CLIMATE CHANGE: THE IMPACT ON CORPORATE STRATEGIES

Organized by **Chapter Zero France** in collaboration with **Deloitte, Cefic and Danone**

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Summary

After introductory insights shared by Deloitte sustainability experts (**Olivier Jan**, Partner, **Catherine Saire**, Director) on the need to go beyond pledges and design clear and well-funded roadmaps towards carbon neutrality, our guest speakers **Marco Mensink** (General Director of Cefic, The European Chemical Industry Council) and **Eric Soubeiran** (Vice President Planet and Water Cycle and CEO of Ecosystem Fund at Danone) shared their experience of leading climate-related strategic transformation, both at sector level and at company level. Marco insists on the urge to reframe a “can we decarbonize” question to a “how to attract investments in a European climate neutral industry” agenda. Eric offers the perspective of leveraging a company’s strengths (strategic capabilities, brands, ability to execute…) to focus the conversation on a limited number of action items that will both create value and advance the climate imperative.

THREE TAKEAWAYS

- Engaging with the Board on climate change: 1) proposing a strategic roadmap exercise, rather than a discussion only on risks and stranded assets; 2) addressing carbon-neutrality and competitiveness in an integrated way, as they both command the future “license to operate”; 3) talking about “impact” instead of tons of CO2 emissions.

- The complexity and the diversity of the effects that contribute to emissions is so high that only data-driven, pareto-approaches can help focus on the few most impactful levers that the Board should be involved with.
- No “business as usual”: climate change calls for a shift in the way companies operate, in particular with regards to their cooperation in broader eco-systems (vertical integration, circular economy…) in order to make carbon neutrality a collective and winning game.

CATCH-UP ON THE HIGHLIGHTS

1. Mental Shift to Action

In her introductory note, Catherine Saire states the pressure from investors and regulators mounts on corporations to commit to climate targets and effectively report how climate change will impact their business. The reporting is still largely inadequate. The board has to incorporate climate change at the core of its duties, strategy setting and execution oversight and reporting.

The European chemical industry offers the perspective of a major sector (46Bn€ trade surplus, 29K companies) that faces the decarbonization imperative in a global competitive context. Marco Mensink encourages to reframe fundamental questions in order to be able to accomplish the required thought revolution and therefore design and execute profoundly renewed strategies: from “can we” to “how can we”, and from “we need to be carbon neutral” to “who on the planet would need to invest in the European chemical industry and why?”. Marco recommends to integrate the existing targets (European climate law targeting carbon neutrality by 2050, supported by the European Green Deal) and maturing technologies (eg green hydrogen) into a broader, action-oriented exercise to build a unique position of the European chemical industry vs. competing regions (shale oil-rich US, highly populated China…).
Yet, competition will be extremely fierce, and, in this journey towards carbon neutrality, some companies are bound to disappear while others will thrive.

Main implications for the Board

➔ Address carbon-neutrality and competitiveness in an integrated way, as they both command the future “license to operate”

➔ Have devil's advocates in the Board who will help reframe key questions and steer into action (especially if the Board is in a "we don't want problems" mode)

2. Focus on "big ticket items"

At Danone, Eric Soubeiran has experienced the benefits of leveraging the company's strengths to advance the climate agenda: strategic planning, brand development, alignment of individual objectives… This has proven more powerful to make progress than taking the matter from strictly a risk management perspective; for instance, the M&A strategy at Danone has been strongly in support of decarbonization imperatives in recent years.
But how to create a fruitful dialog with the Board on such a complex matter as climate change? A key step is to conduct a life cycle assessment and turn it into a strategic exercise: this allows to identify big ticket items, or "elephants in the room" that each organization has. In the case of Danone, it revolves around agriculture (healthy soil, low carbon milk…). Out of the 1500 emission factors measured by the Group, only 40 represent 75% of CO_2 generation, most of those tied to the upstream part of the business (agriculture). To Eric, this is where the Board conversation needs to happen, with a focused roadmap around 3 pillars: reduction of emissions, carbon sequestration and offsetting through reforestation.

Main implications for the Board

➔ Position carbon reduction as a strategic exercise that starts with the identification of big-ticket items.

➔ Ensure the climate plan and the business strategy are tightly tied together: this will drive M&A, strategic planning, individual objectives in the direction of sustainable value creation.

3. Ecosystem-based solutions

As stated by Olivier Jan, the climate transition will sometimes take place within a sector between existing players, but in most cases will take place within larger ecosystems. Taking the example of the Chemical industry, Marco Mensink highlights that the European industry has become more integrated and more collaborative with a network of power, fuels, steel, chemicals and recycling sectors. This can be a source of competitive advantage, if cooperation materializes, in the global race towards a net zero Chemical industry. Creativity and alternative thinking will be

critical to invent tomorrow's clean growth engine for the sector (a "Delorean" waste-fueled breakthrough, in Marco's terms).
A similar "out of the box" approach is practiced by Eric Soubeiran at Danone: reaching net-zero cannot happen only within the boundaries of the Group. Since a vast majority of CO2 emissions are generated upstream (agriculture), only an ecosystem approach can have real impact. Radical change requires to accompany consumption habits of increasingly climate-conscious consumers (transition from animal-based products to plant-based ones), foster change in agricultural practices (adequate use of fertilizers and pesticides, healthy soils…) or partner for reforestation (multi-sector Livelihoods funds).

Main implication for the Board

➔ Question the level of cooperation the company has in its broader ecosystem (alliances, supplier development,…), in order to make carbon neutrality a collective and winning game.