

Towards Resilience

German corporates push for a green stimulus

May 2020



Introduction

How will the economic impacts of COVID-19 imprint the actions taken in response to climate change? From government policy to corporate strategy and behaviour, that is the question that many have been asking. Already, the major economies of the world have mobilised record breaking recovery packages¹ in response to the pandemic. For the most part, these stimuli have been focused on supporting the most heavily impacted individuals and industries. However, the simple fact remains, climate change persists. The planet still faces an environmental emergency that requires economic and policy support at a national and global level.

In Germany, 68 corporate leaders have made their position clear through a joint Business Statement²; companies from more than 20 sectors called for economic stimulus policies that support action in response to climate change. In effect, their arguments have centred around the notion that a climate supportive stimulus would also help develop a more resilient, modernised and competitive economy.

In this paper, we provide an analysis of the Business Statement and draw attention to the leading position that many of these signatories already hold within their sectors in terms of Energy Transition performance.

¹ Will Covid-19 prove a pivotal moment for climate change? – Andrew Howard - Schroeder's – 21/04/2020

² Business Statement for Crisis management and a sustainable future: Making our economy more resilient with a climate stimulus programmes – 28/04/2020

Taking the long-term view

The Business Statement calls for a link between the national economic policy measures aimed at overcoming COVID-19 and supporting necessary climate action. It calls for action to build on efforts that have already been made to design and implement climate policy measures. In addition, it looks to protect the European Union's Green Deal and calls upon the German Federal Government to ensure that all countries present ambitious climate commitments in line with the objectives of the Paris Agreement by the next UN Climate Change Conference. The next meeting within the UN's COP framework was set to take place in Glasgow, Scotland at the close of 2020 but this has already been cancelled.

The Business Statement is not the first one of its kind. The "Green Recovery Alliance"³ was launched in mid-April by the European Parliament and was supported by leaders from over 30 corporates alongside NGOs and Think-Tanks. This alliance also calls for a Green Recovery from the pandemic. However, it is the national solidarity that perhaps sets it apart in terms of impact. In addition, heavy industry, big fossil fuel players, and multinational pharma enterprises have all signed the statement. The diversity of voices from across low carbon and

high carbon sectors lends credibility to the statement.

The Business Statement frames the situation in a non-binary manner pointing towards an opportunity to set "a **sustainable modernization project for the economy**". The statement shows corporates taking an interconnected, opportunistic and longer-term view on the role of climate policy in economic resilience and competitiveness.

Having already announced a USD 60bn climate package in the autumn of 2019⁴ Germany will lead the European Council in the latter half of 2020. Debates over the alignment of COVID-19 reactive measures and climate policy are certain to continue at EU level. This statement is supporting an overall reduction of 'daylight' between a body of corporate leaders in Germany and public concerns on climate action. This may be important as within Germany (and in many other countries) there is still a separation between political factions as well as urban and rural populations when it comes to the topic of climate action.

³³ The Green Recovery Alliance was launched on the 14th of April within the European Parliament.

⁴ Germany unveils USD60bn climate package – New York Times – 20/09/2019

Leading from the front

Of the 68 German companies who signed the Business Statement there have been 35 evaluated within our Carbon Footprint and Energy Transition assessment. Our teams have undertaken a relative analysis to see how these companies are positioned compared to their peers. From an Energy Transition perspective:

- ✓ 94% of these (33/35 companies) rank amongst the best 50% in class by sector,
- ✓ 46% of these (16/35 companies) rank amongst the best 10% in class by sector,
- ✓ 9 of these are within the top 10 performers in their sector with 2 of these ranked as number 1 performers.

Whilst the climate change impact of these companies varies significantly from corporation to corporation, our research indicates that the majority of these companies are already moving in a favorable direction when it comes to undertaking climate action. In that sense, their participation within the Business Statement can be viewed more from a perspective of continuity rather than a policy shift. Should the operating environment for these companies continue on trend towards stronger regulation then many are already positioning themselves to manage this by taking measures to reduce their energy consumption and related emissions. In the sections that follow, we have pinpointed a number of good practice examples from companies that appear to significantly outperform their industry peers.

Company	Sector	Energy Transition Ranking ⁵	Carbon Footprint Grade ⁶
50Hertz - (Eurogrid) ⁷	Electric & Gas Utilities	124/220	B
AIDA Cruises - (Carnival UK) ⁸	Hotel, Leisure Goods & Services	6/130	D

⁵ Vigeo Eiris provides Energy Transition scores (0-100) for over 4800 companies. The scores are developed through an analysis of issuers' strategic approach to reducing their emissions and adapting their business model to address the risks and opportunities associated with the transition to a low-carbon economy. For further details please contact Vigeo Eiris and imug via the contacts provided at the end of this document.

⁶ Vigeo Eiris provides Carbon Footprint data on over 4800 companies. Alongside the quantitative figures for Scope 1,2 and 3 emission companies are assigned grades (based on Scope 1 and Scope 2 data only). For further details please contact Vigeo Eiris and imug via the contacts provided at the end of the document.

A Grade = less than 100,000 t CO2 eq

B Grade = between 100,000 and 1,000,000 t CO2 eq

C Grade = between 1,000,000 and 10,000,000 t CO2 eq

D Grade = greater than 10,000,000 t CO2eq

⁷ The Energy Transition Ranking and Carbon Footprint grade are that of 50Hertz's parent company (Eurogrid).

⁸ The Energy Transition Ranking and Carbon Footprint grade are that of AIDA Cruises' parent company (Carnival UK).

Allianz	Insurance	3/158	B
Aurubis	Mining & Metals	7/205	C
Ball Corporation	Business Support Services	10/231	C
Bayer	Pharmaceuticals & Biotechnology	15/172	C
Covestro	Chemicals	14/137	C
DAIKIN Industries	Mechanical Components & Equipment	7/119	C
Deutsche Post DHL	Transport & Logistics	23/125	C
Deutsche Telekom	Telecommunications	2/120	C
Deutsche Wohnen	Financial Services - Real Estate	57/275	B
DEUTZ / Torqeedo ⁹	Industrial Goods & Services	45/132	A
DZ BANK / Union Investment ¹⁰	Retail & Specialised Banks	21/267	A
EnBW	Electric & Gas Utilities	100/220	D
ENTEKA	Electric & Gas Utilities	189/220	B
E.ON	Electric & Gas Utilities	12/220	C
EOS	Health Care Equipment & Services	67/150	A
Epson	Technology-Hardware	65/200	B
General Electric	Industrial Goods & Services	39/132	C
HeidelbergCement	Building Materials	16/80	D
Henkel	Luxury Goods & Cosmetics	1/58	B
Hermes	Luxury Goods & Cosmetics	15/58	A
Infineon Technologies	Technology-Hardware	16/200	B
innogy	Electric & Gas Utilities	80/220	C
Osram	Electric Components & Equipment	22/59	B
Puma	Specialised Retail	19/252	A
Rockwool	Building Materials	41/80	C
Salzgitter	Mining & Metals	77/205	C
Schneider Electric	Electric Components & Equipment	1/59	B
ThyssenKrupp	Mining & Metals	42/205	D
Unilever	Food	3/158	C
Vattenfall	Electric & Gas Utilities	54/220	D
Wacker Chemie	Chemicals	22/137	C

⁹ The Energy Transition Ranking and Carbon Footprint grade are that of Torqeedo's parent company (DEUTZ). Both signed the statement.

¹⁰ The Energy Transition Ranking and Carbon Footprint grade are that of Union Investments' parent company (DZ Bank). Both signed the statement.

Telecommunications – Deutsche Telekom

This is a sector with an expanding carbon footprint. The growing intensity of ICT uptake is one factor increasing the sectors' emissions. Moreover, with the advent of the 'Internet of Things,' a new scale of internet traffic is increasing the energy demand in telecommunications.

Overall, the sector's average Energy Transition Score is **36/100**, indicating a limited global level of disclosure from the 120 companies in the sector. With an Energy Transition score of **82/100**, **Deutsche Telekom's** performance is

considered advanced and the company ranks as **second** in the sector.

To minimise its energy use, the company has set targets that appear ambitious relative to the sector. Deutsche Telekom has set the target to reduce its scope 1 and 2 emissions by 90% by 2030 (compared to 2017 levels). In addition, the company aims to generate 100% of its energy from renewable sources by 2021. The company's CO2 emissions (direct and indirect) linked to energy consumption, normalised to net revenues, have decreased continuously over a 5-year period (FY2014-FY2018).

Insurance - Allianz

The Geneva Association¹¹ highlights three areas in which the (re)insurance industry will have a direct impact on climate change action: (1) Managing the financial risks of extreme events in a changing climate, (2) investing in the transition to a low-carbon economy, and (3) providing services and products to clients for risk management related to climate change.

Overall, the sector's average Energy Transition score is **23/100** indicating a weak global level of disclosure from the 158 companies in the sector. Allianz is ranked **second** among its peers with an advanced Energy Transition score of **65/100**. The company has set quantified targets with regard to its energy consumption and is committed:

- to source 100% renewable power for its group-wide operations by 2023,
- and reduce carbon emissions by 30% per employee by 2020 (2010 baseline) within Allianz Group.

In 2020, the company released a statement on coal-based business models in which it has committed to fully phase out coal-based business models across its proprietary portfolios by 2040. Since 2015 Allianz report that they have not financed coal-based businesses. In addition, a number of equity stakes in coal have been divested and fixed income investments made before 2015 are in run-off. Furthermore, Allianz does not offer insurance for coal power plants or mines¹².

¹¹ Special Session on Climate Change and the Insurance Sector organised by OECD and The Geneva Association

¹² Allianz statement on coal-based business models – 04/2020

Building Materials – HeidelbergCement

Building material manufacturing is an energy and carbon intensive industry. The World Business Council on Sustainable Developments¹³ initiative on the cement industry attributes 5% of global man-made CO2 emissions to the cement production process. Action from companies within the sector is regularly flagged as fundamental for an energy transition. It is not simply a matter of process optimization; through product innovation these companies have the potential to greatly reduce the ecological footprint of buildings.

Overall, the sector's average Energy Transition score is **25/100** indicating a weak overall level of disclosure from the 80 companies in the sector. HeidelbergCement is ranked 16th compared to 81 companies with a score of **39/100**.

The company reports that it has set a science-based CO2 reduction target, which is to reduce scope 1 GHG emissions by 15% per ton of cementitious materials by 2030 from a 2016 base year. The company also commits to reduce scope 2 GHG emissions by 65% per ton of cementitious materials within the same time frame. The company is looking to further develop composite cement with less clinker in order to minimise energy consumption. The group built two clinker production lines in Germany, which are set to have alternative fuel rates of 90%¹⁴. The group has also established the basis for an alternative clinker technology, TernoCem, that saves around 30% in CO2 emissions and 15% in energy compared with conventional clinker.

¹³ 10 years of progress - The Cement Sustainability Initiative – World Business Council on Sustainable Development – 07/2012

¹⁴ The substitution of fossil fuels by alternative fuels (e. g. industrial waste) in the production of cement clinker is of importance from a sustainability perspective as it reduces, in the case of biogenic wastes, greenhouse gas emissions and also waste and raw materials.

Mining and Metals - Aurubis

The Mining & Metals sector is a carbon intense sector with more than 50% of the global mining companies having a high or intense carbon footprint. Growing demand for metals and minerals required to produce new technologies and support the clean energy shift is expected to create a positive feedback loop that will increase mining activities and their energy needs. The challenge for this sector is therefore to decrease its carbon footprint in a context of growth in metal demand and increased need of energy per quantity of material extracted.

The sector's average Energy Transition score is **23/100** indicating a weak overall level of

disclosure from the 205 companies in the sector. Aurubis is ranked 7th amongst its peers with a robust Energy Transition score of **56/100**. Aurubis has set a CO2 emissions reduction target of > 100,000 tonnes (compared to 2012 figures) to be achieved through energy efficiency projects and internal electricity production by Fiscal Year 2022/23. The company has introduced energy management systems at its large production sites certified in accordance with ISO 50001. Aurubis also installed steam turbines for generating energy internally in Hamburg, Lünen, and Pirdop. The company reports that this allows them to prevent over 30,000 tonnes of CO2 emissions per year.

Conclusions

Debates about COVID-19 recovery packages are and will continue to be complex but the Business Statement and the case study of Germany provides interesting material for discussion. Through our analysis we can see how the stronger relative positioning of many of these companies on Energy Transition makes it more plausible for them to publicly double down on climate action and add their voice to the chorus of other stakeholders looking to steer government policy towards a green recovery.

It is easier to lead on such a topic when your corporate strategy is already heading in that direction. In addition, the framing of the proposal not plainly as a climate action initiative but rather as a pathway to a more resilient, sustainable and modern economy is perhaps a narrative that can resonate across the political spectrum particularly at a time where economic resilience is being tested to the extreme.

In other papers published by Vigeo Eiris since the start of the COVID-19 pandemic, we have remarked upon how the crisis is revealing risks and opportunities for corporates. What we perhaps see in Germany, are a group of companies aware of the challenges of the moment and positioning themselves to be leading voices in the development of a new operational reality.

Frieder Olfe



Sustainable Investment Consultant

Email : olfe@imug.de

Patrick Weltin



Sustainability Analyst

Email: weltin@imug.de

Kirsten Hahn



Sustainability Analyst

Email: hahn@imug.de

For more information: www.vigeo-eiris.com

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