After these expert views from inside an energy major and an environmental organisation by Mme Lepoutre and Mr Frisvold, I would like to add the perspective of a sustainability (or ESG) rating agency to this workshop. In the first session this morning the idea of corporate responsibility was outlined and I will explain how we measure performance of companies with regard to corporate responsibility.

Let me first explain in a few words the concept of socially responsible investment.

The basic idea of socially responsible investment is to supplement conventional financial research with an evaluation of environmental, social and governance criteria (ESG criteria). The two main motives for doing this are to invest in accordance with ethical values and to minimise financial risk. Many responsible investors pursue both objectives and find added value in both the integration of ethical values and the minimisation of ESG risk. Socially responsible investment thus offers opportunities in particular as such investments have no general competitive disadvantage when compared to conventional investments.

There are three main strategies of responsible investment. The first and maybe the most sophisticated one is to select the shares and bonds of companies and countries based on their excellent environmental, social and governance performance. The second approach is to exclude certain activities or business practices from the investment portfolio, such as the production of controversial weapons or the involvement in human rights violations. The third strategy is not about the selection or exclusion of shares and bonds but focuses on influence and dialogue with the investment objects.

All of these tools can be combined. One of our customers uses a Best-In-Class approach and a number of exclusion criteria and at the same time conducts an active dialogue with the management of the companies on issues that might be improved.

Over the past five years, we have seen a continuous ‘mainstreaming’ of SRI strategies: The conventional financial market has become increasingly aware of the necessity to integrate ESG criteria to minimise risks and seize opportunities. The market has grown substantially. According to a recent study by the European social investment forum, the SRI market in EU countries is at 5 trillion Euros and has a market share of approximately 47%. However, as it is for some approaches difficult to draw the line between conventional and responsible investment, these numbers can be challenged.

But, even as there remain some questions on the exact numbers, it seems very clear that SRI is no longer a niche market but has definitely become mainstream.

The fact that large data providers such as Bloomberg and Reuters have recently entered this market and offer some basic ESG information does underline this fact.

Oekom research has been commercially active and specialised in sustainability research of companies and countries for 20 years now. Oekom’s rating approach and methodology bases on a consistent understanding of sustainability and is subject to continuous development and review. We are in constant exchange with our Scientific Advisory Board and its Rating Committee, are members of Eurosif and the Principles of Responsible Investment and have co-operations with GRI and CDP. Oekom’s main expertise and value creation lies in the interpretation of data and performance evaluation. In order to be able to guarantee consistency and quality, we do not outsource this process to any service providers.
Oekom’s business model guarantees a high level of independence. We conduct our research on behalf of the financial market. The companies that undergo an assessment do not pay for their rating and are not offered consulting. Oekom does not engage in financial research or asset management and is not an affiliate of a financial organisation or company.

The research methodology has been certified against the voluntary European quality standard CSRR and is currently in process of recertification. Equally important to us is the acceptance of our rating results by the companies assessed, here illustrated by a feedback from French carmaker Renault, pointing out the transparency and completeness of the assessment and that it helps the company setting the agenda for sustainability objectives.

In its Corporate Rating, oekom applies an ‘absolute’ best-in-class approach, which means that there is an industry-specific minimum score for the Prime status, instead of a preset quota such as, for example the upper 50%. The minimum requirements are higher in the case of greater environmental and social impacts. As a result, the approach is quite strict as regards heavy industry such as the oil & gas sector.

In the oil & gas industry: out of 114 companies from important indices such as MSCI World, MSCI Emerging Markets, Stoxx 600, just 27 qualified for a Corporate Rating and only 8 achieved Prime status.

The Corporate Rating is highly industry-specific and consists of a performance evaluation of approximately 100 environmental, social and governance criteria, of which more than one third are industry-specific criteria. All criteria are individually evaluated, weighted and aggregated to obtain an overall score; key indicators obtain a high weighting and thus contribute considerably to the overall score.

In addition to the Corporate Rating, oekom screens a wide range of client-specific exclusion criteria covering certain business areas and controversial business practices.

For each industry, we define the most important key issues. Indicators assessing the performance of a company against these key issues obtain high weights so that they in the end account for at least 50% of the overall grade. In the oil & gas industry, we defined the following key environmental issues: Climate protection and gradual shift to low-carbon and non-fossil energy sources and minimisation of environmental risks and impacts of operations. Social key issues are worker safety and accident prevention and the protection of human rights and livelihoods. The key governance issues are transparency on payments to governments and anti-corruption.

Here on the slide, you can see some examples of indicators we apply to assess performance. There is a great deal of discussion going on about how many indicators are needed to assess the environmental, social and governance performance of a company and whether it would not be sufficient to look at one or two key performance indicators.

Let me give you one example on the company BP. The greenhouse gas emissions intensity is a key quantitative performance indicator for an integrated oil and gas company. As the blue line show, BP has a good performance regarding this indicator. GHG emissions are an important KPI to assess economic risk regarding regulatory changes, e.g. regarding a GHG trading system or tax. But this single KPI cannot predict the overall exposure to ESG risks.

The accident in the Gulf of Mexico had terrible consequences for some of the workers on the platform and the environment. In the aftermath of the incident there were also severe financial implications for the company and, as the share price went down, its investors. Many investors lost money due to the falling share price. Both financial research and consideration of isolated environmental KPIs would have failed to warn against this situation.

If we look at the oekom rating history of key issues relevant to BP’s accident, we can see that the environmental performance (in red) of the company has been significantly below the minimum requirements at all times. The health and safety performance of BP (in orange) saw some ups and downs but was well below the prime threshold since late 2009.
The overall rating (blue line) has been ‘not Prime’ at all time so that oekom customers using the best-in-class approach were not invested in BP. Likewise, oekom customers using ‘environmental violations’ as an exclusion criterion had not invested in BP, as this exclusion criteria had been active at all times due to repeated accidents and fines.

This makes the current Rating of BP ‘not Prime’ although we acknowledge that the company shows very good performance in some other aspects such as, for example, climate change and greenhouse gas emissions management, tanker safety as well as human rights protection and due diligence.

This timeline shows that the case of BP is not an isolated or random example. All of the companies shown here were rated not prime by oekom due to their environmental, social and governance performance well before their stock prices crashed.

I would like to conclude with the message that sustainability ratings can help minimising investment risk depending on the approach chosen. By now, oekom’s research guides the investment of 90 billion Euros invested by a wide range of institutional investors and financial institutions.

Thank you!