

## Let's make climate protection the business model of the century

*Sabine Nallinger*

*Since September 2014 Sabine Nallinger has been the chairwoman of 'Foundation 2° – German Businesses for Climate Protection' in Berlin, an initiative of CEOs, managing directors and family entrepreneurs. The aim is to call on policymakers to establish effective market-based framework conditions for climate protection and to support the problem-solving expertise of German companies. Sabine Nallinger met Dirk Messner for the first time aboard the 2015 'Train to Paris', a special train organised by Foundation 2° to take CEOs and politicians from Berlin to Paris for 'The Paris Climate Conference (COP21)'.*

We face enormous challenges – but every crisis also brings new opportunities. In the case of climate protection, this means that companies have many opportunities to conquer new markets as drivers of the ecological transformation. The race to zero has long begun.

*Welcome to an abundance of opportunities!*

Large sections of the business community have recognised that climate protection offers them great opportunities. And they do so in very different dimensions:

**Product development:** Continuous adaptation to changing conditions is what makes marketable products possible in the first place. This creates the necessary dynamism and speed needed to keep up in the global market. What's more, many companies use instruments such as internal CO<sub>2</sub> shadow prices to adapt to foreseeable political conditions and prepare for new regulations.

**Recruiting:** Against the backdrop of demographic developments, a fierce battle for young talent is raging in corporate groups. It's a competition that could threaten the very existence of some companies. There is a reason for this: for the younger generations, material advantages are no longer as crucial as the meaningfulness of their actions. The best minds of the younger generation are thinking outside the box and looking for

an employer who can do the same. So those who are both innovative and responsible will win the race for the best and most innovative minds.

Unique selling proposition: Those who consistently transform their company, products and processes ecologically will quickly experience the sales-promoting effect. Companies that embrace social responsibility can set themselves apart from the competition through their ethical value system.

So there are various reasons why companies are ready to leap into the post-fossil age to make their contribution to achieving the Paris climate targets.

### *The greenest solutions will be the most successful*

Fortunately, these companies are increasingly becoming drivers of policy. That's because more and more companies are recognising the enormous opportunities, especially for cutting-edge domestic technologies: The world's marketplaces are looking for smart products that improve comfort and quality of life without harming the environment. Well-done climate protection is a massive opportunity for Germany as a centre of knowledge and business. Climate protection is a huge driver of innovation worldwide. To develop the urgently needed solutions, heavy investment in new technologies is unavoidable. In countries that are just building up their industries, budgets have long been geared accordingly. After all, the greenest products will be the most successful in the future.

Those who do not want to see this consequence out of convenience – or who misunderstood location promotion – risk both the ecological balance of our planet and the collapse of critical industries in our country, because climate change is not 'just' about the survival of faraway island states in the Pacific. For many industries in this country, climate protection is about their very existence: those who do not adapt their business model to make it compatible with the Paris climate targets will soon see others doing the business.

### *The economy can change – can politics follow?*

So many companies are standing by – be it out of responsibility, be it because of a clue that a transformation will come with or without them or be it, increasingly, out of the realisation that climate protection opens

up new business opportunities. Ultimately, the energy transition, transport transition and heat transition mean full order books for many companies. The climate protection transformation of the economy can thus become a profitable modernisation project for Germany.

One thing is certain: without the inventiveness of industry, we will fail in climate protection. But another thing is also certain: with excellent universities, financially strong investors, traditional small and medium-sized enterprises and innovative corporations, Germany is in a great position to develop the right ideas and put them on the road.

We need not be afraid of the upcoming changes. Transformation processes are nothing new for companies. Business thrives on constant change, exploring new opportunities, investing in innovative business areas and turning pilot projects into sustainable business success. In this way, companies have always played a key role in triggering social transformation processes.

But what is happening on the other side? In large parts of politics, there is almost stagnation. Important decisions are repeatedly postponed. It used to be the other way around. With politicians hesitating, companies naturally find it much harder to sell the investments needed for transformation to profit-oriented committees. This is one of the reasons why many are holding on to existing business models for longer than necessary.

### *Climate protection must become the core of industrial policy*

Making climate protection the basis for the economic success of companies is not a foregone conclusion. Business alone will not achieve the change. Profit-oriented corporations are dependent on balance sheets and forecasts. The laws of business are not yet sufficiently appreciated by politicians and civil society. A stock corporation is subject to market constraints that depend on systems such as tax law, legislation and subsidies. Thus, a renewed ecological regulatory policy is necessary to bring the new thinking in the boardrooms into implementation. Climate protection must become the core of industrial policy so that climate protection can become the business model of the 21<sup>st</sup> century.

Many companies have already developed concepts for new, climate-friendly business models and technologies that are ready for implementation or are in the process of doing so. Initiatives by the German steel industry for CO<sub>2</sub>-free steel production or the aluminium industry to use aluminium electrolysis as a virtual battery to balance electricity supply and demand fluctuations are just two pioneering examples here. For such

long-term investments in new technologies and business models, however, companies urgently need a climate policy ‘compass’ – in other words, stable and reliable framework conditions.

### *Money will follow policy*

No change without money: The strategic role of the financial sector in the transformation of the economy can hardly be overestimated. When the legislature lays down requirements for climate protection, banks impose corresponding requirements for the approval of investments. The same applies to the hedging of risks. Insurance companies are also becoming essential regulators in climate protection through their premium models. The question of whether a business model is ‘Paris-compatible’ is therefore increasingly determining whether and how favourably entrepreneurs can obtain capital for investments.

Climate protection has become a topic in companies that is talked about by the sustainability department and increasingly by the controllers and the strategic divisions. At more and more companies, climate protection is now a top issue at board level – particularly in sectors such as the automotive industry and insurance companies, but also in the steel industry, because vast sums of money are at stake here in the restructuring of corporations.

### *Climate protection needs encouragers*

For a successful transition, we need entrepreneurs with vision and, above all, courage; in addition to day-to-day business, they must also keep an eye on possible business areas of the future and demonstrate a willingness to make decisions years in advance. Many executives are still too hesitant in this regard. What is needed here is the courage and decision-making power to take paths – without completely blocking other pathways.

Of course, it is easier to bring companies along on this development if you have reliable guidelines and the public sector sets a good example. However, what is needed above all is an optimistic mood, a social atmosphere that inspires courage. All too often, in the tradition of ‘German Angst’, paralysing worriers and hastily unpacked spectres of fear inhibit us from confidently tackling our innovations and bringing them to the markets – or literally to the streets.

Particularly in the disruptive environment of digitisation we must learn to rethink business. This includes a new culture of error in companies with a willingness to experiment with open-ended results. And Germany's economy needs more networks: cross-industry and cross-hierarchical collaborations are indispensable for finding solutions that achieve the hoped-for level of innovation. In the fight against climate change, we need new partnerships with science, start-ups and civil society along the entire value chain.

*What we really need: Honesty in climate targets and measures*

Honesty about the climate protection targets is needed to comply with the Paris Agreement. And honesty about the measures and instruments is required to achieve these targets. Climate protection targets should not only be made binding but must also be backed up by intermediate steps and controlling mechanisms that enable regular progress monitoring and the most efficient possible achievement of targets.

In addition, however, measures are needed to support companies in making investments in innovative technologies and business models. These include, for example, technology-neutral start-up financing for research and development projects as well as instruments for minimising risk in the event of long pay-back periods when scaling new technologies or business models. The development, evaluation and implementation of related programmes of measures should be carried out with the intensive involvement of entrepreneurial and practical know-how.

Policymakers' central task is to create an ambitious and reliable framework for achieving climate protection targets and to back it up with appropriate measures. Even if the associated transformation of entire economic sectors requires enormous efforts, the overall targets should be oriented toward the upper end of the target corridor of up to 95% emissions reduction. As a CEO initiative, we at Foundation 2° are convinced that an intelligent climate policy can drive forward the modernisation of Germany as an industrial location and help ensure that Germany plays a leading role worldwide in the innovative markets of the future. In the end, the 'Made in Germany' brand should stand for efficiently combining industrial production with climate protection. We can thus make climate protection the business model of the future.

