What investors need to know about the PSA framework from the World Business Council for Sustainable Development

Portfolio Sustainability Assessment (PSA) can help companies improve their sustainability performance. It can also help establish a semi-universal language and methodology for assessing the toxic footprints. However, the framework has four main flaws that need to be addressed.

The Portfolio Sustainability Assessment (PSA) framework developed by the World Business Council for Sustainable Development (WBCSD) was first launched in 2018. It is meant to steer a company’s product portfolio in a more sustainable direction and to make it easier to communicate these achievements to other stakeholders. It applies to both existing and new products and processes and can be used by all chemical-intensive sectors.

When members of the Investor Initiative on Hazardous Chemicals (IIHC) discuss the sustainability of chemical companies’ product portfolios, the companies often refer to PSA, stating that they use the framework either as inspiration or to assess the sustainability of their product portfolio.

Companies applying the PSA includes Arkema, BASF, Borealis, Chemours, Clariant, Covestro, Dow, Evonik, Lanxess, LyondellBasell, Sabic, Sika and Solvay — many of which are part of the ChemScore universe.

Here is how it works

Companies first decide which business segments should be subjected to PSA. They then break down the product portfolio within those segments, creating a list of so-called PARCs (Product, Application, Region and Combination).

All PARCs have a unique combination, similar to a code in a code lock. An example of a PARC could be the refrigerant R32 (Product), Air Source Heat Pump (Application), China (Region). Another PARC could be R32 (the same product), Air Source Heat Pump (same application), but the EU (another region).

Each PARC is then assessed according to a maximum of eight “Signal Categories” (see picture below). The first five categories are mandatory to include in all PARCs.
Each PARC is then given a score from C-- to A++ for each of the selected signal categories (see picture below).

For example, R32 could get an A+ in Signal Category 1, a B in Signal Category 2, a C- in Signal Category 3, and so on.

The final score of the individual PARC is then decided according to a specific decision model (see picture below).
The company can then choose to compile all these PARCs and report the percentage of their assessed product portfolio that has received different grades and set targets for improvement.

**This is ChemSec’s position on PSA**

PSA can help companies that want to improve their sustainability performance to actually do so. It can also help establish a semi-universal language and methodology for assessing the toxic footprint of a product or business segment.

However, the framework has four big flaws:

1. Companies themselves decide how much, and what part, of their business they will assess according to the PSA. This means that A) they can choose not to assess their more problematic products and B) it is hard to make meaningful comparisons between different companies.

2. It relies on self-assessment, which enables a lot of leeway in the interpretation of the criteria, and thus the risk of biased and inflated scores. This is the case even if an auditor has confirmed the process as such, because of the complexity of the process.

3. The detailed assessments of the individual PARCs are not made public, which prevents proper verification from independent parties.

4. PSA’s scope of hazardous chemicals, which are categorized as either Priority 1 or Priority 2 substances, is much narrower than the IIHC definition of hazardous chemicals. For example, most PFAS substances are not covered by the PSA.
means that, hypothetically, two companies that have the exact same product portfolio, except that one uses substantial amounts of PFAS, and the other does not, will score the same according to PSA.

Recommendations

PSA is a step in the right direction. But, in order for investors to be able to properly assess and address the material risks linked to hazardous chemicals, there are substantial loopholes currently available to companies using it.

ChemSec suggests the following for investors who talk to companies using the PSA:

1. Use PSA for the whole company.
2. Have independent third-party experts conduct a technical verification of the PSA.
3. Make the justifications and conclusions for assessing individual PARCs public.
4. Use the IIHC definition of hazardous chemicals for assessing the PARCs. In a first step, include all persistent chemicals.¹

These suggestions should not be considered substitutions, but additions, to the key asks of the IIHC.

* Please regard this as a living document subject to ongoing updates. We welcome and value all input.

¹ By hazardous chemicals, the IIHC means (A) substances meeting the Substances of Very High Concern (SVHCs) criteria, as defined in Article 57 of the REACH regulation; (B) substances meeting the criteria as Substances of Concern (SoCs) as defined in Annex 2 of the Corporate Sustainability Reporting Directive (CSRD); and (C) persistent chemicals. By persistent, the IIHC means organic substances meeting the persistence criteria in Article 57d of the REACH regulation.