

THOMS TALKS TRADE



Anahita Thoms Head of International Trade Germany, Baker McKenzie with



Eckart von Klaeden Vice President, Head of External Affairs, Daimler AG

Spotlight on the Sustainable Future of Europe's Auto Industry

As the automotive industry considers the future landscape, aside from the impact of COVID-19 and increasing digitalization, automotive companies are also looking to prioritize sustainability at strategic, operational and commercial levels. Anahita Thoms, Head of International Trade, Germany speaks with Eckart von Klaeden, Vice President and Head of External Affairs, Daimler AG about Daimler's position about the current challenges and the future landscape of European automotive and auto supply chains.

What is the impact of COVID-19 on the global automotive industry?

COVID-19 has caused an unprecedented drop of global automotive markets. Restrictive measures to limit the spread of the virus have had a significant impact on sales of new vehicles particularly in March, April and May. Most markets have improved since then. Provided there will not be a massive second infection wave, demand should continue to recover in the second half of the year, but global passenger vehicle and truck markets are still expected to post drastic declines in total 2020. Apart from the negative effects for OEMs, COVID-19 has dramatic consequences for the automotive supplier industry. For small and medium-sized enterprises with limited financial reserves, the current crisis may even represent an existential threat.

How did Daimler perform during COVID-19?

Overall, COVID-19 had a significant impact on the Daimler business in the first half of 2020. Unit sales went down by 26% compared to 2019, more precisely from 1.595 million units in the first half of 2019 to 1.186 million units in the first half of 2020. However, one can notice first signs of sales recovery and a strong finish to global retail car deliveries for the second quarter in June. Additionally, Mercedes-Benz Cars had the best second quarter ever in China, as they were able to sell 196,200 units, which equals a plus of 17% compared year over year. Daimler Trucks & Buses had a significant sales decrease of -38% in the first half of 2020. The most severe impact is in Europe and North America. However, the incoming orders in Europe and North America show first positive signs.

What are the biggest challenges?

We are living in a time of transformation. Demographic development, increasing digitalization, and climate change are only a few examples of that. We are tackling these challenges at Daimler, and we have developed clear areas of action. Emission-free mobility is our vision and the basis of our commitment to climate protection and air quality. It is also a core element of our sustainable business strategy. Our corporate culture is also changing. Integrity, diversity, and digital work processes are essential to the success of this transformation.

How do you prepare for the next months?

The automotive industry is undergoing fundamental transformation towards electrification and digitization. This also applies to Daimler. We will continue to streamline the group structure and thus increase efficiency and flexibility. At Mercedes-Benz Cars, we will nudge up our product portfolio and focus on sustainable luxury as our core business, as we believe that Mercedes Benz Cars has a good growth potential, also in the upper parts of the segments and it is our goal to grow profitably.

Will the focus still be on sustainability?

Yes, the sustainable corporate strategy at Daimler pursues a holistic approach and takes all factors into account, ranging from environmental to social and governance aspects. In terms of environmental sustainability, we have our 'Ambition 2039', which includes a CO2-neutral new car fleet by 2039. The electrification of our car fleet is a key factor here. Additionally, our commercial vehicles in the triad markets Europe, Japan and North America will also be CO2-neutral up to 2039. Since CO2-neutral transport only truly works with purely electric drives, Daimler Trucks & Buses relies on battery and fuel cell technology as energy storage.

To what extent do your environmental, social and governance priorities change against the background of the health crisis?

We have consistently driven our strategic goals in terms of electrification and digitalization. COVID-19 has accelerated this development; we have to move even faster now and cannot afford to lose any more time. The Paris Climate Agreement is more than an obligation – it is a conviction and we set a clear course to contribute to climate protection.

Where are your priorities?

We see "Ambition2039" as a concrete milestone of a holistic, sustainable corporate strategy at Mercedes-Benz Cars. Over the next 20 years, Mercedes-Benz Cars aims to have a carbon-neutral new passenger car fleet and aims to have plug-in hybrids or all-electric vehicles to make up more than 50% of its car sales by 2030. Mercedes Benz Cars focuses on the customer:

The electric offensive offers customers attractive products and access to convenient, user-friendly services. Mercedes Benz Cars will also have worldwide CO2-neutral production in their own plants as of 2022 and an agreement on concrete CO2 measures with suppliers as well as a joint design of infrastructure. Our new Factory 56 is the blueprint: This addition to our Sindelfingen plant uses renewable energy and operates CO2-neutrally from the start. Another important milestone in our sustainable business strategy marks the issuance of our first green bond in early September. The proceeds of our first green bond will be used exclusively for financing green projects, like electric vehicles.

How does sustainability affect strategic and commercial decisions?

For us, sustainability means creating lasting economic value for our shareholders, employees, and partners, while always keeping in mind the environmental and societal impacts of our activities on our stakeholders along the entire value chain. With this strategy, we are embedding sustainability in the center of our business – in other words, in the center of strategic and commercial decisions.

Can you give examples here?

One example are the investments in alternative drivetrains. Here, the fuel cell technology concentrates on the commercial vehicle sector, while battery-electric drives focus on passenger cars and commercial vehicles. In addition to alternative drivetrains, we are also investing in the conventional combustion engine technology in order for our diesel and gasoline engines to be compliant with the Euro 7 norm.

Do you agree that those organizations that incorporate sustainability into their recovery and growth plans are best positioned for future success?

Yes, I do. We are convinced that only sustainably oriented companies will be globally successful in the long term. Our idea for Daimler's sustainable business strategy means taking on economic, ecological and social responsibility. In this respect, sustainable business is not only a competitive advantage, but the basis for successful companies.

How do you deal with the topic of resilience in the supply chain?

The corona crisis has put established processes and associated protective mechanisms to a hard test across all industries. For many years now, we have been pursuing the strategy of purchasing where production takes place. This has also paid off during Covid-19. Since the beginning of the Corona crisis, the exchange with suppliers has become even closer in order to counteract disruptions in the supply chain. The temporary production suspension period in our plants was initiated in close cooperation between suppliers and the Daimler production network. With regard to the supply chains and to ensure the high quality requirements, production has been restarted step by step and flexibly, in order to be able to react to current developments.

I have seen that you are in favor of a European Supply Chain Law. Can you explain your motivations?

Daimler AG seeks to be a frontrunner in the implementation of our sustainability requirements in the supply chain. In order to implement and push our human rights requirements forward in the supply chain we support the creation of internationally agreed common standards. At the same time, these standards need to be adequate and realizable for companies. Challenging for companies is, among other things, the high complexity of the topic and the need to bring many actors together to work on effective solutions.



Eckart von Klaeden Vice President, Head of External Affairs, Daimler AG

Vice President, Head of External Affairs, Daimler AG. Before he served as Member of the German Parliament between 1994 and 2013. He was a member of the Committee on Legal Affairs (1994-1998) and of the Committee on the Scrutiny of Elections, Immunity and the Rules of Procedure (2002-2005). In October 2009, Eckart von Klaeden was appointed Minister of State at the Federal Chancellery by Chancellor Merkel as the Federal Government Coordinator for Bureaucracy Reduction and Better Regulation and remained in this position until October 2013.



Anahita Thoms Head of International Trade Germany, Baker McKenzie

Heads Baker McKenzie's International Trade Practice in Germany and is a Member of the firm's EMEA Steering Committee for Compliance & Investigations. Anahita is the Global Lead Sustainability Partner for our Industrials, Manufacturing and Transportation Industry Group and a Member of the ABA International Human Rights. Anahita has won various accolades for her work, including International Trade Lawyer of the Year (Germany) at the 2020 ILO Client Choice Awards and Young Global Leader of the World Economic Forum. She is regularly interviewed by the BBC, n-tv, Handelsblatt and other news stations and newspapers on trade and sustainability issues.

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