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Zürcher
Kantonalbank

Global & Thematic Engagement Q4 Engagement Report 2024

Engagement is an essential part of the sustainable investor's toolkit, promoting sustainable business practices and helping maximize risk-adjusted returns.

Our Engagement Activities

As global investor with a strong Swiss heritage and forward-looking role in sustainable investing, the asset management of Zürcher Kantonalbank with its Swisscanto brand recognizes that environmental, social, and corporate governance (ESG) factors can present material risks to portfolio investments and opportunities for better risk-adjusted returns.

Responsible and sustainability investing is a crucial element of our asset management strategy. We are convinced that integrating ESG factors may result in better-informed investment decisions allowing the generation of value for investors. Our investment stewardship activities complement our ESG-integrated investment focus and sustainability strategy.

Through our investment stewardship, we, or the fund management companies of the group of Zürcher Kantonalbank, seek to promote sustainable business practices advocating for the compliance within renowned international principles and widely accepted ESG best-practice standards. This may include promoting compliant practices, check-and-balance principles, adequate pay-for-performances, stewardship of environmental protection and climate change, supporting biodiversity, fair labor practices, non-discriminatory work and the protection of human rights and other best-practice ESG topics. The investment stewardship of the asset management of Zürcher Kantonalbank or the respective fund management companies comprises the following active ownership elements:

- With **proxy voting**, we cast actively and responsibly our votes along our sustainable oriented mindset and strategy.
- By **engaging** actively with issuers, we promote best-practice ESG standards and convey our climate change message and strategy.

Engagement is primarily driven and led by our active, fundamental capabilities, mostly equity related but comprising also fixed income, as engagements drive both perspectives and may benefit issuers overall irrespective of their listed securities. Our engagement activities are based on three major pillars as set out hereafter:

- **Direct dialogue with Swiss issuers:** Our focus is to create visibility among companies as an active and sustainable investor by promoting best-practice ESG in the interest of our investors by leveraging on our home base expertise.

- **Collaborative engagements:** The focus is to promote best-practice ESG on entire industries as well as the achievement of environmental and/or social goals (i.e. 17 UN SDGs). These collaborative engagements are mostly driven by the UN PRI platform, but opportunistic direct interactions with companies also take place. In addition, we support various ESG initiatives such as Climate Action 100+, TNFD, Climate Bond Initiative, etc.
- **Global & thematic engagements:** The focus is to promote best-practice ESG standards and our climate strategy on a global scale in our investors' interest. In addition, we focus within the thematic engagements on climate change, cleantech and biodiversity. We mandated Sustainalytics to leverage existing resources and to convey our key sustainability messages globally. Depending on relevance and materiality, we may also participate in these corporate dialogues.

We believe that the best way to promote improved market practices and ESG best-practice standards is through direct dialogues (engagements).

An important element is to convey our climate change strategy to issuers globally. We may actively ask issuers to:

- Formulate an ambitious and transparent climate strategy to reduce greenhouse gas emissions.
- Clearly define responsibilities and accountability for the definition, control and implementation of the climate strategy.
- Establish incentive systems for implementing the climate strategy (e.g. ESG KPIs in compensation schemes).

Besides our climate-related engagement, we prioritize our engagements in general according to breaches against the UN Global Compact Principles and focus on promoting the UN SDGs. We believe that investors are well positioned to influence ESG best-practices among their investments, especially in material holdings.

About the following Engagement Report from Morningstar Sustainalytics

Morningstar Sustainalytics is our partner for engagement activities at international companies. The following report is provided by Morningstar Sustainalytics and covers the engagements they conduct on our behalf. It shows an overview of global and thematic engagements.

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG data, research, and ratings firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG information and assessments into their investment processes.

The firm also works with hundreds of companies and their financial intermediaries to help them consider material sustainability factors in policies, practices, and capital projects. Morningstar Sustainalytics has analysts around the world with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit www.sustainalytics.com.

Asset Management of Zürcher Kantonalbank

Proven specialists manage high-quality investment and pension solutions for private investors, companies, and institutions. With its Swisscanto brand, Zürcher Kantonalbank Group is one of Switzerland's largest asset managers. It is also known for its role in sustainable investments.

Swisscanto Fondsleitung AG

Swiss fund management for Zürcher Kantonalbank and third parties

Swisscanto Fondsleitung AG, part of Zürcher Kantonalbank group, has been established in 1960 and serves as fund management company of the Swiss domiciled Swisscanto funds. Furthermore, Swisscanto Fondsleitung AG also supports an increasing number of third-party customers with tailor-made services and flexible solutions.

Swisscanto Asset Management International S.A.

Swisscanto Asset Management International S.A., part of the Zürcher Kantonalbank Group, is a Luxembourg-based investment fund management company offering a range of fund solutions across various asset classes and risk profiles. In addition to serving as the in-house management company for Swisscanto funds under Luxembourg law, it operates as a third-party management company for private label funds, providing tailored solutions to meet specific client needs.

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www.swisscanto.com

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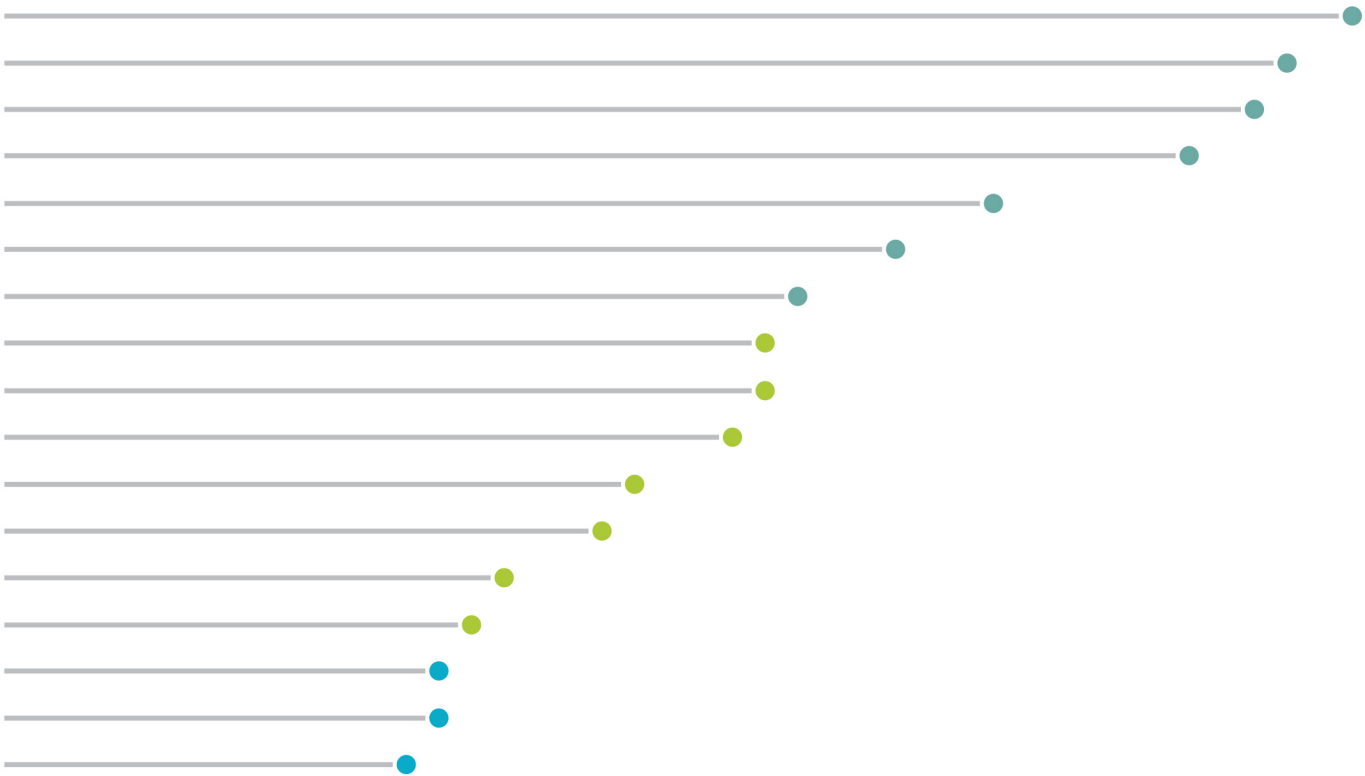
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Engagement 360

2024 Q4 Report



Stewardship is where insights become action. Engagement 360 supports a holistic approach to mitigating ESG risks and capitalizing opportunities.

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This report summarizes the shareholder engagement activities that Morningstar Sustainalytics performed on behalf of Swisscanto / Zürcher Kantonalbank between October and December 2024. If there is no specific reference to date in graphs and tables, the data is presented as per end of the reporting period. The report has been produced in February 2025. Version 1 disseminated on 20 February 2025. Use of and access to this information is subject to Morningstar Sustainalytics' legal terms and conditions.

Stewardship Approach

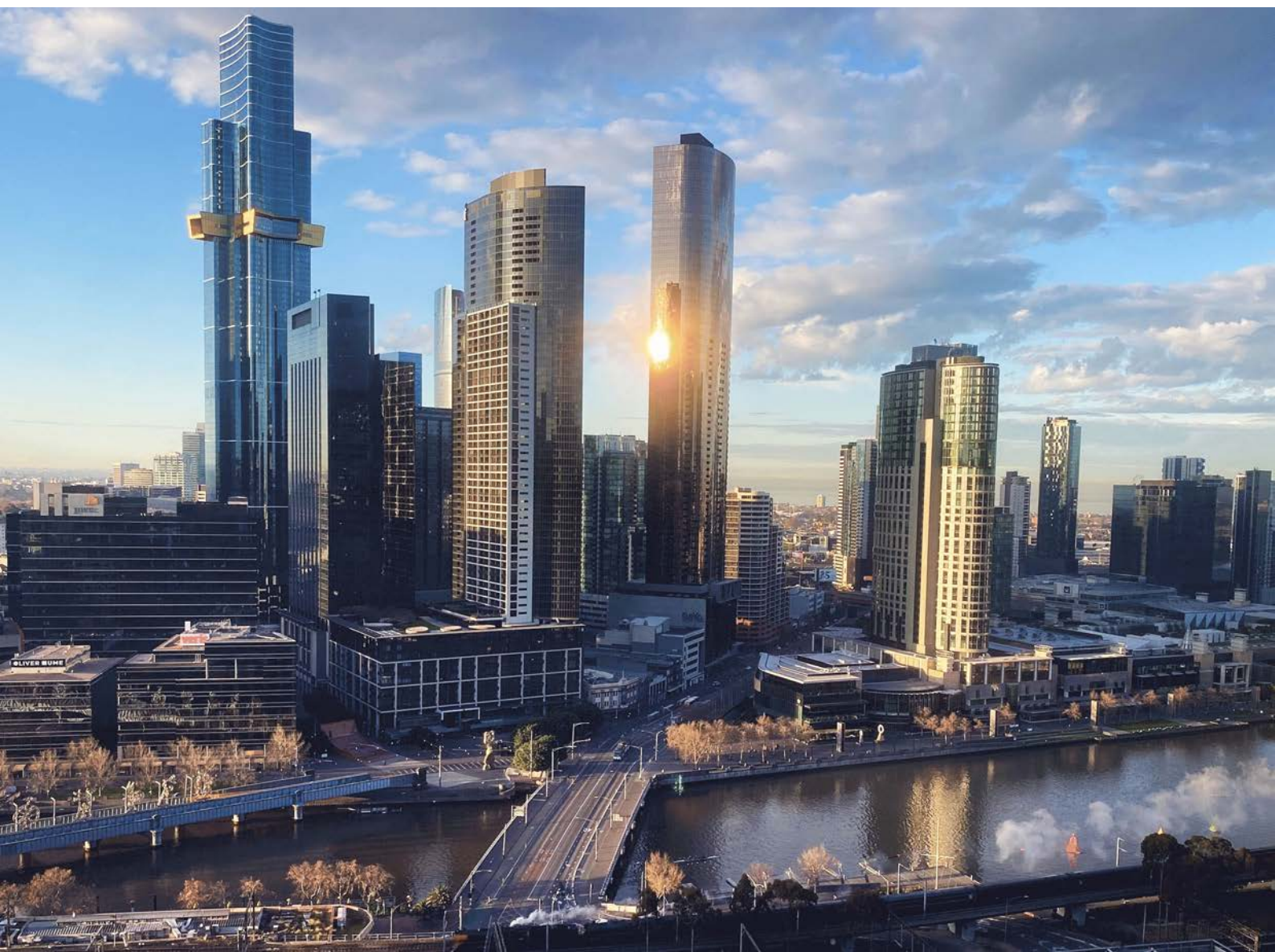
Engagement 360 is a holistic stewardship offering that promotes and protects the world's leading asset owners' and managers' long-term shareholder values through consistent engagement outcomes. Engagement 360 addresses ESG risks and strives to create positive social and environmental outcomes.

STRATEGY AND RISK promotes and protects long-term value by flagging high- and severe- risk companies to proactively engage unmanaged and financially material ESG issues. The focus is on companies with unmanaged ESG risk greater than 30 as identified by Morningstar Sustainalytics' ESG Risk Ratings.

INCIDENT engagements address companies that severely or systematically violate international standards, such as the UN Global Compact and OECD Guidelines for Multinationals to ensure that investors are managing associated reputation risk. This engagement aims to not only to verify how a company addresses the incident but also to effectuate change in the company's policies and/or processes to ensure proper policies and programmes are in place to avoid future reoccurrences and improve its ESG disclosure. Companies flagged as Watchlist or Non-Compliant as identified by Morningstar Sustainalytics' Global Standards Screening research are targeted for this engagement.

THEMES are SDG-aligned proactive engagements that enable investors to align their interests in addressing specific systemic issues across the ESG spectrum. Thematic engagement's philosophy centers around systematic change, collaboration, root causes and best practice sharing at its core. The purpose of this engagement is to influence companies to proactively manage specific ESG risks and capitalize on opportunities.

Morningstar Sustainalytics' **ESG VOTING** provides vote recommendations that align to widely accepted ESG principles, sustainability objectives, ongoing corporate engagements and ESG issues most important to investors.



Executive Summary

We are pleased to present the Q4 2024 activities and results of Morningstar Sustainalytics' Engagement 360, providing an overview of our stewardship work throughout the quarter.

Highlights From the Quarter

In Q4 2024, we conducted a field trip across Germany, France, and Spain to understand how European industry leaders are navigating the energy transition. This included site visits and meetings with stakeholders in key sectors, focusing on green hydrogen, industrial electrification, large-scale green ammonia generation, solar park innovations, decarbonizing feedstocks, and the demand for low-carbon products. We also visited Brazil, meeting with five companies and various stakeholders across São Paulo, Brasília, and Rio de Janeiro, including **SLC Agricola's** Pamplonas Farm, to facilitate multi-stakeholder dialogue and understand local challenges and solutions.

We also delivered 58 voting recommendations and 25 engagement meeting commentaries, covering 56 meetings across 10 markets—a 27% increase from the same period in 2023. Despite some pushback and delayed responses from issuers, our Thematic Stewardship Programmes continued to scale, supported by investor backing.

Throughout the quarter, the Stewardship team:

- Conducted 163 meetings.
- Exchanged 1,807 emails and phone calls.
- Tracked 186 Positive Developments related to our engagement objectives and suggested actions.
- Recorded 91 Milestones achieved.
- Successfully resolved 14 engagements as they met engagement objectives.

Looking Ahead

In Q1 2025, we will launch the new Human Rights and Transition Stewardship Programme, including initial company selection, release of the programme's Strategy Document. We also anticipate increased engagement activities throughout 2025 and will continue our outreach to low-performing companies, with plans to escalate through investor letters and upcoming proxy voting recommendations.

Stewardship Overview



790

active engagements during Q4 2024

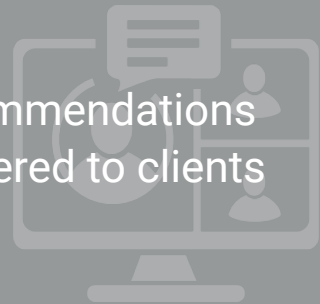
47

new engagements



58

vote recommendations delivered to clients



Utilities

is the most engaged industry



Highest number of engagements in a single market is the Asia / Pacific

Disclosure and Net Zero/Decarbonization are the most engaged topics

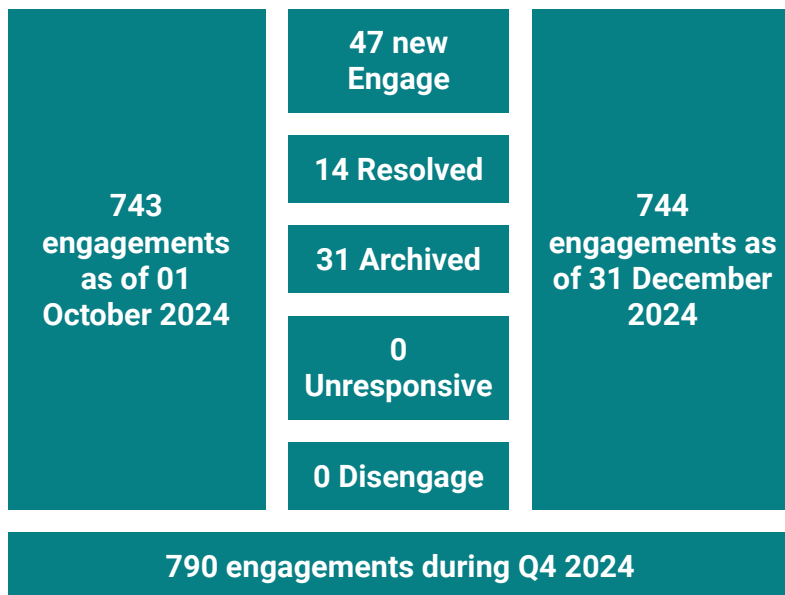
SDG 13 Climate Action (49%) linked to engagement objective



Engagement Status

When we open an engagement, the status is Engage. We will then pursue engagement until we change status to:

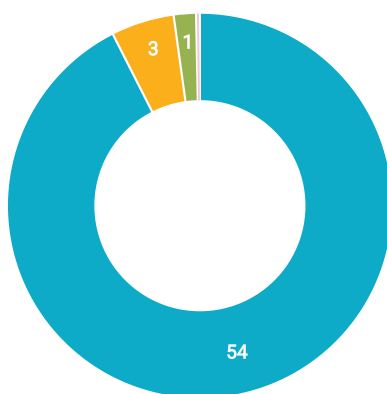
- Resolved** The company has achieved the engagement objective.
- Archived** Engagement is concluded, the engagement objective has not been achieved.
- Unresponsive** Unresponsive is the final step in the escalation for companies not responding to our engagement. At this final step, we have exhausted all other engagement tools.
- Disengage** Engagement is deemed unlikely to succeed.



On a regular basis, universes are rebalanced and issuers might therefore be removed from our data set. Corporate changes can also affect case status. In such circumstances, opening and closing engagement counts will not match. Impacted companies may or may not overlap with investor holdings.

Voting Insights and Recommendations

- Sustainability (54)
- Climate Governance (3)
- Research Triggered (1)
- Engagement Escalation (0)
- Controversy Signal (0)



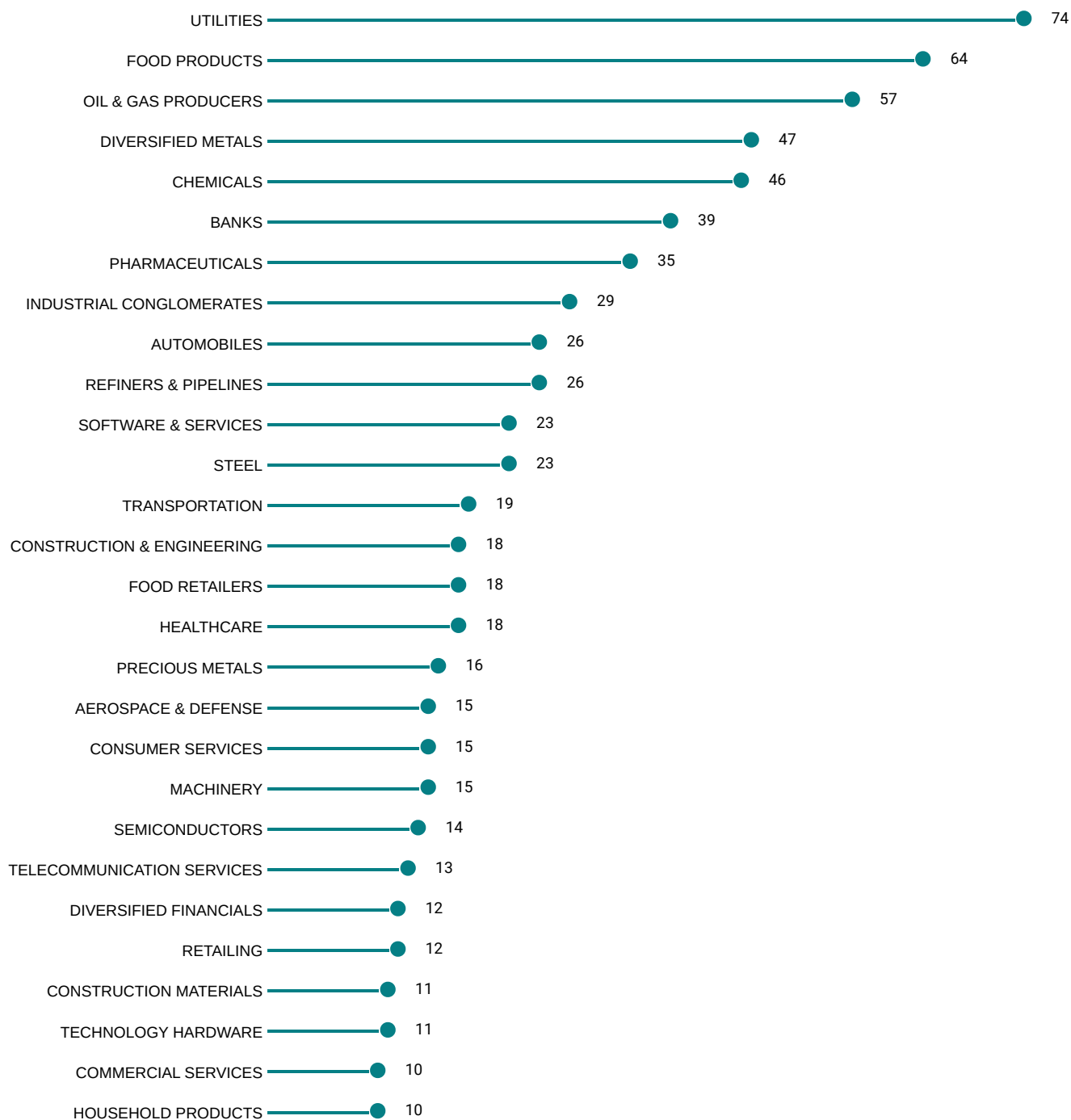
Triggers for Vote Recommendations

Vote recommendations can be triggered by five different reasons.

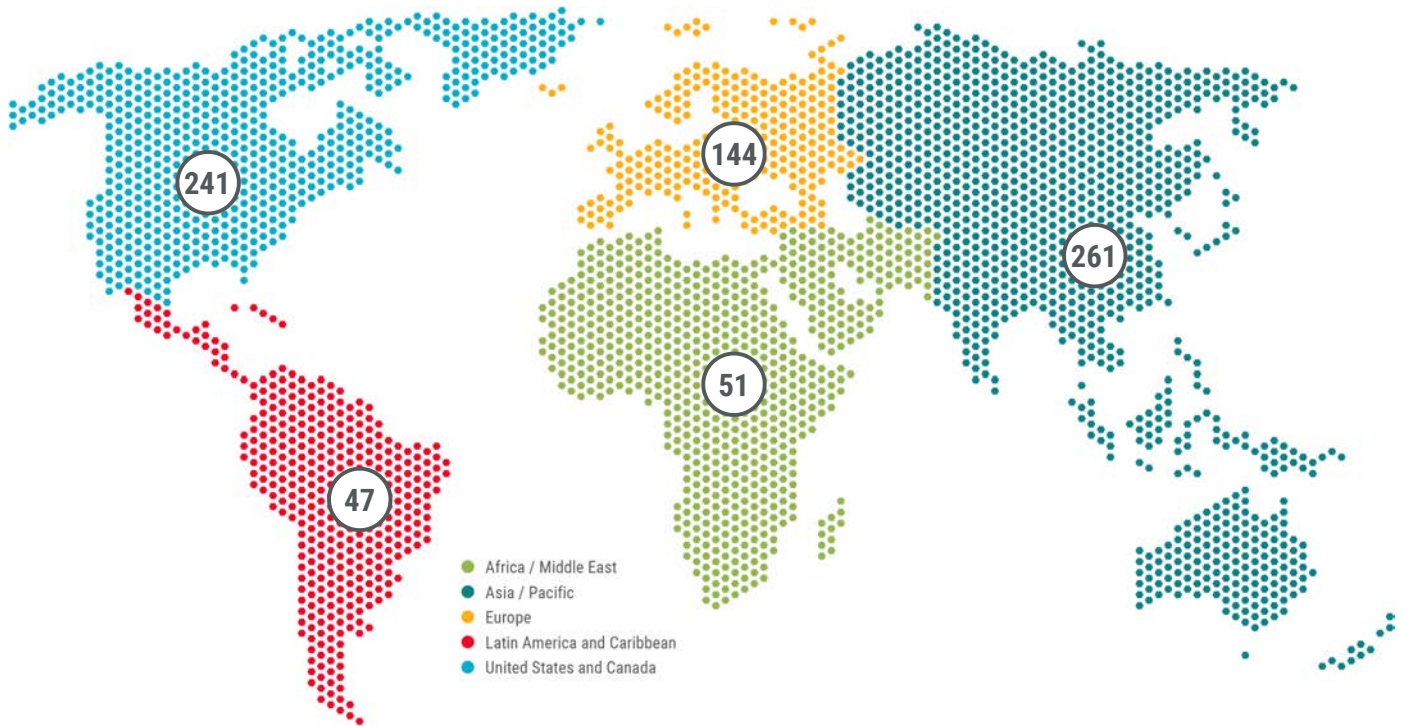
- Sustainability** ESG-related resolutions
- Engagement Escalation** Poor performance in engagements
- Climate Governance** Misalignment between executive performance metrics and decarbonization targets
- Research** Poor performance in climate, human rights, DEI (Diversity, Equity & Inclusion), biodiversity, and circular economy
- Controversy** Recent incidents leading to a controversy rating of 3 or higher, with significant governance underpinning

Industry Distribution

(Industries with a minimum of 10 engagements)



Engagements by Headquarter Location

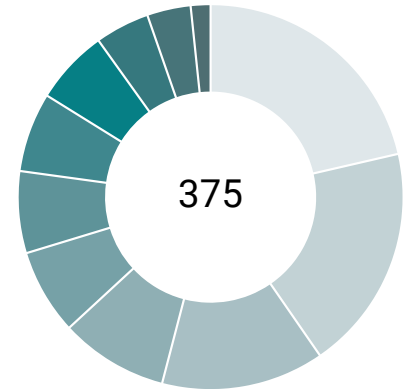


Engagement Topics

At the end of the reporting period, our engagements addressed a number of topics across the environmental, social and governance pillars.

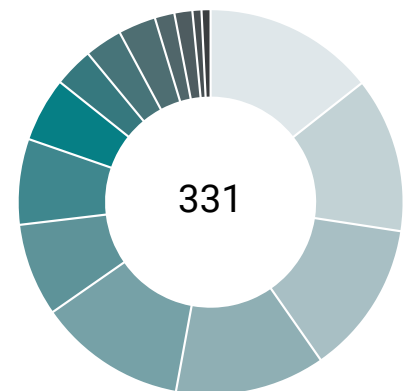
Environmental

- NET-ZERO/DECARBONIZATION (212)
- WATER SECURITY (135)
- BIODIVERSITY (70)
- DEFORESTATION (65)
- NATURAL RESOURCE USE (44)
- AIR POLLUTANT EMISSIONS (15)
- CLIMATE CHANGE (188)
- WATER QUALITY (89)
- LAND POLLUTION AND SPILLS (67)
- WASTE MANAGEMENT (61)
- CIRCULAR ECONOMY (35)



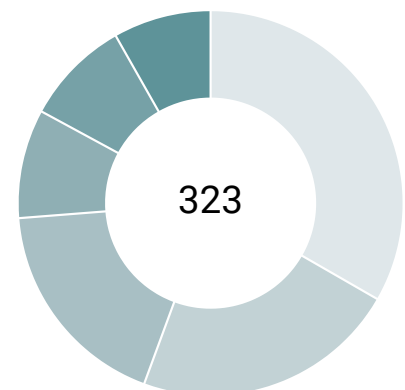
Social

- HUMAN CAPITAL (95)
- DIVERSITY, EQUITY AND INCLUSION (DEI) (85)
- HUMAN RIGHTS (82)
- OCCUPATIONAL HEALTH AND SAFETY (47)
- CHILD LABOUR (21)
- PRODUCT QUALITY AND SAFETY (20)
- MARKETING PRACTICES (9)
- WEAPONS (4)
- COMMUNITY RELATIONS (86)
- LABOUR RIGHTS (83)
- JUST TRANSITION (51)
- INDIGENOUS PEOPLE (35)
- DATA PRIVACY AND SECURITY (20)
- FORCED LABOUR (10)
- HIGH-RISK TERRITORIES (4)



Governance

- DISCLOSURE (247)
- BOARD COMPOSITION (134)
- ACCOUNTING AND TAXATION (65)
- ESG GOVERNANCE (165)
- BUSINESS ETHICS, BRIBERY AND CORRUPTION (67)
- SHAREHOLDERS RIGHTS (60)



Note: An engagement can cover one or more issues and objectives reflected in overlapping issue statistics.

Sustainable Development Goals – Mapping Engagements

All engagements are mapped to the 17 UN Sustainable Development Goals (SDGs). The mapping is done by Morningstar Sustainalytics and refers to the focus and objective(s) of the engagement.

1 No Poverty	4%	10 Reduced Inequality	12%
2 Zero Hunger	8%	11 Sustainable Cities and Communities	11%
3 Good Health and Well-Being	30%	12 Responsible Consumption and Production	56%
4 Quality Education	4%	13 Climate Action	49%
5 Gender Equality	9%	14 Life Below Water	8%
6 Clean Water and Sanitation	11%	15 Life on Land	12%
7 Affordable and Clean Energy	23%	16 Peace and Justice, Strong Institutions	36%
8 Decent Work and Economic Growth	30%	17 Partnerships to Achieve the Goal	3%
9 Industry, Innovation and Infrastructure	33%		

Case Study: BASF SE

Net Zero Transition Stewardship Programme - Engagement Since: 16 February 2024



Industry: **Chemicals**

Base Location: **Germany**

BASF SE is the largest chemical producer in the world in terms of sales. It has committed to achieving net zero carbon dioxide (CO₂) emissions by 2050. BASF focuses on renewable energy-driven, low-carbon technologies currently in pilot stages, with broader implementation expected after 2030.

Progress: **Good** | Response: **Excellent** | Latest Milestone: **2**

Engagement Update

Since February 2024, we've held two calls. The company has been open to dialogue. We coordinated an engagement trip in November 2024 where our team and several investors visited the BASF headquarters in Ludwigshafen. Renewable energy sourcing, including wind investments, is central to BASF's strategy. The biggest obstacle BASF sees is finding viable business models to scale up technologies such as green hydrogen and e-furnaces. Another challenge is how to efficiently cut Scope 3 emissions since most of these emissions are outside its direct control.

Focus Area

BASF's GHG reduction targets need to be aligned with deep decarbonization pathways and address all Scope 3 emissions. This involves working closely with the company to set ambitious, science-based targets, monitoring progress, and providing guidance on best practices. We aim to foster a collaborative environment where the company can effectively contribute to chemical sector efforts to mitigate climate change. BASF aims for a 25% net zero reduction target by 2030 from 2018 baseline levels, despite planned growth. Excluding growth, the company seeks to halve emissions in current operations and cut Scope 3 emissions by 15% from 2022 levels.

Engagement Outcomes

BASF has demonstrated its dedication to decarbonize. It plans to invest EUR 2–3 billion between 2025 and 2030 to meet its climate targets. It developed the e-furnace, the world's first large-scale, electrically heated steam cracker, which cuts CO₂ emissions by over 90% using renewable electricity. Additionally, BASF's green hydrogen facility in Ludwigshafen, set to open in 2025, will feature a 54-megawatt proton exchange membrane (PEM) electrolyzer producing 8,000 metric tons of CO₂-free hydrogen annually. From 2018 to 2023, Scope 1 and 2 emissions fell by 22.8%, with slightly over 2% remaining for the 2030 target. BASF's Scope 3 reduction targets focus on Category 3.1, covering 55% of Scope 3 emissions. The company has demonstrated that it is taking strong action to reduce Scope 1 and 2 emissions, but Scope 3 is still logistically more complex and more expensive to address, hence the progress is lacking.

Insights & Outlook

Engagements will ensure that BASF's GHG reduction targets align with a deep decarbonization pathway and fully address Scope 3 emissions, the company's largest emissions category. Emphasis will be on developing strategies to cut emissions beyond Category 3.1, and comprehensive reductions across the Scope 3 footprint. It will be crucial to follow how fast the company can scale-up and cost-efficiently operate net zero-focused technologies because the speed, cost, and the scope of low-carbon technologies deployment will hamper or bolster BASF's ability to decarbonize. The technologies exist, can it be installed at a scale that will generate impact?

Engagement Results



163

meetings, including
25 in-person meetings



1,807

emails and phone
calls exchanged



14

engagements
Resolved



91

Milestones achieved
in Q4 2024

**186 Positive
Developments**



38%

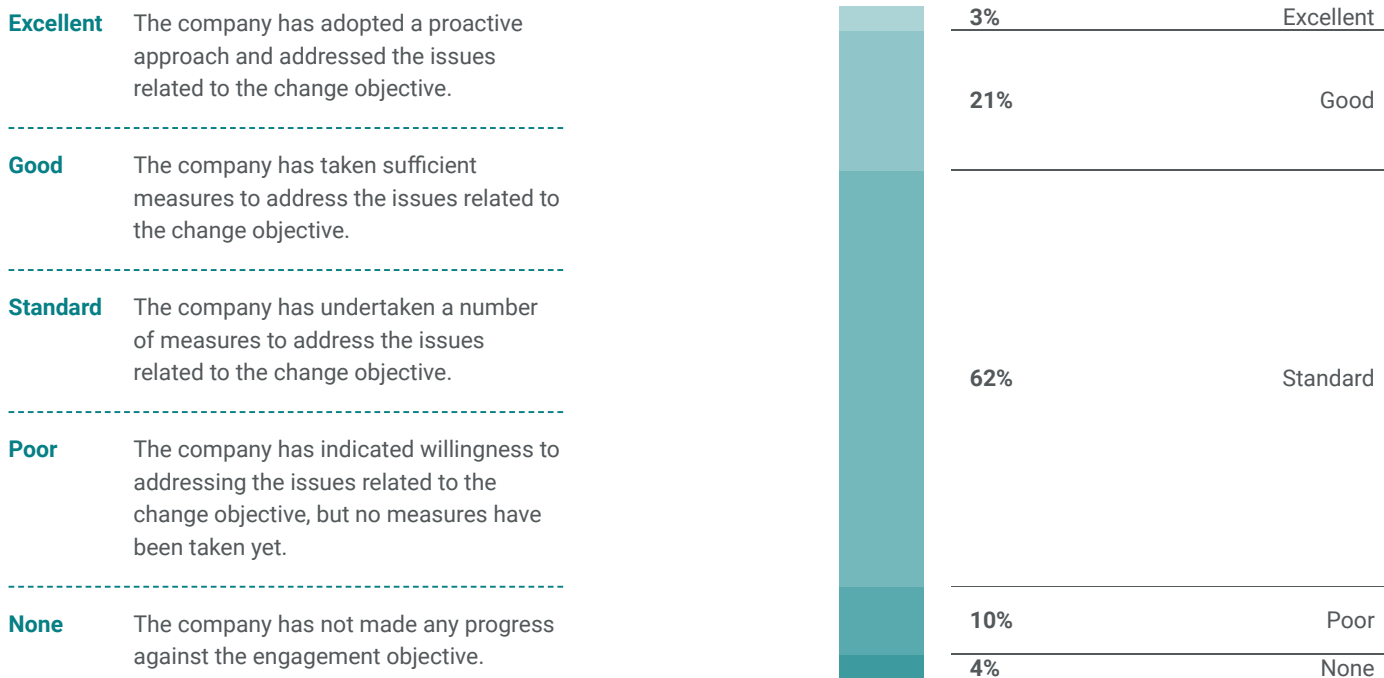
of engagements
show Good or
Excellent Response

24%

of engagements
show Good or
Excellent Progress

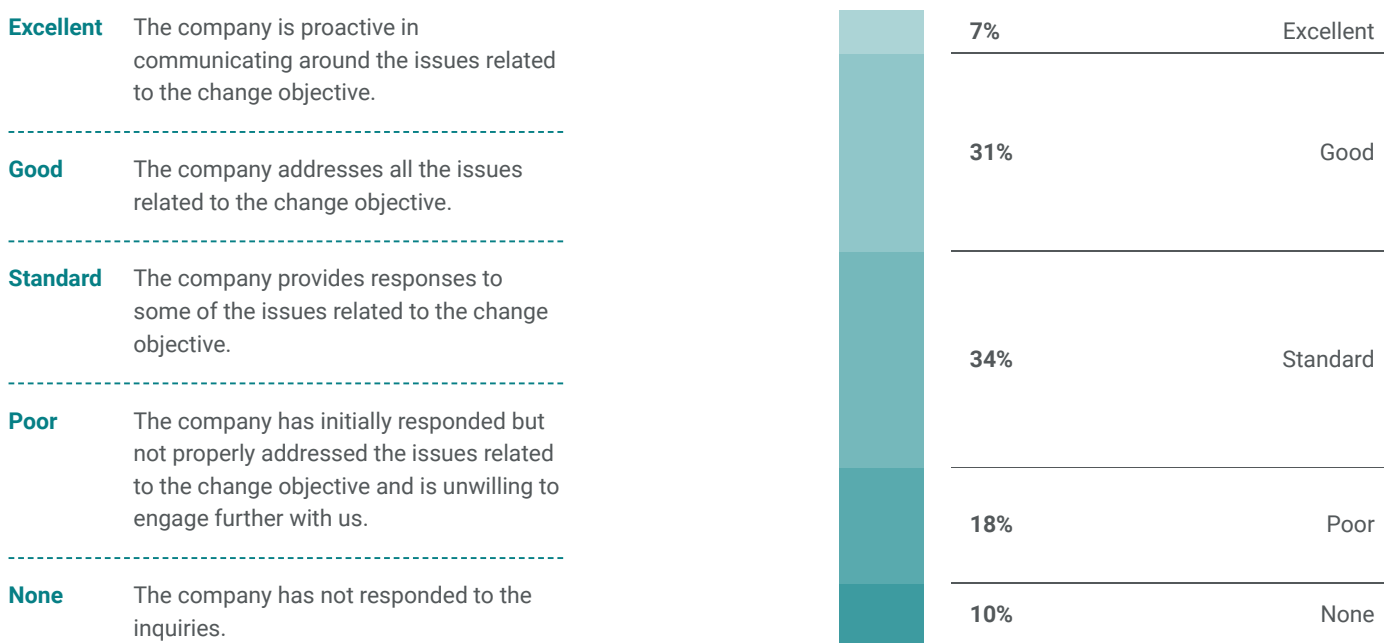
Engagement Progress

Progress reflects the pace and scope of changes towards the engagement objective that the company is making, assessed on a five-point scale.



Engagement Response

Response reflects the company’s willingness to engagement dialogue with investors, assessed on a five-point scale.



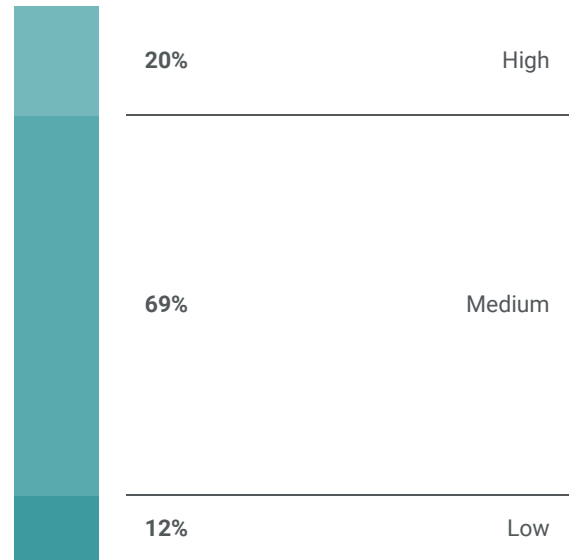
Engagement Performance

Performance describes the combined company Progress and Response.

High Good or Excellent Progress in combination with Good or Excellent Response.

Medium Standard level of Progress and Response.

Low Poor or None Progress in combination with Poor or None Response.



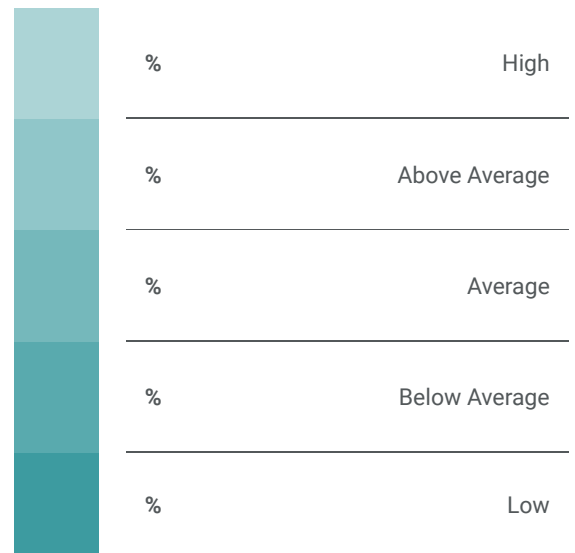
Engagement Performance Assessment Update

To provide a more granular assessment, we have expanded the tiers used to evaluate Engagement Performance. Previously, engagements assessed Performance using three tiers: Low, Medium, and High (as listed above).

Going forward, we will use five tiers to offer a more nuanced understanding. The new tiers are: Low, Below Average, Average, Above Average, and High. This change subdivides the previous Medium category into three distinct categories. In this report we have presented both three and five-tier assessments.

In the future, all reporting will use the five-tier system.

The Progress and Response matrix is used to determine Performance.



Progress and Response Matrix

		RESPONSE				
		EXCELLENT	GOOD	STANDARD	POOR	NONE
PROGRESS	EXCELLENT	High	High	Above Average	Average	Average
	GOOD	High	High	Above Average	Average	Average
	STANDARD	Above Average	Above Average	Average	Below Average	Below Average
	POOR	Average	Average	Below Average	Low	Low
	NONE	Average	Average	Below Average	Low	Low



Engagement Milestones

Milestones are our five-stage tracking of progress in achieving the engagement objective.

**91 Milestones
achieved in Q4 2024**

Milestone Framework

- Milestone 5** Change objective is considered fulfilled.

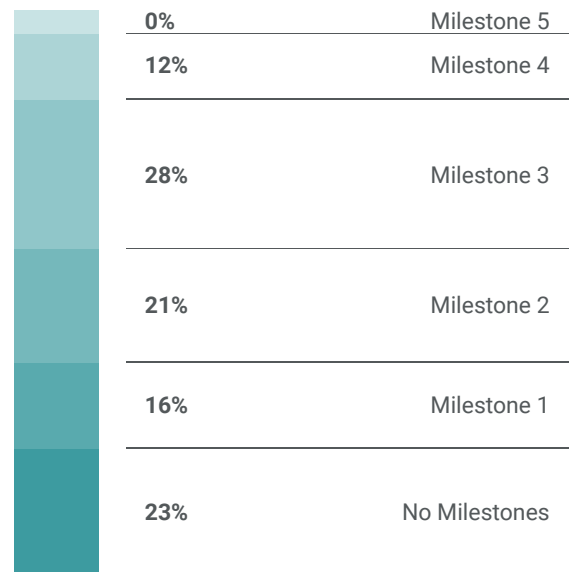
- Milestone 4** Implementation of strategy has advanced meaningfully, and related issuer disclosure maturing.

- Milestone 3** Strategy is well formed and has moved into early stages of implementation.

- Milestone 2** Issuer establishes a strategy to address the issue.

- Milestone 1** Acknowledge of issue(s) and commitment to mitigation.

Engagements by Highest Milestone Achieved



Engagements Resolved

COMPANY	COUNTRY	INDUSTRY	ISSUE
CEZ as	Czech Republic	Utilities	Focus on Occupational Health and Safety
CJ CheilJedang Corp.	South Korea	Food Products	Focus on Carbon Own Operations
EDP-Energias de Portugal SA	Portugal	Utilities	Bribery and Corruption
Fortive Corp.	United States of America	Industrial Conglomerates	Focus on Product Governance
General Motors Co.	United States of America	Automobiles	Focus on Carbon Products and Services
Grupo México S.A.B. de C.V.	Mexico	Diversified Metals	Freedom of Association
K+S AG	Germany	Chemicals	Focus on Carbon and Community Relations
Nordnet AB	Sweden	Banks	Focus on Product Governance
PG&E Corp.	United States of America	Utilities	Quality and Safety - Human Rights
Southern Copper Corp.	United States of America	Diversified Metals	Freedom of Association
Tiger Brands Ltd.	South Africa	Food Products	Quality and Safety - Human Rights
Toyota Industries Corp.	Japan	Machinery	Focus on Carbon and E&S Impact of Products and Services
Winbond Electronics Corp.	Taiwan	Semiconductors	Focus on Resource Use
YES BANK Ltd.	India	Banks	Business Ethics

CEZ as

ESG Risk Ratings Score



INDUSTRY:
Utilities

COUNTRY:
Czech Republic

ENGAGEMENT FOCUS:
**Data Privacy and Cybersecurity
Emissions, Effluents and Waste
Carbon – Own Operations**

**RATIONALE FOR RESOLVED STATUS:
CEZ as has improved its ESG Risk Rating score to below 28.**

Positive Development Highlights:

- CEZ has established a robust ESG governance structure with board-level oversight and accountability, linking ESG performance metrics to executive pay.
- CEZ has set 1.5 degree-aligned carbon emissions reduction targets, verified by the Science Based Target Initiative. It published its first TCFD report in 2022 and subsequently disclosed key actions and investments in low-carbon technologies.
- CEZ implemented the Integrated Security Operations Center to oversee cybersecurity and information systems, fully integrating cybersecurity into all processes and management systems, with its nuclear plants certified to ISO 27001.

In the latest update of the ESG Risk Rating, CEZ’s management score improved, bringing the company into the medium risk category and below the 28-point threshold for engagement.

Beyond Audits: Building Investor Confidence in Forced Labour Prevention

Incidents Engagement was posed an intriguing question by an investor client. The client had read a news article claiming that forced labour was discovered in the supply chain of one of their invested companies. Concerned, the investor contacted the company for clarification. The company informed them that it had commissioned a reputable auditing firm to assess the supplier in question and no evidence of forced labour had been found. The company assured the investor that forced labour was impossible in its supply chain. The investor then posed a critical question: Was the company's statement true, was the audit really enough to confirm the absence of forced labour?

While social audits can be valuable, more and more evidence has shown that it is an ineffective tool for identifying hidden risks such as forced labour.^{1,2,3,4}

Forced labour can take many forms and exists on a spectrum rather than being a binary concept. It can range from a subtle pressures to work overtime, to outright physical coercion. The International Labour Organization (ILO) offers a broad definition of forced labour, including key indicators to help identify it, such as excessive overtime, withholding wages, and inability to resign.^{5,6} These indicators can be particularly challenging to detect, although very common to expect. For instance, the timeframe for resignation, if not documented, can be extended to months. Workers often lack detailed knowledge of labour laws and believe they must wait until the employer consents. This leads to prolonged periods where workers feel trapped in their positions.

All of these are challenging to uncover by social auditors, hence the need to not rely solely on the output of an audit. An assessment of the company's understanding of forced labour risk can be beneficial if the investor believes the company has a high risk of forced labour. The clarity of the company's response to targeted queries can help investors gauge the company's ability to manage this risk.

Firstly, the company should be able to clearly explain the assessment of forced labour risk in terms of both severity and probability, and how it relates to its business operations. Many companies view forced labour as a binary issue and consider it a severe risk. However, as discussed earlier in this article, forced labour can manifest in various forms, some of which are more severe than others. Overlooking or downplaying less severe forced labour issues can have significant repercussions for the company. Furthermore, companies often exhibit misplaced confidence, assuming that forced labour is unlikely within their supply chains. This overconfidence may reflect a lack of knowledge, potentially leading to insufficient preventative measures.

Secondly, the company should be able to elaborate on the root causes of forced labour that are relevant to its business. There are three categories of root causes regarding forced labour in the supply chain: demand-side risk factors, such as the company's pressure on suppliers concerning price, cost, and speed of production; supply-side risk factors, encompassing poverty, low educational levels, and migration; and institutional factors, like lack of laws to protect workers and poor enforcement of existing laws.⁷ Companies seldom recognize their own purchasing practices as a risk factor. For instance, aggressive demands for low prices, quick turnaround times and fluctuating order patterns can put immense pressure on suppliers. This pressure can lead suppliers to cut corners, often at the expense of workers' rights.

Thirdly, the company should be able to share its commitments and plans for remediation if such risks become a reality. By having these commitments and plans in place, the company shows that failing to prevent forced labour would come with significant costs. Therefore, to avoid these costs, the company would be more motivated to proactively prevent the risks of forced labour.

It is not practically feasible for investors to investigate every company in their investment portfolio to monitor for forced labour issues. Instead, investors can gain valuable insights during engagement meetings. These meetings can reveal how well a company manages the risk of forced labour. Given the inherent difficulties in accurately measuring outcome indicators for forced labour, it is essential for investors to focus on robust leading indicators when evaluating companies. Leading indicators, such as the company's risk assessment, understanding of root causes, and preparedness to handle incidents, provide critical insights into company's performance. These indicators help investors better assess a company's commitment and ability to mitigate forced labour risks, enabling more informed and responsible investment decisions.

Spotlight on Accelerating the EU Energy Transition

European Investor Trip in November 2024

The energy transition in the European Union (EU) is at a pivotal point, grappling with the aftermath of the energy crisis exacerbated by the Russia–Ukraine war, with European energy security being more urgent than ever. To execute its ambitious Green Deal and bolster the European green economy, the EU has adopted ambitious legislation, including the Fit for 55 package, Renewable Energy Directive (RED III), and REPowerEU plan. Yet, 2024 has been something of a reality check, exposing significant hurdles such as infrastructure bottlenecks, investment shortfalls in clean energy technologies, high electricity prices, and the delicate balance of integrating decentralized energy systems with grid stability. Adding to these challenges, the forthcoming Carbon Border Adjustment Mechanism (CBAM) is set to further reshape EU trade dynamics and intensify pressure on high-emitting industries already struggling to meet short-term carbon reduction goals.

Amid these headwinds, European companies are working to decarbonize and raise capital to fund their low-carbon transitions. In 2024, there were numerous media reports of companies scaling back or delaying interim carbon reduction targets due to persistently high interest rates, elevated raw material costs, supply chain disruptions, project delays, and low demand for green products. Moreover, China's dominance in critical low-carbon and renewable technology supply chains has heightened Europe's exposure to vulnerabilities in manufacturing capacity and industrial policy gaps. In November 2024, the EU's lighthouse project Northvolt filed for bankruptcy delivering a blow to Europe's EV battery ambitions and intensifying concerns about the financial stability of key projects and the region's competitiveness.

European Investor Trip

To understand how companies are navigating these complexities, we set out into the field in November 2024 to witness firsthand how European industry leaders are driving the energy transition. Material Risk Engagement Manager Marta Mancheva and Net Zero Transition Engagement Lead Amar Causevic conducted site visits and corporate meetings with stakeholders ranging from senior management to engineers and plant operators. The trip spanned Germany, France, and Spain, covering key sectors such as utilities, chemicals, steel, industrial gases, and construction. Central to the discussions were topics such as the economics and use cases of green hydrogen, industrial electrification, large-scale green ammonia generation, solar park innovations, decarbonizing feedstocks, and the demand for low-carbon products.

Highlights from the trip included:

- Witnessing BASF's pioneering e-furnace technology in the steam cracker process at the world's largest integrated chemical park in Ludwigshafen, Germany.
- Learning how Iberdrola deployed an industry-scale green hydrogen plant for green ammonia production by Grupo Fertiberia in Puertollano, Spain.
- Gaining insights from Spanish steel company Acerinox on decarbonizing stainless steel and high-performance alloys across geographies.
- Exploring how Air Liquide is deploying its innovative CCS Cryocap™ technology.
- Engaging with Bouygues to learn about its expanding portfolio of green products and services.

Reflecting on the trip, a few take-aways stood out: companies face significant challenges in scaling commercially viable low-carbon technologies. European subsidies and funding mechanisms have largely focused on the supply side, yet demand remains weak. Both industrial and retail customers are highly cost-sensitive, with limited willingness to pay a green premium under current market conditions. Despite ambitious EU targets and national hydrogen strategies, many green hydrogen projects stall before reaching final investment decisions due to insufficient off-taker commitments.

Nonetheless, the companies we engaged with remain firmly committed to achieving net-zero goals and while headwinds persist, these corporates are far from standing still. They are actively preparing, piloting, and engaging with policymakers to secure strategic positions in critical European low-carbon value chains as markets mature.

For more insights into the role of green hydrogen as a low-carbon technology in Europe, explore the conversation between Morningstar editor Johanna Englundh and engagement managers Marta Mancheva and Amar Causevic on Morningstar website.⁸

Endnotes

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