

Sustainability Council

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New York, March 22nd, 2018

Dear Matthias Müller,

Dear Members of the Executive Management Board,

Like in our letter from last June, we want to express our appreciation to you for the open and constructive dialogue with the Council. One good example was our last meeting in Wolfsburg on February 26th. It is our desire to build on this dialogue and, therefore, we would like to share some observations and suggestions with you hoping that this may support VW's change agenda.

We are aware that the public debate in Germany on diesel and related issues is in full swing - not always based on facts - and that VW is dealing with the many consequences of past failures. We hope that the present volatile environment does not blur your focus or diminish your dedication to doing what is required to restore trust and to lay the foundation for future success:

- **Technology shift** – electrification and sustainability services
- **Policy shift** – open dialogue and environmental leadership
- **Culture shift** – moving towards a purpose-driven organization in line with societal expectations

Concerning the shift in technology, we are anxious to await the rollout of Roadmap E and new mobility services. We are aware that their success is critical to VW's transformation. We assume that this has highest priority across all corporate functions, and we look forward to being updated in due course.

To support the shift in technology and to drive the transformation forward, it is essential that at the same time visible and robust progress is made regarding the required shifts in policy and

culture. More specifically, we want to encourage you to consider the following:

1. Develop a fact-based narrative on mobility and technology choices and their societal costs and benefits

Public debate on the future of mobility – especially in Germany – appears to be highly emotional and all too often divorced from facts. There seems to be an opportunity for VW to support a broader dialogue based on facts and openness where the public is invited to be part of the dialogue. The future of mobility will need to be discovered and built in collaboration with public authorities and citizens. Rather than declaring specific technologies as winners or losers (for example, comments such as “the renaissance of diesel” will at least produce misunderstandings) the societal costs and benefits should be laid open with modesty and honesty, and VW should be projected as a force that strives to provide the best solutions. One could develop a narrative that explains the German predicament regarding diesel and how corporations and policy makers colluded in the past to the benefit of workers, citizens, and shareholders, while underestimating environmental and health issues as well as the role of digitalization. This new narrative should make the case why it is now imperative for the economy as a whole to find solutions. Doing so would cast the issue for what it is: a national priority that offers opportunities to learn from the past and to build the future together. Our project “Open Source Lab Sustainable Mobility” will enable an appropriate platform for these debates.

2. Environmental leadership as a strategic imperative, including ambitious goals on carbon reduction

Environmental leadership is arguably the most effective way to respond to the diesel crisis. While it is essential to restore trust, it also enhances opportunities for the successful introduction of new products and services as well as concerted efforts to ensure ethical sourcing of all material (e.g. the project ASM cobalt mining areas in DRC). It will also work as an important ingredient to reinforce the change in corporate culture. Moreover, we know with scientific certainty that a carbon-constrained world will become the new normal, one way or the other. Regulatory changes and sudden shifts in consumer preferences are bound to happen, and probably sooner than expected. In short, we are convinced that a comprehensive strategy on environmental leadership needs to be developed covering VW’s own footprint, its products, its attitude towards regulators, as well as its voice in the wider public debate on energy and climate policies. To this end, the following building blocks deserve to be elevated and further developed:

a) Develop a road map for decarbonization

Given the far-reaching implications of the transformation agenda, it would now seem important to set an ambitious goal for carbon reduction and to communicate this effectively. Committed to setting emissions reduction targets that are aligned with climate science, VW is developing leading tools and concepts such as the Decarbonization Index and Total Value Chain Impact Measurement. As VW is developing their Decarbonization Index, we urge you to be transparent on the metrics and findings, internally and externally. What we find missing is that VW does not have an internal (shadow) price on carbon for its own investment decisions (like over 1,000 corporations worldwide). In this context, we welcome the phasing out of coal-fired power plants but we would, at the same time, hope that a more systematic approach will be developed to become part of a comprehensive decarbonization strategy. As a part of that, outreach and educational efforts are needed for electric vehicles as consumers are not sufficiently informed about this new technology. Additionally, we want to encourage to rethink the utility of incentives to support new products.

b) Engage in public policy debates to promote green power

The transformation of the energy sector away from fossil fuels is a global mega trend and an essential compliment to the electrification of transport. Fiscal and other policies were developed for the industrial era and are now in need of adaptation. This is a critical policy issue for VW and positive synergies should be built with other industry sectors as well as large parts of society and politicians who understand that environmental leadership and technological change offer new opportunities. Developing arguments for carbon pricing coupled with a minimum floor price would seem the right way forward.

c) Redefine a new approach towards regulators based on transparency and a genuine commitment to reduce emissions

A clear cut with past practices is essential to rebuild trust. Our own stakeholder dialogue has shown that civil society organizations are prepared to support VW if indeed a change in positions is credible and sustained and if relationships are based on transparency and the commitment to reduce emissions. We expect VW to follow through across its public policy networks and relationships with regulators and if needed cut ties with lowest common denominator

organizations that are based on past compliance optimization thinking. What we need for the future is honesty, transparency, and a genuine commitment to search for the best solutions.

3. Develop a benchmark for culture change

We understand that changing corporate culture is a complex undertaking that takes time. We have taken note of the good developments regarding compliance and the new Code of Conduct, as well as the Future of Work Pact. Nevertheless, we have not yet seen a wider benchmarking that captures organizational changes away from hierarchical top-down towards a more people-centric and purpose-driven organization based on transparency and values. We hope that work in this area will continue and be expanded. Doing so would also seem necessary to improve internal communication, motivate employees and strengthen the visibility of this central program. The Sustainability Council would be pleased to support such efforts.

We hope that the points mentioned above will be helpful, and we look forward to hearing back from you when we meet again in September. We understand that transforming VW from an industrial era leader to a leader in sustainable mobility is a daunting undertaking. We stand by to support your efforts and we look forward to continuing the dialogue.



Georg Kell
Spokesperson Sustainability Council