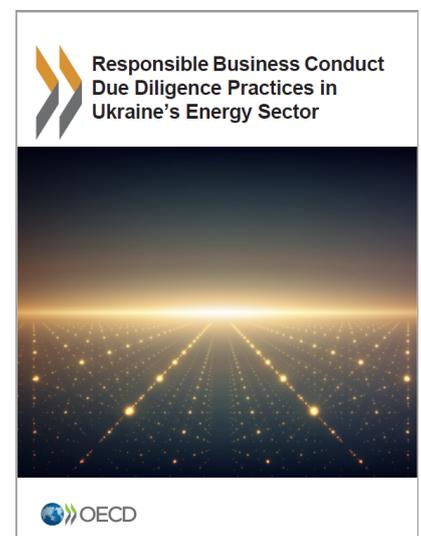


Responsible business conduct due diligence practices in Ukraine's energy sector

The report **Responsible Business Conduct Due Diligence Practices in Ukraine's Energy Sector** has been developed by the OECD Centre for Responsible Business Conduct (RBC Centre) within the framework of the OECD project **Supporting Energy Sector Reform in Ukraine**. The Government of Norway provides financial support to this project.

This work focuses on understanding RBC risks and due diligence practices in Ukraine's energy companies using instruments, including the OECD Guidelines for Multinational Enterprises and Due Diligence Guidance for Responsible Business Conduct.



The project has entailed conducting research and surveys with stakeholders, including ten energy companies operating in Ukraine, as well as civil society organisations and government representatives. Companies were selected based on their involvement in Ukraine's energy supply chain and engagement with RBC practices, and their participation was voluntary. The content from the surveys, as well as additional research, has been used to develop a report outlining RBC risks and due diligence practices within Ukraine's energy sector, as well as practice gaps and considerations for improvement.

ABOUT THE OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES AND DUE DILIGENCE GUIDANCE

Responsible business conduct (RBC) standards set out expectations that businesses should contribute to sustainable development, while avoiding and addressing adverse impacts in their operations, supply chains and business relationships. The OECD RBC Centre makes use of two instruments for its work: the OECD Guidelines for Multinational Enterprises (MNE Guidelines), which provides non-binding principles and standards on responsible business conduct consistent with applicable laws and internationally recognised standards; and the OECD Due Diligence Guidance for Responsible Business Conduct, which provides practical support to enterprises on the implementation of due diligence processes as recommended by the MNE Guidelines. These instruments seek to enable companies across sectors to identify and address RBC-related risks and challenges, while contributing to resilience and competitiveness of operations, and sustainable development.

Key findings

- ➔ Though the concept of RBC is nascent in Ukraine, most energy companies that were surveyed were aware of RBC-related standards. While larger companies operating nationwide have adopted social, environmental and governance policies, this practice remains less common among smaller companies and more broadly throughout the sector. Moreover, RBC due diligence and risk management practices are rarely centralised within companies, and often remain limited to their operations, rather than extending to supply chains and business relationships.
- ➔ Among those surveyed, RBC risk identification is often carried out on an ad hoc basis, though a few companies have developed risk identification and prioritisation tools. Certain instruments, such as environmental impact assessments, have enabled companies to identify and address environmental risks stemming from their operations. Along with efforts to mitigate short-term impacts through emergency response plans, companies that were surveyed also engage in continuous efforts to manage long-term challenges and monitor RBC-related impacts of their activities.
- ➔ Despite efforts to identify, mitigate and monitor RBC risks, certain adverse impacts have been difficult to overcome. Companies operating in fossil fuels and heat sectors often face high levels of emissions, which partly stem from broader regulatory challenges, as well as from limited opportunities and incentives to invest in efficiency measures. Along with environmental impacts, companies operating in the extractives sector have also witnessed challenges related to labour rights, particularly in non-government controlled territories. Moreover, mitigating certain risks, especially those related to corruption and bribery, require stronger engagement of both companies and institutions.
- ➔ Most of the practitioners that were surveyed engage with stakeholders, including local communities, government representatives, business associations, consumers, employees, civil society organisations and international partners. Stakeholders are consulted during multiple stages of due diligence, including identification, mitigation and monitoring of adverse impacts, and, in some cases, consultations are required by law. Most of those surveyed also stated that they have established grievance mechanisms, though their effectiveness can vary between practitioners.
- ➔ Non-financial reporting practices among some of the key practitioners usually go beyond the requirements under the national legislation, and publication of non-financial and sustainability reports is common among large energy companies. However, these practices are not standardised and remain less common among most companies operating in the energy sector.

CAPACITY BUILDING ACTIVITIES

Research on RBC due diligence practices in Ukraine's energy sector will be used to conduct capacity-building activities envisioned as part of this project, including peer learning and experience sharing sessions. Energy companies represent a target audience for the workshops, which are planned for July and September 2021. The activities will entail (i) training on the essentials of due diligence for energy sector practitioners, and (ii) improving RBC due diligence practices in the energy supply chain and relationships.

UKRAINE AND THE OECD

This work falls under an OECD project aimed at Supporting Energy Sector Reform in Ukraine (2019-2021), with the financial support of the Government of Norway. The project is implemented in close cooperation with key Ukrainian stakeholders, including the Ministry of Energy, the Ministry of Finance, the Ministry of Economy, the Cabinet of Ministers, and other relevant public bodies. It also benefits from inputs from civil society, academia, business sector, and relevant international partners.

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