Principles, such as renewable energy projects, pollution prevention initiatives, clean transportation, climate change adaptation, green buildings that meet recognized standards, etc.



ESG Principles

Green Loan Principles

- A Green Loan must comply with the following 4 fundamental principles:
 - Use of Proceeds must be clearly established and specified
 - Project Evaluation process, including the borrower's sustainability objectives, must be clearly advised by the borrower
 - Management of Proceeds by the borrower must be tracked to ensure proper allocation
 - Reporting on use of the proceeds must be provided by the borrower



ESG Principles

Green Loan Principles

- Green Loan Agreements should generally document:
 - Covenants and undertakings as to the use of proceeds
 - Monitoring and tracking the use of proceeds
 - Reporting obligations and 'green' compliance certificates to be provided by the borrower
 - Disclosure provisions for disclosure by financial institutions of 'green' classification
 - Provisions relating to publication by borrowers
 - Use and approval of third party assessors
- The consequences of violation of the 'green' provisions should also be considered: generally, non-classification as a 'green loan' and non-publication of the loan as 'green' will be a consequence.



ESG Principles

Social Loan Principles

What is a “Social Loan”?

- Social Loans parallel Green Loan concepts, with the utilization of proceeds directed to ‘Social Projects’.
- ‘Social Projects’ include initiatives to support affordable basic infrastructure, access to education, affordable housing, food security, and socioeconomic advancement, among others.
- The same 4 principles and similar documentation expectations apply as for Green Loans.



ESG Principles

Sustainability-Linked Loan Principles

What is a “Sustainability-Linked Loan”?

- Sustainability-linked loans provide incentives to the borrower to improve their performance on various ESG criteria
- Incentives generally take the form of altered pricing or margin requirements
- The borrower need not commit to using proceeds of the loan for ESG purposes, but rather must report to the lender on their success in meeting ESG goals that have been set and documented in the loan agreement.
- Goals could include: reduced emissions or improved social or governance metrics such as diversity, pay equity or other goals.



Green Trade Finance, Sustainable Trade Instruments & Supply Chain Financing

What are “Green Trade Finance, Sustainable Trade Instruments and Sustainable Supply Chain Financing”?

- While not formally governed by the above-mentioned ESG Principles, these products apply similar principles and are a compelling enhancement given that the promotion of ESG approaches can be greatly expanded on a global basis through ESG financing directed at supply chains
- Trade instruments (letters of credit, guarantees) may be issued as financing instruments, broadly consistent with the Green Loan Principles – that is, use of proceeds of trade instruments for pre-defined ESG purposes
- Supply Chain Finance ESG initiatives also support customers, on both sides of supply chains, to incentivize ESG behaviours (such as promoting use of sustainably-extracted resources, equitable employment practices, etc) with their counter-parties. Incentives can include:
 - Discounts (similar to sustainability-linked loans offered by banks) for ESG compliance
 - Preferred vendor/supplier arrangements



Green Deposits

What is a “Green Deposit”?

- While not formally governed by the above-mentioned principles, Green Deposits follow a parallel format and are offered to business customers with a commitment on the part of the financial institution to use the funds for green loans
- Reporting is provided to the customer that outlines the use of the funds



It's not easy being green...



Legal Considerations for ESG Finance

- Litigation and regulatory challenges are emerging:
 - Commonwealth Bank of Australia: the Australian court recently granted plaintiffs access to internal records relating to projects to assess CBA's compliance with its own ESG policies and greenwashing claims
 - Deutsche Bank: U.S. and German authorities allege exaggerated credentials of ESG investment products
- Standards for disclosure and compliance may be weak or non-existent in some areas, although considerable efforts are under way (including by domestic regulators and creation of a global standards board)
- Customers may seek various benefits from ESG products: are customers' goals aligned to and achievable by the products?
- Will customers seek to rely on the advice of financial institutions in ESG matters?
- Many sectors, ranging from furniture retailers, consumer/cleaning products and airlines, have faced significant backlash and legal actions from consumers and environmental groups relating to specific products making ESG claims that have been proven to be unsubstantiated or misleading



It's not easy being green...



Legal Considerations for ESG Finance

- As standards evolve, stakeholder expectations rise, and ESG commitments are developed, ESG Financial products, and public reporting for these products, may warrant review of the following:
 - Is your supporting documentation sufficiently robust?
 - Do you need review by ESG experts, whether internal or external, to support any claims?
 - Has the product been subject to sufficiently rigorous review and oversight by experienced counsel?
 - Will each transaction receive appropriate levels of review, taking into account internal expertise of ESG lenders?
 - Are there any issues with using incentives or disincentives in the relevant jurisdiction?
 - Are there any competition issues associated with the product?
 - Is disclosure by the financial institution and the customer accurate and supportable?



ESG: Financial Products

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Modern Slavery & Supply Chains

Sean Stephenson

November 17, 2021

Canada · MARKETPLACE

Canadian brands sold clothing from factory suspected of secretly using North Korean forced labour



U.S. takes action against what experts call modern slavery; Canada fails to act

November 14, 2021
3:10 AM EST
Last Updated 3 days ago

Business

Canada pauses imports from Malaysia glove maker Supermax over forced labour concerns

2 minute read

Reuters

Canada · MARKETPLACE

Canada's grocery chains stocked with tomato products connected to Chinese forced labour



Supermarket pulls product, Italian supplier to stop using Xinjiang tomatoes

[Eric Szeto](#), [Caitlin Taylor](#), [Asha Tomlinson](#), [Matteo Civillini](#), [Winston Szeto](#) - CBC News -

Posted: Oct 29, 2021 4:00 AM ET | Last Updated: October 30

Canada seizes goods made with forced labour from China; MPs urge more action for Uyghurs

STEVEN CHASE > SENIOR PARLIAMENTARY REPORTER
PUBLISHED YESTERDAY

Reitmans

To our Reitmans Community

We take all social responsibility issues very seriously and much to heart. Like some of you, we have followed CBC's story about our former supplier, Dandong Huayang Textiles and Garments Ltd.

All past routine audits and inspections of this factory did NOT identify any North Korean guest workers or forced labour.

However, at the end of 2020, allegations regarding this supplier came up in the media. We took these most seriously and decided to proactively end our business relationship with them.

They are no longer a supplier of Reitmans.

The story outlined by CBC has brought new information to light. We have decided to remove ALL remaining inventory of the 2 Reitmans styles originating from this supplier that were ordered over a year ago, and will donate it to local charities.

The way our designs are brought to life is important to us. You will find our complete statement on our corporate website.

Stephen F. Reitman

Stephen F. Reitman, President and CEO

REITMANS
(CANADA) LTÉE / LTD

PROHIBITIONS

- ***Customs Tariff:***
 - prohibits goods made by modern slavery/ forced labor from entering Canada
- **Canadian Sanctions & Advisory Warnings**
 - China sanctions are a specific response to modern slavery concerns in Xinjiang; Canada also has a specific business advisory for Xinjiang
- **Procurement Code of Conduct**
 - Code of Conduct now includes modern slavery/ forced labour requirement for suppliers

REPORTING/ DISCLOSURE

- **Securities disclosure:**
 - Quebec's Autorité des marchés financiers has a specific notice relating to modern slavery disclosure for issuers
- **Modern slavery legislation**
 - Legislation introduced three times in Canada requiring annual reporting. Legislation in other jurisdictions (UK, France, Netherlands, Australia) have various requirements from public statements to reporting to due diligence requirements.

Scope of Legislation:

If businesses produce, sell or import goods into or within Canada and meet one of the following criteria, they will be subject to the Bill's reporting requirements:

- Businesses listed on a stock exchange in Canada;

- Businesses that have a place of business in Canada, do business in Canada or have assets in Canada, and meet at least two of three possible financial or employment thresholds for one of the two most recent financial years:

 - They have at least CA\$20 million in assets

 - They have generated at least CA\$40 million in revenue

 - They employ an average of at least 250 employees

Obligations:

Requires an annual report filed with government on actions they have taken to mitigate forced and child labor throughout their supply chains

For further information refer to our insight:

<https://www.dentons.com/en/insights/articles/2021/april/5/modern-slavery-and-supply-chains-a-significant-esg-consideration>

DISPUTE RESOLUTION

- **Canadian Ombudsperson for Responsible Enterprise complaint process**
 - New compliant process that started in 2021 for human rights abuses outside of Canada
- **Canadian legal proceedings**
 - Canadian courts have affirmed jurisdiction of Canadian courts in *Nevsun Resources Ltd. v. Araya* for international human rights abuses committed abroad by Canadian entities

- **Risk Mapping:** Supply chain mapping to determine potential risks
- **KYC:** Know your suppliers (down to the last tier)
- **Legal protections:** Contractual representations, warranties, & covenants on modern slavery. Also codes of conduct for suppliers
- **On the Ground:** On site verifications.

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