Investment and Growth from Climate Action

A briefing by CDP to support the EU 2030 Climate and Energy Package

15 October 2014
Executive Summary

On 23rd-24th October 2014, the European Council is expected to make a historic decision to finalise the 2030 Climate and Energy Package. The impact of this policy package will be far-reaching, not only guiding Europe’s climate and energy strategy for the next decade and a half, but also providing the basis for Europe’s contribution to international climate negotiations and a hoped-for agreement in Paris in 2015.

Climate policy debates in Brussels have recently tended to pitch climate action against industrial competitiveness. Numerous organisations have spoken out against this view and laid out an alternative narrative of green growth most recently illustrated in the New Climate Economy report ‘Better Growth, Better Climate’.

CDP has created this briefing confident that it will provide a useful further contribution to these policy debates. The briefing is launched alongside its global report ‘The A List: The CDP Climate Performance Leadership Index 2014’. CDP’s Climate Performance Leadership Index (CPLI) is an index highlighting companies that exhibit leadership through their actions to mitigate climate change.

This briefing drills down to the European context, looking at climate disclosures from Europe’s 300 largest listed companies, which represents 68% of EU market capitalisation.

The briefing shows that:

- 92% of responding Euro 300 companies report that climate regulation presents an opportunity to their business.
- European companies are investing in climate action: 98% of responding European companies are actively undertaking emissions reduction initiatives which result in world-leading results.
- European companies are proportionally over represented in CDP’s global CPLI index. Analysis shows that this index has outperformed mainstream indexes over the last few years.
- Euro 300 companies are disclosing policy positions which call for a strong Climate and Energy Package on the basis that this will enable future investment.

It is clear that we need a balanced policy debate at the European level, one which recognises the voices of a significant number of large listed companies that foresee future growth and competitiveness under an ambitious regulatory environment. With strong EU regulation, European companies will be better placed to benefit from the transition to a low carbon economy.

By adopting an ambitious 2030 Climate and Energy Package, the EU will signal a clear direction towards a low carbon economy that will enable companies from all sectors to plan for and invest in a sustainable future. Those companies will be well placed to offer the global economy the goods and services it will need in a resource constrained world.

1 http://newclimateeconomy.net/
Introduction: How European companies measure up

This briefing examines data disclosed to CDP in 2014 by the FTSE Euronext 300 (“Euro 300”), the 300 largest listed companies in Europe. These 300 companies have a market capitalisation of €7.81 trillion, representing 68% of total EU market capitalisation and are the engine-house of EU prosperity and growth. 91% percent of the Euro 300 made climate disclosures to CDP in 2014.

On 15th October, CDP announced the Climate Performance Leadership Index 2014, a global index highlighting companies that exhibit leadership through their actions to mitigate climate change. Of the 187 companies listed in CDP’s report ‘The A List: The CDP Climate Performance Leadership Index 2014’, an impressive 85 (44%) are headquartered in the EU of which 60 are within the Euro 300 group.

The performance score assesses the level of action, as reported by the company, on climate change mitigation, adaptation and transparency. A high performance score signals that a company is measuring, verifying and managing its carbon footprint, for example by setting and meeting carbon reduction targets and implementing programs to reduce emissions in both its direct operations and supply chain as reported by the company.

The highest scoring companies for performance enter the Climate Performance Leadership Index (CPLI). Public scores are available on the CDP website and in CDP reports, through Bloomberg terminals, Google Finance and Deutsche Boerse’s website.

### Euro 300 companies within the 2014 Climate Disclosure Leadership Index:

<table>
<thead>
<tr>
<th>Company Name</th>
<th>GICS Sector</th>
<th>Country</th>
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<tbody>
<tr>
<td>Amadeus IT Holding</td>
<td>Information Technology</td>
<td>Spain</td>
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<tr>
<td>Anheuser Busch InBev</td>
<td>Consumer Staples</td>
<td>Belgium</td>
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<td>Associated British Foods</td>
<td>Consumer Staples</td>
<td>United Kingdom</td>
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<tr>
<td>AstraZeneca</td>
<td>Health Care</td>
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<td>Aivi</td>
<td>Financials</td>
<td>United Kingdom</td>
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<tr>
<td>Banco Santander</td>
<td>Financials</td>
<td>Spain</td>
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<tr>
<td>Bayer AG</td>
<td>Health Care</td>
<td>Germany</td>
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<td>Belgacom</td>
<td>Telecommunication Services</td>
<td>Belgium</td>
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<tr>
<td>BMW AG</td>
<td>Consumer Discretionary</td>
<td>Germany</td>
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<td>BT Group</td>
<td>Telecommunication Services</td>
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<td>CaixaBank</td>
<td>Financials</td>
<td>Spain</td>
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<td>United Kingdom</td>
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<tr>
<td>Coca-Cola HBC AG</td>
<td>Consumer Staples</td>
<td>Greece</td>
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<tr>
<td>Commerzbank AG</td>
<td>Financials</td>
<td>Germany</td>
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<tr>
<td>Daimler AG</td>
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<td>Danone</td>
<td>Consumer Staples</td>
<td>France</td>
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<tr>
<td>Diageo Plc</td>
<td>Consumer Staples</td>
<td>United Kingdom</td>
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</tbody>
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2  Total EU market capitalisation: €11.42 trillion. Source: Bloomberg, as of 2nd October 2014.

3  The Global Industry Classification Standard (GICS®) was developed by MSCI and Standard & Poor's (S&P). The GICS structure consists of 10 sectors, 24 industry groups, 67 industries and 156 sub-industries.
Benefits to European companies from climate action

CDP has looked at how Euro 300 companies are behaving in comparison with the largest listed companies in other global regions. We found that although most leading companies now state a desire to reduce emissions, European companies are the best at making investments in emissions reductions and that they see financial benefits from these investments.

Euro 300 companies lead the world, together with the United States, in setting absolute emissions reduction targets.¹

Absolute emissions (Scope 1 and 2) have decreased compared to last year due to emissions reduction initiatives

What does this mean for corporate financial performance? In order to gauge the influence of leadership in carbon management on the market performance of a company, ECPI, a company dedicated to devising investment products around the concept of sustainability, has analysed the top performing companies according to a historical assessment of the CDP Climate Performance Leaders Index (CPLI)⁵. The results show that since 2010 the CPLI has outperformed not only the Dow Jones Sustainability World Index⁶ (37.53% increase over the assessed period vs 31.38%) but also the Bloomberg World Index⁷ (34.24% increase in the same period).

The difference between Euro 300 companies and other global regions really starts to become clear when we look at whether emissions reduction initiatives have resulted in absolute emissions reductions. Euro 300 companies are well ahead of all other regions in this respect as indicated by Europe’s strong representation in the CPLI index.

Reporting absolute emission reduction targets

Reporting active emissions reduction initiatives

¹ Other company samples used for these graphics: Fortune Global 500, S&P 500, China 100 (the largest 100 companies in China based on market capitalisation), Latin America 50 (the largest 50 companies in Latin America based on market capitalisation), India 200 (the largest 200 companies in India based on market capitalisation). Percentages are of responding companies within these samples.

² The CPLI financial performance graph is built using the historical composition of the CPLI, as annually assessed by CDP according to its proprietary methodology. The index adopts a market capitalisation weighting system.

³ Dow Jones Sustainability World Index: The top 1% of the largest 2,500 companies in the S&P Global Broad Market Index based on long term economic, environmental and social criteria.

⁴ The Bloomberg World Index is a capitalization-weighted index of all equities included in the Bloomberg World Index Series.
A strong Climate and Energy package could provide further benefits

Disclosures to CDP by the Euro 300 in 2014 show that these companies are looking for long-term certainty from the EU 2030 Climate and Energy Package in order to drive future investment. This tallies with the fact that 92% of responding Euro 300 companies reported that climate regulation presented an opportunity to their business.

Some companies specifically mention that a decision on the Climate and Energy Package should be made as soon as possible. They do not favour further delay or a wait-and-see approach to ambition for emissions reductions at EU level.

A clear decision on the post-2020 climate and energy policy target framework should be made as soon as possible and should put the EU ETS at the centre to steer the EU climate policy…CO₂ reduction targets based on the EU Climate Roadmap should be set for 2030, 2040 and 2050.

Fortum Oyj

Setting such targets now for 2030 and beyond can be a very effective driver of investment. Stable, credible and long-term market-based support mechanisms, coordinated carefully with carbon pricing, can help to support the commercialisation of newer technologies.

Alstom

There is a simple reason for this – companies do not like regulatory uncertainty. Euro 300 companies make it clear that regulatory uncertainty or delay is a business risk which can reduce investment levels and thereby slow growth.

Royal Philips

A binding and meaningful 2030 target for energy efficiency is an important milestone towards achieving the EU’s ambitions for the creation of a sustainable low-carbon economy by 2050 and would encourage investments in innovative technologies for smart, more sustainable cities and societies.

Standard Chartered

Without the confidence and certainty that a legislative commitment can provide, Skanska and the construction sector in general have less ability to make the necessary long-term investments to achieve reductions in energy consumption and carbon emissions.

Skanska AB

The uncertainty surrounding new regulation poses a high risk to our business. Sustainable investments in the power sector need long-term predictability to deploy technologies on large scale, to attract financial resources into R&D and to deploy new technologies. As a global electricity, gas and heat supplier E.ON supports a legally binding climate agreement on a global scale.

E.ON SE

The 2030 Climate and Energy Package provides long-term certainty to investing in the necessary infrastructure to decarbonise the UK and Irish economies.

SSE

The EU aim to reduce GHG emissions at least 40% by 2030, will advance steadily towards the ambitious goals set for 2050 of reducing up to 90% of these emissions. This goal represents a positive investment in the future economic growth of the EU.

Telefonica

The cost of carbon (or lack of it) can influence investment and a lack of clarity on regulation could significantly affect our potential customers and their ability to repay loans or interest in taking out loans in a volatile market.

National Grid

National Grid has expressed its support for early agreement on an EU objective on carbon emissions reduction to 2030.

E.ON SE

Euro 300 companies speak about the need for clear long-term certainty and an ambitious greenhouse gas emissions reduction target, in order to encourage investment, innovation and growth.

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Recommendation: The climate policy framework for business should take full account of positive messages from business voices

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Europe’s growth and competitiveness will be crucial issues for policymakers deciding on the 2030 Climate and Energy Package in late October 2014. The behaviour and views of the Euro 300 should be taken very seriously by these decision-makers. Representing 68% of EU market capitalisation – the portion of the European private sector which is listed on stock exchanges – these companies are responsible for a large proportion of the growth and prosperity that Europe has historically enjoyed and hopes to rebuild.

Some business voices are heard very loudly in the 2030 climate and energy debate. Some of these voices represent sectors that fear global competition and this is something that is important to understand, engage with and address within EU climate policy. However, a balanced view will only be achieved if it is also recognised that climate action will bring prosperity and growth to many companies, including large companies which are key drivers of growth in the EU.

There is growing recognition and concern that the business sector is not represented in a balanced way in climate policy debates. Increasingly, both in Europe and elsewhere, we see discrepancies between the views put forward by trade associations and the investment decisions being taken by companies which are members of those associations.

CDP has worked with the UN Global Compact and others to produce a ‘Guide for Responsible Corporate Engagement on Climate Policy’. In the months leading to the September 2014 UN Climate Summit, CDP appealed to companies to make a public commitment to ‘identify, align and report’ in order to ensure that policymakers receive the same messages about their views from every source. We are pleased to say that some of the EU market leaders which have already made this public commitment include Commerzbank, Nestle, Royal Philips and Unilever among others.

It is clear that we need a balanced policy debate at the European level, one which recognises the voices of a significant number of large listed companies that foresee future growth and competitiveness under an ambitious regulatory environment. With strong EU regulation, European companies will be better placed to benefit from the transition to a low carbon economy.

About CDP

CDP is an independent NGO which works to transform the way the world does business to prevent dangerous climate change and protect our natural resources. We see a world where capital is efficiently allocated to create long-term prosperity rather than short-term gain at the expense of our environment.

Evidence and insight is vital to driving real change. We use the power of measurement and information disclosure to improve the management of environmental risk. By leveraging market forces including shareholders, customers and governments, CDP has incentivised thousands of companies and cities across the world’s largest economies to measure and disclose their environmental information. We put this information at the heart of business, investment and policy decision making.
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