

Why investors should vote against the re-election of the chair of the board of directors at EMS-Chemie Holding AG

Summary: ShareAction is calling for investors to vote against the reelection of Mr Bernhard Merki, chair of the board of EMS-Chemie Holding AG (EMSN, SWX), at the company's AGM on 12 August 2023.

Investors' long-standing concerns about EMS-Chemie's climate impacts have been met with almost two years of non-engagement. Recent reporting, published on 14 July, strengthens outstanding concerns about poor climate commitments and inadequate climate governance and risk management.

Mr Merki is three years into his tenure as chair and has been a board member for nine; investors should have no confidence in the company to correct course under its current chair. This briefing sets out why Mr Merki is failing to perform his duties, and why it is in investors' interests to vote to remove him.

EMS-Chemie is failing to act on climate change, passing on its transition risk to its minority shareholders.

EMS-Chemie, the Swiss-based polymer and specialty chemicals manufacturer, and sixth largest European chemical company by market capitalization,¹ far underperforms peers in its willingness and readiness to decarbonise. References to climate change and sustainability in the company's reporting are not supported by a credible net zero commitment or strategy. This assessment is supported by the Transition Pathways Initiative; EMS-Chemie is one of only two out of 57

¹ Statista (2022), [Market capitalization of leading chemical companies in Europe as of May 2022](#).

chemical companies to be rated Level 1 (of a possible 4) on their management of emissions and climate-related risks and opportunities.²

The consequences of inaction by companies like EMS-Chemie are clear. This week (17 July 2023), 150km from EMS-Chemie's headquarters, firefighters are struggling to extinguish wildfires in the Swiss Alps which may burn "for days or weeks".³ As much of Europe contends with extreme heat, a peer-reviewed study published on 13 July 2023 found that Switzerland and the UK will experience the largest relative increases in "uncomfortably hot days", globally;⁴ Switzerland is warming two-to-three times faster than the global average.⁵

The company faces growing regulatory and consumer pressure to act. Swiss voters chose last month to uphold the new Swiss climate law, which will require all Swiss-domiciled companies to reach net zero emissions on scopes 1 and 2 by 2050. EMS-Chemie is proudly a supplier to the world's largest automotive and electronics companies⁶ – many have ambitious and far-reaching commitments to decarbonise their supply chains. Its current stance is therefore untenable.

EMS-Chemie can change course. The company needs to set out a clear, funded plan, to:

- Mitigate direct emissions with process electrification and renewable energy;
- Find alternative non-fossil raw materials with which to make its products; and
- Phase out its reliance on bioenergy; and
- engage closely with its supply chain – 99 per cent of its reported emissions are at scope 3.⁷

However, the company's sustainability report published on 14 July 2023 provides no reassurance that the company will change its behavior.

² Transition Pathway Initiative (2023), [Chemicals](#).

³ Reuters (2023), [Switzerland fights to contain forest fire near Italy border as winds pick up](#).

⁴ Miranda, N.D., Lizana, J., Sparrow, S.N. *et al.* [Change in cooling degree days with global mean temperature increasing from 1.5 °C to 2.0 °C](#). *Nat Sustain* (2023). Measured as Degree Cooling Days. See: National Weather Service (2023), [Heating and Cooling Degree Days](#).

⁵ IEA (2022), [Switzerland Climate Resilience Policy Indicator](#).

⁶ EMS-Chemie (2023), [EMS EFTEC customers](#).

⁷ EMS-Chemie (2023), [Sustainability report](#).

Mr Merki chairs a board which has approved a net zero strategy that is not credible

Though the company claims to be targeting net zero – a target approved by Mr Merki, as chair – ShareAction assesses that this commitment is not credible:

- EMS-Chemie’s net zero target covers less than 1 per cent of total emissions. The company has a target for “net zero CO2 emissions (scope 1 and scope 2) worldwide by 2050”.⁸ The most recent reporting estimates that these emissions total 0.77 per cent of total emissions (scopes 1, 2 and 3). With planned growth, this share is projected to decrease to 0.63 per cent by 2035.
- EMS-Chemie plans to increase emissions over the next 12 years. The company has put no guardrails on gross emissions, targeting only reductions in CO2 per ton of product. EMS-Chemie’s overall emissions are projected to increase by almost 3 million tons under these targets, due to projected scope 3 growth alongside inconsequential reductions in scope 1 and 2. This trajectory is inconsistent with a meaningful transition towards net zero.
- EMS-Chemie has not produced a meaningful emissions reduction strategy and leans heavily on offsetting claims. Offsetting should be a last, not first, resort, and under the new Swiss climate law companies will have to reduce emissions “as far as possible” before offsetting is deployed.⁹ But without offsetting, the company’s scope 1+2 emissions will be just 0.68 per cent lower in 2035. EMS-Chemie’s claim to have been “CO2-neutral” since 2021¹⁰ is only true at face value if 99 per cent of the company’s full value chain emissions are not counted. Beyond offsetting, the company makes only vague references to how it will reduce emissions, mostly focused on energy efficiency.¹¹

⁸ EMS-Chemie (2023), [Sustainability report](#).

⁹ Swiss Confederation (2022), [Federal Act on Climate Protection Goals, Innovation and Strengthening Energy Security](#), Art 3. Para 1.

¹⁰ EMS-Chemie (2023), [Sustainability report](#).

¹¹ In its latest sustainability report, the company references energy efficiency measures, renewable energy procurement, and new processes.

On this basis, EMS-Chemie is not on track for a meaningful reduction in emissions. That this strategy was approved by Mr Merki raises serious doubts about his scrutiny of management.

Poor governance and risk management practices are evident at EMS-Chemie, three years into Mr Merki's chairmanship

EMS-Chemie claims that processes exist for proper oversight of climate-related risks and opportunities, saying:

"The EMS Group has a risk management system approved by its Board of Directors. In this system, risks are identified, analyzed and evaluated according to their probability and degree of occurrence, and measures are defined to address them. Risks related to climate change are an important part of this...Internal Audit coordinates the risk management process and reports to the Board of Directors. Significant risks are also addressed on an ongoing basis in regular executive management and board meetings.¹²"

The company's disclosures do not support this claim. It is unclear how the board, under Mr Merki's leadership, provides oversight of climate-related risks and opportunities, or management's strategy for addressing them. EMS-Chemie provides no evidence of Mr Merki, other board members or management having expertise, or receiving training, on climate change or sustainability issues.

Vague descriptions of risks, opportunities and efforts to respond to them, without comment on their probability and potential impact, provide little reassurance of how risks are being assessed and managed. Further, the company describes the climate scenarios used to assess these risks in scant detail, with no disclosure of underlying assumptions or whether they are informed by

¹² EMS-Chemie (2023), [Sustainability report](#).

qualitative or quantitative elements.¹³ This raises concerns about their sufficiency to identify and evaluate risks.

These disclosure gaps are consistent with wider poor disclosure practice by EMS-Chemie. The company has only just publicly reported its absolute emissions for the first time, years behind sector peers, and makes no disclosures on the proportion of current or planned spend going towards low-carbon investment. The company is rated 'C' by the Carbon Disclosure Project – of the five European chemical companies larger by market capitalization, four received 'A' grades, and one 'B'.¹⁴

Under Mr Merki's oversight clear gaps have developed in the company's governance and risk management. This raises important questions about Mr Merki's competence as chair, at a time when EMS-Chemie must urgently adapt to new realities in Switzerland.

Two years of non-engagement shows disregard for EMS-Chemie's minority shareholders

EMS-Chemie has consistently failed to engage with a large investor coalition and individual minority shareholders. A group of investors with USD 2.9 trillion under management and under advice, convened by ShareAction, has engaged with 12 of the largest companies in the European chemical sector. EMS-Chemie was supposed to be the thirteenth. Two years into this engagement initiative, it is the only company that has not yet met with coalition members. The coalition sent two letters, in November 2021 and again in February 2023. Individual investors have also written privately to the company without a reply.

Although the Blocher family retains majority control of the company, all shareholders bear the risk of its failure to prepare for climate transition. The company have shown disregard for

¹³ Ibid.

¹⁴ Reporting by the Carbon Disclosure Project ([website](#)).

minority shareholders' concerns despite the many opportunities to behave differently. Now, investors have the chance to ask for change, and signal their dissatisfaction with Mr Merki's governance.

ShareAction calls on investors to vote against the re-election of Mr Merki

As chair, Mr Merki bears responsibility for management's failure to adequately transition the company's operations to reflect the economic reality of climate change. There is minimal evidence of progress to improve governance, appropriately manage risks, or steer effective climate strategy during his three-year tenure as chair. On the contrary, under Mr Merki's leadership, clear and serious shortcomings in each of these areas have become entrenched. We believe that the risks this creates for shareholders, and for the planet, are clear, and call on investors to vote against his re-election.