The REACH Regulation

Transparency of companies with regard to their compliance

Economic impact, extra-financial risks and opportunities for companies

Summary of the report produced by Ethifinance, March 2008

28 pages

In partnership with:
REACH stands for Registration, Evaluation, and Authorisation of Chemicals. It concerns a Regulation that establishes a new European policy on the management of chemicals. REACH came into effect on 1st June 2007.

The main aim of this Regulation is to improve knowledge of the intrinsic properties of chemicals and of the risks in relation to their use. The project will integrate new chemicals and gradually (over 11 years), existing chemicals into the same system. Intended to regulate the production, import, use and distribution of 30,000 chemicals, REACH has an impact on most business sectors.

Through its forward-thinking on the CSR requirements, EthiFinance has become an expert in identifying prominent topics, which are an increasingly important requirement for civil society and are a means of change and innovation for the business sectors in question. The implementation of the REACH Regulation is part of these requirements. The regulation has been heralded as a factor of competitiveness and innovation for the chemical industry across the European Union. In addition, the Regulation also represents a great socio-environmental requirement, given that it will improve efficiency in the evaluation of the health and environmental risks of chemicals.

Through this report which began at the end of 2007, EthiFinance's objective has been to conduct a comparative analysis of the practices implemented by companies to apply the Regulation. It also selects companies for their leadership or for their development of suitable solutions.

The first part of the report was written from documents published by companies (website, annual report, sustainable development report, etc.). As information about REACH is published voluntarily, it was essentially a matter of evaluating a company's level of transparency in relation to the progress of its compliance procedures.

Using its analysis reference systems together with its own particular databases, EthiFinance analysed 85 companies potentially affected by REACH, including 26 small and medium market capitalisation companies (SMID Caps) and 59 large capitalization companies (LARGE Caps). The threshold for distinguishing the SMID Caps from the LARGE Caps is one billion Euros of market capitalisation.

The second part of the report consisted of sending a questionnaire to approximately sixty European companies affected by REACH, in the aim that they would fill in the information that they have already published. The questions asked aimed to determine the global economic impact of the regulation on the company, the exposure of the company to the extra-financial risks in relation to the requirements raised by REACH and, finally, the constraints and the development opportunities for the company (particularly in terms of competition and innovation).

17 European companies, mainly LARGE Caps, voluntarily answered the questionnaire, (i.e. approximately a 30% response rate). These included eight companies on the CAC 40. The transparency of the SMID Caps with regard to REACH could be improved. Most of the companies that answered the EthiFinance questionnaire are affected by REACH as producers, importers and downstream users of chemicals. Approximately one quarter are affected as downstream users alone.

As REACH has recently come into effect, EthiFinance will regularly update its report in accordance with the milestones provided by the compliance schedule. This report is already an overview of the predispositions, the difficulties encountered and the resources implemented in the face of the Regulation's requirements.

This summary includes: the summary of the report, a partial overview of the conclusions and a selection of good practices on compliance.
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Conclusions relating to the first part: analysis of the documents published by the companies

These results reveal the clear opaqueness of the companies concerning the regulation. This is all the more so for the SMID Caps, of which approximately three quarters do not provide any information on the Regulation. Even though REACH only came into effect recently (on 1st June 2007) and regardless of the complexity of the subject matter, some companies have probably not identified the obligations incumbent upon them under the Regulation.

We have observed that the sectors considered to be chemicals manufacturers (within the meaning of REACH) are those which appear to have best anticipated their obligations or at least which are the most transparent with regard to the Regulation. Other less transparent sectors are typically those that are affected by REACH as the users of chemicals, for which there are not as many requirements.
Consequently, there is probably a link between the level of the regulatory requirement and the level of transparency of companies with regard to the Regulation. The communication of information in relation to statutory compliance is an effective means of responding to the expectations of any interested parties and the parties involved in the company.

Conclusions relating to the second part: analysis of the questionnaire sent to the companies

Predispositions of companies in the face of the Regulation: at the beginning of the registration phase (which will start on 1st December 2010), the report shows that approximately three quarters of companies state that they are predisposed to the implementation of REACH, particularly through the introduction of policies and specific procedures. The companies in question are mainly part of the chemical industry, which, at first sight, is one of the industries the most affected by the Regulation.

Implementation: REACH is a cumbersome regulation. The analysis of the companies' responses shows that such complexity is a hindrance for the clear communication of its guidelines to internal and external contact persons (such as suppliers or consumers). Moreover, it should be stressed that nearly one quarter of the companies surveyed challenge compliance with the time frames to formalise and distribute the guides on the application of the regulation (the "RIP": REACH Implementation Projects) by the European Chemicals Agency.

Human and Financial Resources: Most of the companies surveyed mention that they have allocated specific resources with a view to complying with the Regulation. Such human (recruitment of qualified employees, internal reorganisation, etc.) and financial resources (provisions, R&D investments) nevertheless vary greatly from one company to another.

Risks within the supply chain: The analysis of the responses shows that more than three quarters of companies have sized up their responsibilities vis-a-vis their suppliers, since a consultation process has been implemented. Some companies however, raise the problem of the difficulty exchanging information along the supply chain. Nevertheless, we have noticed that more than half of them have implemented methods to measure their suppliers' progress. Several initiatives have been cited with this in mind.

On the other hand, one of the doubts in relation to the implementation of REACH is the possibility that the production of chemicals will be relocated to countries where the Regulation does not apply. For the majority of the companies surveyed, this did not appear as a requirement (see graph below).

<table>
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<tr>
<th>As a consequence of REACH, do you think your Company will need to relocate its production or to restructure in non-EU countries?</th>
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<tbody>
<tr>
<td>YES</td>
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<tr>
<td>NO</td>
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**Good compliance practices**

One of the first questions in the EthiFinance questionnaire aimed to get to know the specific measures set up by companies for the implementation of REACH. What EthiFinance considers to be good compliance practice is summarised in the following table. This table on good practice is not rigid, given that, on the one hand, the requirements of the Regulation will be intensified and the initiatives implemented by companies should develop.

<table>
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<th>Organized initiative</th>
<th>Description</th>
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<tr>
<td><strong>Organisation</strong></td>
<td>A REACH project, led by a dedicated project manager, was set up in 2005. An ad hoc steering committee (grouping together the HSE, medical, procurement, R&amp;D, legal and communication functions) coordinates the decision-making. REACH operating managers are appointed in each area, profession, legal entity and site throughout Europe. The General Management approves and supports all the adopted decisions.</td>
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<td><strong>Statutory monitoring</strong></td>
<td>The company monitors the discussions in relation to REACH and participates in the working groups of business federations and competent institutions. A data base on the statutory classification of chemicals and an area to share documents on the Group's Intranet are provided to facilitate the monitoring of the entire network.</td>
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<td><strong>Raising awareness and training</strong></td>
<td>Several awareness-raising and training sessions have been organised with the various job titles involved (EHS, medical, purchasing, marketing, R&amp;D, legal, communication, insurance, accounting, etc.). The progress of REACH's implementation is also regularly shown in internal communications media.</td>
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<td><strong>Inventories</strong></td>
<td>A pilot inventory phase of REACH was set up on several sites in 2006. In 2007, this work was extended to all the Group's industrial sites by means of a dedicated tool, developed internally. This work enabled the Secure Data Sheets (FDS) for the sites to be made more accurate, the knowledge of the products used to be improved, the measures to reduce the risks implemented to be strengthened and an initial assessment of the impact of the regulation on the Group to be drawn up.</td>
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<td><strong>Contact of suppliers and customers</strong></td>
<td>The main suppliers were contacted in 2006 by means of questionnaires. This procedure is currently in the process of being rolled out to other suppliers. Direct contact is made to secure the most strategic supplies. In addition, the company responds to customers' requests, which are mostly in the form of questionnaires. Such communication will be strengthened during the preparation of files and when the company provides the final recommendations of the RIP 3.2.2 on scenarios regarding exposure.</td>
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<td><strong>File preparation</strong></td>
<td>The files are mainly prepared by the business federations, sometimes supported by external consultants. The company participates in several (pre-) consortia as a manufacturer or downstream user. The data collection work is in progress for files that have been started.</td>
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<td><strong>Computer tools</strong></td>
<td>The company will set up the computer tools which will enable it to manage compliance and communicate with suppliers, customers and the European Agency. These tools will supplement the internal database on chemicals and the tools used to analyse the risks and manage the Secure Data Sheets (FDS).</td>
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<td><strong>Other</strong></td>
<td>In order to ensure the continued existence of the system, some thought has been given to systemising the consideration of REACH in Purchasing and R&amp;D procedures. The integration of REACH in internal audits and suppliers may be wide spread as of 2009.</td>
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