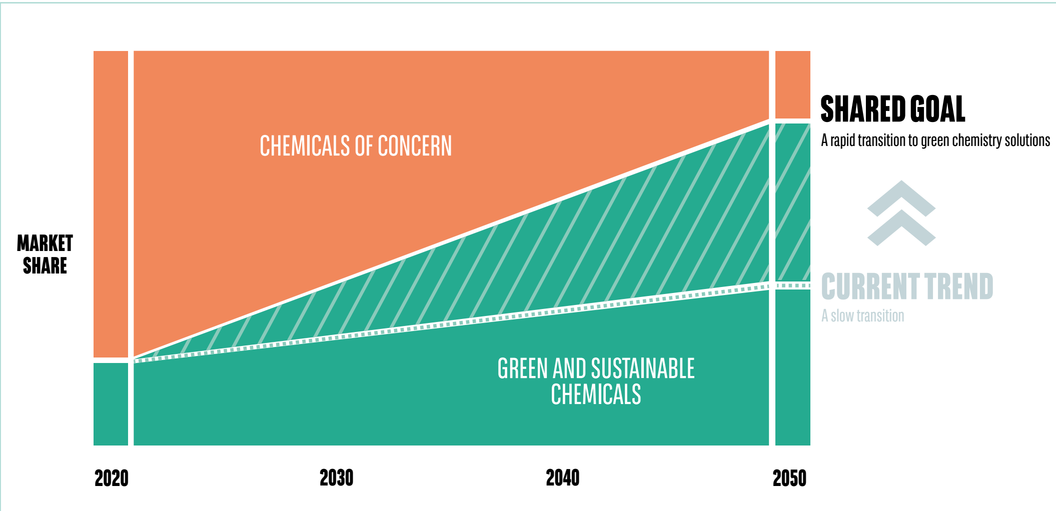
For professional investors - Marketing communication - April 2025

DRIVING THE TRANSITION TO SAFE AND SUSTAINABLE CHEMICALS

INTRODUCTION

In 2023, we began to engage with chemicals producers to try to spur the wholesale transformation of this sector to a business model based on safe and sustainable chemicals. In early 2024, in this blog, we described how few sectors are as firmly implicated as chemicals in driving the triple global planetary crises of climate change, biodiversity loss and pollution and in damaging human health. We also explained that we believe 'business as usual' contributes to financial risks and therefore necessitates investor action.

This article provides an update on our 2024 engagement, designed to drive down sector emissions and to accelerate the transition to less hazardous chemicals .



BNP PARIBAS ASSET MANAGEMENT

The sustainable investor for a changing world

ADDRESSING HAZARDOUS CHEMICALS: the investment case for action

We were pleased to have contributed in 2024 to an excellent report published by ChemSec called 'A Profitable Detox'. The report drew together extensive evidence of the mounting investment risks related to hazardous chemicals, particularly 'forever chemicals' or polyfluoroalkyl substances (PFAS) – man-made chemicals that do not break down in the environment and accumulate in the bodies of humans and animals. The estimated clean-up costs facing governments run into trillions of dollars; several are beginning to look at how they can recoup some of those costs from the private sector.

Producers of so-called 'Substances of Very High Concern' (SVHC) – a classification into which some PFAS fall - face a range of material risks including:

- Substantial and mounting litigation costs and potential financial settlements
- Increasing difficulty in buying cost-effective insurance
- Greater regulation in many jurisdictions
- Market and reputation risks, as business-to-business customers and retail consumers increasingly demand safe chemicals.

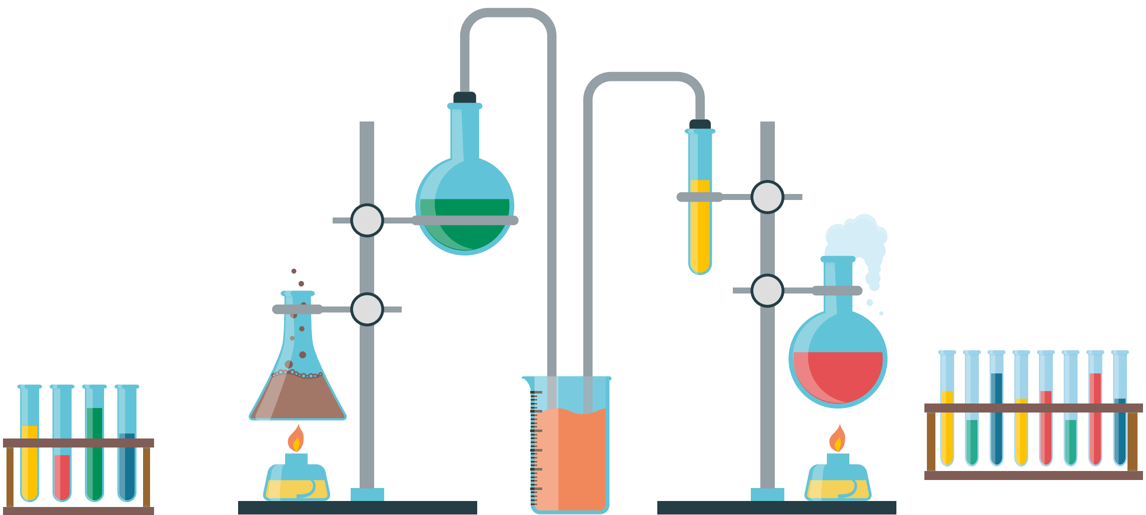
For large investors like BNPP AM, with investments in both the chemicals sector and in its customers, these corporate-level risks are compounded. It is therefore imperative we act to try to reduce these risks and set a new course towards a future in which this sector generates its revenues and profits – and thus our returns - from safe and sustainable chemicals.

Tackling the supply of hazardous chemicals through the Investor Initiative on Hazardous Chemicals (IIHC)

We continued to engage during 2024 with chemicals producers through the Investor Initiative on Hazardous Chemicals (IIHC). We were instrumental in the development of this group, sitting on its Steering Committee. IIHC has grown substantially over the last two years, reflecting the increasing recognition among investors of the risks associated with this sector. By the end of November, it was supported by more than 70 investors and their representatives, with over $18 trillion under management or advice. Engagement takes place on an annual cycle, based on the results of ChemScore produced by Swedish NGO ChemSec.

IIHC members ask the chemicals manufacturers they engage with to:

- Disclose both the share of their revenue and production volume of products that are, or contain, hazardous chemicals
- Publish a time-bound plan to phase out products that are, or contain, persistent chemicals, with clear Key Performance Indicators to track progress
- Develop safer alternatives to hazardous chemicals, by ramping up research & Development and investment in safer alternatives.



2024 engagement

During the year, we co-signed two letters to the CEOs of each of the 51 companies within the 2024 ChemScore universe. The first, in July, emphasised the importance that investors place on this rating, and urged them to speak to ChemSec about their draft ChemScore rating to ensure it was accurate. The second was sent in November to announce the results of the 2024 ChemScore and reiterate IIHC's expectations.

We were also co-lead for engagement with AkzoNobel NV and took part in engagement calls with Evonik Industries AG, LG Chem Ltd, PPG Industries Inc, Syensqo NV and Yara International ASA. Progress has been limited. ChemSec has catalogued only small improvements in disclosure by some companies within the ChemScore universe. Few have made new commitments to phase out SVHCs or pledges not to include SVHCs or PFAS in new products, for example.

Yara International, one company we spent substantial time engaging with, rose to the top of the ChemScore ranking, though it still only scored 32/48 points on ChemScore. It has not yet disclosed a list of all products that it sells that contain hazardous chemicals, nor the volumes or value it generates from them. It is also still not yet making a clear statement, should it be the case, that the share of its revenue generated by products containing PFAS or other persistent chemicals is zero. Sasol – another company assessed by ChemScore – has clearly stated that it does not buy or produce any PFAS, for example.

Conclusions and outlook

Overall, these engagements have disappointingly failed to yield substantive results. Many companies use opaque methodologies that appear to categorise hazardous chemicals or products that contain them as 'sustainable', because they trade off criteria like emissions, circularity and others against how harmful / toxic they are. We have been pushing for companies to change this approach – and to be more transparent about how those methodologies work.

Various developments are expected in 2025 that may 'move the needle'. The European Sustainability Reporting Standards (ESRS) framework of the Corporate Sustainability Reporting Directive (CSRD) requires disclosure by chemicals producers of their output volumes and revenues related to substances of concern – which covers a wide range of chemicals. This should provide investors with better information, though disclosure on PFAS is not explicitly required.

Further, ChemSec plans to change the ChemScore methodology to take into account the CSRD and align it more closely with investor expectations; we will contribute to their consultation on those changes. We will also continue to advocate for stronger chemicals regulation where opportunities arise, as this seems to be the most likely route to driving the transition to safer chemicals.

Tackling demand-side use of PFAS in consumer products

We also began engagement in 2024 with selected European companies that use chemicals in their products or packaging that will be affected by new EU regulation on PFHxA. This is a sub-class of PFAS 'forever chemicals' for which the EU gave final approval in September to restrict the sale and use within certain products by October 2026.

Furthermore, broader PFAS regulation is being actively considered by the European Commission through revisions to the REACH (Registration, Evaluation, Authorisation, and Restriction of Chemicals) regulations in 2025. We therefore hope to encourage companies on the 'demand-side' of the value chain to phase out their use of PFHxA and other PFAS as quickly as possible – and ahead of expected tighter regulation in the EU and elsewhere.

We wrote in November to nine companies in our portfolios which we believed would be subject to the new PFHxA regulation: Beiersdorf AG, Carrefour SA, Colruyt Group NV, Danone SA, Essity GMBH, Moncler SPA, Nestlé SA, Ontex Group NV and Stora Enso AB.

We asked them to provide information about their existing commitments, targets and policy in relation to PFHxA and/or PFAS more broadly, and to outline the steps they are taking to be compliant with the EU regulation on PFHxA by the deadline. All but Stora Enso AB replied, and we had several email exchanges with some, which we will continue in 2025.

The food sector companies' responses were disappointing. They either noted that they are exploring the extent to which products, packaging and materials are impacted by the forthcoming PFHxA regulation or provided 'boilerplate' answers. We will press these companies further in 2025 to disclose their commitments towards or policies on the use of PFAS. Moncler SPA provided an explanation of the approach it had been taking to the issue (and has since provided a short statement in its 2024 Annual Report).

The responses we received from personal care and household products companies were more positive. We particularly welcomed that of Ontex Global: it provided evidence that it has been actively screening for PFAS and perfluorooctane sulfonate (PFOS) in its products for many years and confirmed that no such chemicals have been detected in its products. The company has also asked its suppliers to investigate whether there is any unintentional presence of PFAS in their supply chains and continues to screen its packaging material. We welcomed this approach and urged the company to make it public, given the increasing concern among investors and consumers about these chemicals.

The other companies confirmed that PFAS are not intentionally added to most of their products but only used in a small number, such as plasters and medical tapes, to repel water. Beiersdorf AG confirmed that it is in the process of replacing these PFAS in the very few medical devices where it is still in use and expects these products to be PFAS-free in the medium term. We suggested that the company make a public announcement about this positive development.

Public policy engagement on PFAS

Having concluded that regulation will be key to progress towards having this sector phase out persistent chemicals, in early December we signed a private investor letter to the President of the European Commission, Mrs Ursula von der Leyen, and other commissioners to convey our support for the new regulations to restrict PFAS that the European Commission was due imminently to consider.

One of our goals was to counter reports of a significant push from parts of the chemicals industry to weaken the scope of the proposed 'Universal PFAS Restriction.' We urged the President to push forwards with the proposed PFAS restriction and phase out the production and use of PFAS and only temporarily allow uses where no alternatives are available.

We stressed our view that weakening the proposed package would be a mistake because it would increase our exposure to financial risks. We also argued that legal predictability is essential to enable major institutional investors to support EU-based chemicals producers in developing a path towards long-term sustainable value creation.

DRIVING DOWN EMISSIONS IN THE CHEMICALS SECTOR

As noted in the introduction, engagement with chemicals companies is also critical to drive urgent action to reduce their emissions. The sector accounts for between 6% and 7% of global greenhouse gas (GHG) emissions.

Tackling chemicals sector emissions through the collaborative engagement

We joined the ShareAction Investor Decarbonisation Initiative at the end of 2023. The overall objective of the programme is to secure commitments from selected European chemicals producers to:

- Set 1.5°C-aligned emissions reduction targets that include all Scope 3 emissions
- Move to 100% process electrification
- Source 100% renewable energy
- Switch to and/or acquire certified sustainable biomass feedstocks
- Not to use 'food and feed' based biomass crops and/or to limit biomass to secondary feedstocks grown on marginal, degraded lands by 2050.

During 2024, we had calls with six companies: Covestro AG, Evonik Industries AG, Croda International plc, Air Liquide SA, BASF SE and Yara International ASA – with the CEOs in the latter two cases. Following each call, tailored emails were sent to each company re-iterating key requests for additional information and making specific recommendations for improvement.

Some companies have made some welcome steps forwards, such as Covestro's announcement in July that it would install an innovative heat battery or the first time. This will store intermittent renewable electricity and delivers continuous high-temperature steam as a sustainable alternative to steam generation with fossil fuels. It is scheduled to begin operation at Covestro's Brunsbüttel site in Germany at the end of 2026. It is expected to produce 10% of the steam required at the site, saving up to 13,000 tonnes of CO_2 emissions per year.

Overall, though, our requests that the companies publish more detail about things like planned capital expenditure to deliver their commitments were generally declined, as were those asking them to set public targets to increase the proportion of sustainable feedstocks in their mixes.

There was slightly more receptivity to potentially substitute first-generation feedstocks with second-generation feedstocks wherever technically feasible, and to ensure such feedstocks come from certified sources (e.g., palm oil).

Focus on Yara International

The group's engagement with Yara International, as Europe's biggest fertiliser company, was ramped up this year. Headquartered in Norway, it makes ammonia and nitrogen-based fertilisers; fertiliser production and usage accounts for around 5% of global GHG emissions. Three-quarters of Yara's emissions fall into Scope 3, i.e., upstream and downstream in its value chain. Despite this, Yara has not set comprehensive, short and long-term Scope 3 targets, covering upstream and downstream emissions aligned with a 1.5°C warming trajectory.

Members of ShareAction's programme first tried to initiate engagement with Yara in late 2021; we joined in late 2023. Despite having sent three letters to the CEO making clear requests for action and asking for a call, the company had only responded to one letter. We therefore supported a shareholder resolution filed by ShareAction and four investors that called on the company to set Scope 3 targets by the 2025 AGM.

Prior to this we had also joined a call with the Norwegian Ministry of Trade, Industry and Fisheries, which holds 36% of Yara's stock, to urge it to echo our calls for comprehensive Scope 3 targets and to inform it of the likelihood of the resolution being filed should Yara not make substantial public commitments.

While the resolution at Yara did not pass, it received 17% support from non-state shareholders, or 8% of total votes cast. This is a notable result because this sector has received little investor attention to date, despite its sizeable contribution to climate change.

Outlook for 2025

We are hopeful that three developments in 2025 will spur more progress on emissions reduction in the chemicals sector in the medium term:

i) Mandatory climate transition plan disclosure per CSRD
ii) Publication of the SBTi Chemical Sector Guidance, and
iii) The emergence of greater clarity around the EU's policy direction.

The securities mentioned are for illustrative purposes only; they are not intended as solicitation of the purchase of such securities, and do not constitute any investment advice or recommendation.

While we set out changes to company practice and disclosure that were in line with our expectations and / or recommendations, we acknowledge that these changes in many cases may not have resulted from our engagement alone, as companies take input from many other investors and stakeholders.

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VIEWPOINT

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