

Sustainability Council

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A BRIEF INTERIM REPORT

Executive Summary

- The Sustainability Council consists of a group of independent personalities from different backgrounds. It was established by the Managing Board of Volkswagen Group in late 2016 as a reaction to the diesel crisis.
- Regular meetings with the Managing Board and other Volkswagen representatives have since taken place and the Sustainability Council has initiated a number of innovative projects.
- The Sustainability Council has expressed clear expectations to Volkswagen regarding necessary shifts in technology, culture and policy. This has contributed to internal discussions.
- The Volkswagen leadership has shown a genuine willingness to listen and is open to an honest exchange with Stakeholders on controversial issues.
- Volkswagen Group has made significant progress toward e-mobility.
- The Sustainability Council supports Volkswagen's decision to make decarbonization a strategic management imperative.
- A more balanced and fact-based debate with the public and policymakers on the future of mobility and related environmental issues is still needed.
- The Sustainability Council and Volkswagen representatives will intensify their collaboration in the future.

Interim Report

In October 2016, the Managing Board of Volkswagen Group invited us, a group of independent personalities coming from diverse background, such as international organizations, policymaking, environmental regulation, and research and academia, to join the [Sustainability Council](#), with the promise that we would find open doors and a willingness to learn from the diesel crisis.

We accepted the invitation because we all share the view that the diesel crisis offers enormous opportunities to accelerate the transformation towards a more accountable organization that will drive towards sustainable mobility.

Over the past two years, we met five times with the CEO and the Management Board of Volkswagen. We also had several meetings with the Works Council, and we had numerous meetings with individual Management Board members and other groups within the organization. In addition, we met several times with the Volkswagen Monitor and his team to ensure that our efforts were complementary. Moreover, we convened two Stakeholder Roundtables with civil society organizations on the theme of regulation and emission standards. In all these meetings, we encountered Volkswagen's genuine **willingness to listen**. All relevant information was shared with us and the Volkswagen leadership, especially the newly appointed CEO and Board members, have communicated their desire to renew the organization and to accelerate the transformation.

We realized early on that our independent status and our direct access to the Volkswagen leadership could be best used if we focused on dialogue with the CEO and the Board by making the case for and expressing **clear expectations** for three related areas:

- a) **Technology Shift** - Accelerating the move towards electrification and new mobility services
- b) **Policy Shift** - Embracing environmental leadership
- c) **Cultural Shift** - Restoring values and integrity to rebuild trust

We found that Volkswagen is on its way to drastically accelerating e-mobility and related services by its **Together 2025** and **Roadmap E** strategies. We could see first-hand Volkswagen's huge efforts to bring e-mobility from a niche product to a volume product, with tens of billions of US Dollars firmly committed. We were informed that the Volkswagen brand will introduce more than 50 different electric car models by 2025 and according to current estimates it will have sold at least one million e-cars by then. We recognize that the company still faces many challenges such as the need for supportive policy frameworks, required infrastructure, technology, and ultimately consumers' willingness to embrace e-mobility. We applaud Volkswagen's determination to move ahead and we believe that the success of e-mobility will ultimately be the most robust response to the future of mobility and addressing climate change. We also believe that the diesel crisis itself has motivated Volkswagen to accelerate this transition. As the transition towards e mobility is implemented, we have frequently raised the critical question how the social impact is managed.

We are well aware that Volkswagen has long been supporting research on **environmental stewardship**. For example, the "Decarbonization Index" (DKI) which is based on Life Cycle Assessments of its products

covering supply chains, operations, use phase and recycling were proudly presented to us by Volkswagen's environmental research group. However, the DKI as an effective tool to identify and implement concrete targets at the corporate leadership, strategy and operational levels is yet to be implemented, an issue that has consistently been raised by the Sustainability Council. But more recently concrete decisions have been made in the direction of decarbonization, such as substituting coal with natural gas for the manufacturing plant in Wolfsburg. More importantly, at our recent meeting with CEO Herbert Diess and the Board of Management, a decision was made to make decarbonization as a strategic management priority. We welcome this decision and look forward to supporting its implementation both within the company and vis-à-vis policymakers and stakeholders.

We were also encouraged by the willingness of Volkswagen executives to **meet with stakeholders** who are closely following the evolution of fuel economy standards, especially at the European level. The two meetings organized under the theme "Global CO2 Governance" have so far only involved environmental NGOs and have not yet resulted in collaboration that could lead to a new era of standard setting. However, they have contributed to a mutual understanding and a commitment to more transparency on the side of Volkswagen, including in the area of heavy trucks. For the future, we encourage Volkswagen to intensify its **dialogue with policymakers, NGOs and other stakeholders** based on transparency and technological facts as well as the demand for a mutual solution to enable sustainable mobility.

We offer to extend the direct exchange between the Council and the Volkswagen Leadership by individual meetings, stakeholder dialogues, and conferences. We recommend to intensify our role as a "sparring partner" for Volkswagen to make better use of the Council members' broad and diverse experiences and networks to support Volkswagen in its transition towards a becoming leading provider of sustainable mobility.

We realize that the **German diesel debate** is mainly related to air pollution in cities and the potential retrofitting of vehicles is still unfolding. Given the legal issues surrounding diesel, the Council has decided not to address it in a direct manner. However, it has cast a shadow over our work i.e. regarding ongoing lawsuits and public reputation of the automotive industry as a whole. We believe that broader political and societal questions need a domestic solution based on collaboration by all stakeholders. The German economy (including its workers and suppliers) and the German government have long benefited from diesel. The credo that diesel is carbon efficient has far too long clouded the realization that air pollution is a health problem, especially in cities. It is our hope that Germany will now double down on electrification and related infrastructure investments to create viable long-term solutions. We believe that the debate in Germany needs to be a more balanced and fact-based debate.

Volkswagen's unique governance structure has made it difficult for us to interpret all ongoing efforts on compliance and integrity. We concluded early on that the work of the court-appointed Monitor, Larry Thompson, and his large team of over 50 staff members, are better positioned to do so. Nevertheless, we have closely followed relevant developments and we have witnessed the numerous processes initiated in the areas of cultural change (including town hall meetings) and integrity initiatives (the new code of conduct, training activities and benchmarking). Clearly, the number and the intensity of efforts underway

is impressive. However, it remains unclear to us for now how thoroughly the root causes of the crisis will be addressed.

We were also given some funding (€ 20 million total over the next several years) to help the transformation process by providing fresh outside-in impulses to stimulate innovation and cultural change. To that end we initiated several **projects**, which we hope will have a “lighthouse effect”, including:

- a) **Open Source Lab for Sustainable Mobility** - This project is now up and running in Berlin, supported by the German Research Center for Artificial Intelligence (DFKI). The lab acts as an incubator for an innovative stakeholder dialogue about sustainable mobility solutions for the future.
- b) **Next Generation Policies** - Supported by the Mercator Research Institute on Global Commons and Climate Change (MCC), the Potsdam Institute for Climate Impact Research (PIK), and the Paul Scherrer Institute (PSI), this project is well under way identifying effective policies for climate action and decarbonization of transport. We hope that the findings of this work will give fresh impetus for policy dialogue.
- c) **Forecast-Based Financing** - Implemented by the German Red Cross (DRK) and the International Federation of Red Cross and Red Crescent Societies (IFRC), this contribution is helping to build early warning systems to cope with climate-related disasters in the Asia and Pacific Regions.

We are confident that these projects will support the transformation by offering fresh approaches to public policy dialogue on critical decarbonization questions, by providing “outside in” perspectives on mobility innovations, and by supporting disadvantaged people who are suffering from the impact of climate change which they did not cause.

Conclusion

With the implementation of the Sustainability Council, Volkswagen has sent a clear signal to the public that the company is seeking and wants to learn from dialogue.

Overall, the members of the Sustainability Council note with satisfaction Volkswagen leadership’s dedication in managing the dual challenge of coping with the fall-out of the diesel crisis and the imperative to develop (and catch up to) new technologies to remain competitive, given the disruptive changes in terms of electrification and digitalization ahead.

We encourage Volkswagen’s leadership to collaborate with policy makers, NGO and other stakeholders based on transparency with a view to support policies that advance decarbonization and clean air.

In this context, we appreciate Volkswagen leadership’s commitment to prepare a decarbonisation roadmap where the first draft will be presented to us in February 2019.

We regard the success of **Roadmap E** to be decisive for the future. We realize that the German context is complicated and that restoring trust is key for Volkswagen and ultimately for the future of the country as a manufacturing heavyweight.

After an initial phase of mutual trust building, both within the Council and with the Board of Management, it is now time for a strong impetus for development and cooperation between the Volkswagen Group and the Council. At the same time, the members of the Council must also question themselves as to which of their competencies and opportunities can be better utilized. We are quite pleased that our own contribution in the three areas of technology, policy and cultural shift has had an impact so far. But much remains to be done to make the saying 'crisis is an opportunity' come true.

Volkswagen Sustainability Council

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Attachments: letters of SC to CEO/BOM