

Stewardship

JANUARY 2023

ENGAGEMENT

COMPANY
CEZ

THEME
Climate

ENVIRONMENTAL,
SOCIAL OR
GOVERNANCE?
Environmental

SDG



Anna Ferschtman
Sustainability writer
Van Lanschot Kempfen

Coal giant on its way to Paris

As an energy company in a central European country, how do you get rid of your high dependence on coal? Until recently, Czech CEZ fired the vast majority of their power plants on coal. But intensive engagement from investors and other stakeholders has resulted in CEZ now having climate targets in line with the Paris Climate Agreement, while the company is on its way to transitioning to other energy sources. This dialogue with the company served as an eye-opener for portfolio manager Harold van Acht.

“We approached CEZ some five years ago,” van Acht says. “Among the utility companies in our portfolios, CEZ was not the biggest emitter, but it used the highest percentage of coal for their power plants in energy generation - enough reason to start a dialogue. But the engagement really gained momentum when we joined forces with other equity and bondholders within the investor initiative *Climate Action 100+* in 2021.”

CO₂ emission price as the deciding factor

The company - ranked 11th by number of customers and market capitalisation in Europe - was keen to talk. “They understood perfectly well, for example, that it was no longer feasible to have coal-fired pow-

er plants near cities and quickly abandoned earlier plans to build a new coal plant near Prague”, Van Acht said. But hard numbers played a role too. “Rising CO₂ emission prices would soon make coal unprofitable. Then the question arose of ‘what now?’. The Czech government wants to phase out coal mining in the country by 2038. but the country is still heavily dependent on it for its energy supply. Now a shift is underway, but a lack of practical alternatives to coal poses serious questions. Van Acht: “As a land-locked country, the Czech Republic cannot capitalise on offshore wind resources like the Netherlands can. In addition, it is circled by mountain ranges and has no large water reservoirs for hydroelectric production. Solar panels are one of the possible options, al-





beit limited. We wanted to be part of CEZ's thinking and decision-making process, so we could support them and consider opportunities."

Eye-opener

The aim was to draw up plans together, to reduce CO₂ emissions and align with the Paris Climate Agreement. These plans should also be assessed against the [SBTi](#) (Science Based Target initiative) model, to ensure that the targets are effective and actually meet the goals of 'Paris'.

Van Acht: "CEZ wasn't familiar with SBTi and how it worked. Together with other investors from Climate Action 100+, we then walked through the model with them. That made the company more comfortable. For me, this was a real eye-opener, which makes sense in retrospect: you need to partner up with the company, and show them the way if necessary; not just wave sustainability labels in their face."

The results

CEZ has now drawn up plans to stop mining and using coal to generate electricity as early as 2033, five years before the national deadline. It also wants to be climate neutral by 2040, 10 years ahead of the necessary date in the Paris Agreement. CEZ' targets are now validated by SBTi and the company has

partner up with the company, and show them the way if necessary

also committed to bring its reporting in line with the international TCFD (Task Force on Climate-Related Financial Disclosures) standard.

CEZ is now committed to building a modern nuclear power plant to generate cleaner energy. In the meantime, it is using 'green' gas from biomass and hydrogen to reduce coal use and, consequently, emissions. It is increasing its construction of solar and wind projects (although the latter is on an albeit modest scale).

Milestones completed

"Our engagement with CEZ is now finished," Van Acht says. "We look at the long-term value of a company - an important part of this is how the company is preparing for the energy transition. We measure our commitment with so-called 'milestones', with first creating awareness of the problem, then measuring emissions and then drafting a credible transition plan. CEZ reached the fourth and final milestone when SBTi confirmed that its outlined path is actually Paris-aligned."

"There are obviously still many areas where CEZ's strategy can be improved, but large gains have now been made. That is not to say that we are losing sight of CEZ; we will continue to follow the company on its path to climate neutrality, as we do for all companies in our investment universe."

Van Lanschot Kempen engages with the companies in which we invest and encourages them to make sustainable changes. Our colleagues talk to companies about numerous strategic, financial, social, corporate governance and environmental issues.

We have established a framework for our engagement, in which key milestones are an important measure of progress. If the dialogue does not lead to improvement, we may disinvest from the company. Thus we want to contribute to the balance between People, Planet & Prosperity and increase our commitment and impact.



Disclaimer

Kempen Capital Management N.V. (Kempen) is licensed as a manager of various UCITS and AIFs and authorised to provide investment services and as such is subject to supervision by the Dutch Authority for the Financial Markets. As asset manager KCM may have investments, generally for the benefit of third parties, in financial instruments mentioned in this document and it may at any time decide to execute buy or sell transactions in these financial instruments. This document is for information purposes only and provides insufficient information for an investment decision. This document does not contain investment advice, no investment recommendation, no research, or an invitation to buy or sell any financial instruments, and should not be interpreted as such.

This document is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. The views expressed herein are our current views as of the date appearing on this document. This document has been produced independently of the company and the views contained herein are entirely those of KCM.