



Federation of German Security and
Defence Industries e.V.

Sustainable Finance against the backdrop of current world events

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What is the German Security & Defence industry doing?



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BDSV: comprises more than 200 member companies

“The BDSV members are companies which are highly qualified outfitters and partners of our German armed forces and of German law enforcement agencies. As such, they are an integral part of the German security eco-system, directly enabling and supporting security and freedom of our citizens.”

“The BDSV member companies are exporting their products only based on the respective export control legislation and strictly aligned with the political decisions as being made by the Federal Government of the Federal Republic of Germany.”

Source: BDSV Mission Statement adopted in Nov. 2017

BDSV: claims that products shall never end up in „wrong hands“

The Political Guidelines of the Federal Government for armament export are designed to ascertain that weapons made in Germany will never end up “in wrong hands” (wrong hands = for hostile, aggressive use, for entertaining war or supporting conflicts).

This is why export of arms from Germany to countries outside EU, NATO or NATO-equivalent countries will not receive a governmental export approval, unless there is an explicit foreign- or security policy interest of Germany, which provides a reason for approval in a particular case (decisions always to be made in confidential session by the German “National Security Council”).

Why will ESG not be achieved without security?



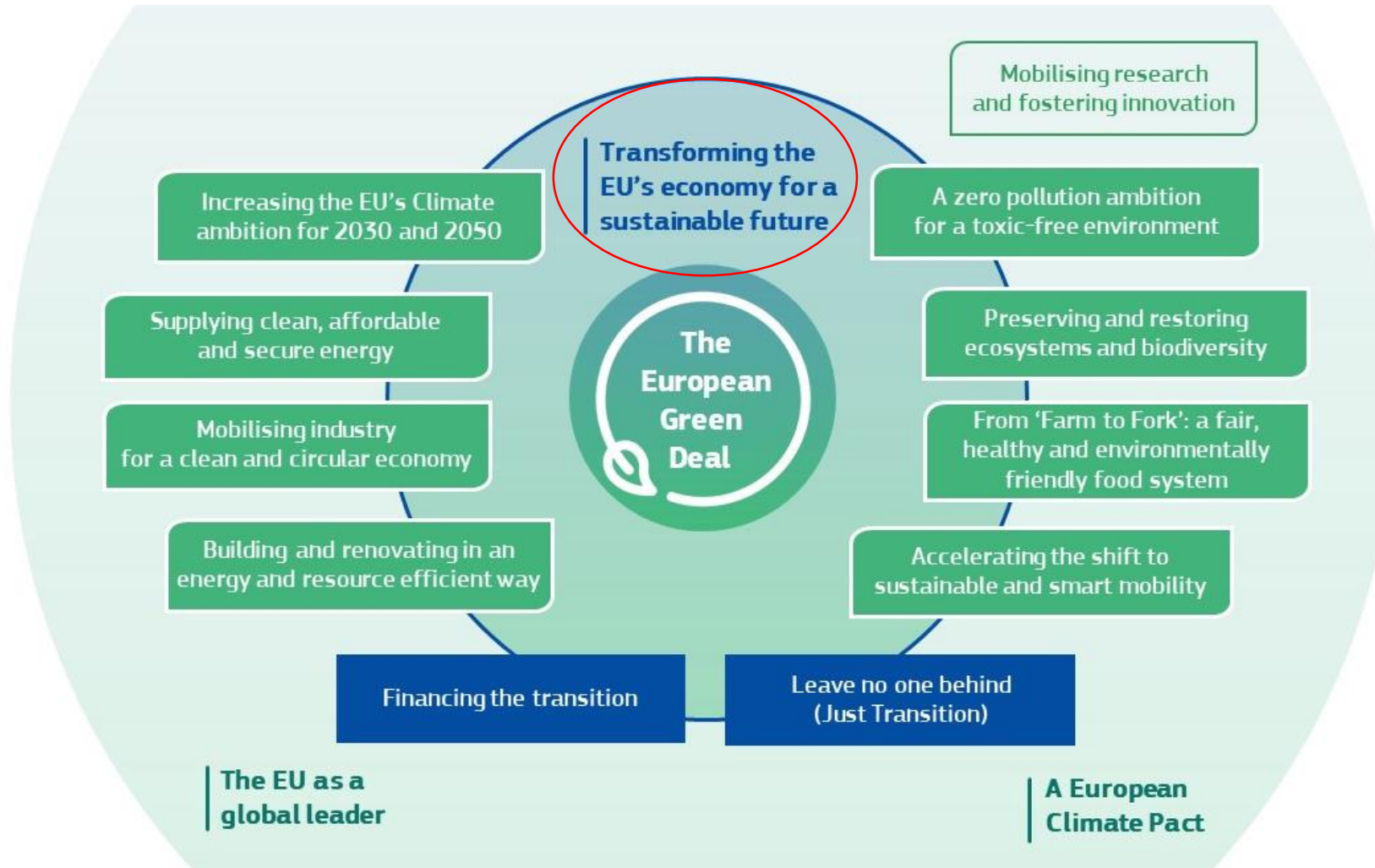
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The aggression against Ukraine delivers a tragic example!



Almost 6 million refugees – many of them have lost even their basic belongings

The „Green Deal“ disregards peace and security as basic needs



This official EU chart disregards peace and security as basis for any sustainability.

UN-Resolution 70/1 (2015) ,2030 Agenda for Sustainable Development': *"There can be no sustainable development without peace and no peace without sustainable development."*

How is this „green“ transformation going to work?



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„Sustainable investment“ key driver for „green“ transformation



“Sustainable investment’ means an investment in an economic activity that contributes to an environmental objective, ... or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives.”

Source: Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector

„EU Taxonomy for Sustainable Activities“ as measuring tool

“This Regulation establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable for the purposes of establishing the degree to which an investment is environmentally sustainable.

This Regulation applies to:

(a)

(b) financial market participants that make available financial products;

(c)”

Source: Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment

What does ESG mean for defence so far?



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Present impact on the German security and defence industry

Several terminations of business accounts and refusals of granting standard services by several major banks and insurance companies because of reputational concerns and weapons seen as „non-sustainable“.

Encouraged by Germany's first green bond, issued Sept. 2020:

“Further any spending which is in substantial connection with the following activities or sectors will not be regarded as “green”: Armament, Defence, Tobacco, Alcohol, Gambling and each and every activity which is connected with fossile energy, including coal or nuclear energy (for example production, transport, storage and energy production).“

Source: Framework for Federal green bonds issued by the Federal Government of Germany, Ministry of Finance

Consequence of the MIFID II-customer protection standard

Under the MIFID II Reg. in Germany only funds will be distributed as “sustainable” when excluding assets of companies,

which comprise more than

- 5 % of their turnover with tobacco,
- 30 % of their turnover with coal, or
- 10 % of their turnover with armament (“Rüstung”)*

* regardless of the purpose and the recipients, i.e. also covering supplies to EU-/NATO-armed forces!

Source: Podcast published by the GERMAN INVESTMENT FUNDS ASSOCIATION (BVI) - <https://www.bvi.de/presse/podcast/>

What kind of guidance will be required?



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„EU Taxonomy for Sustainable Activities“ as strongest signal

Regulatory mechanism of the “EU Taxonomy for Sustainable Activities”

E = Environmental

- six criteria already being defined

S = Social

- criteria in horizontal and vertical dimensions

G = Governance

- criteria to be defined

*Under the taxonomy an economic activity qualifies as sustainable, if it
(a) contributes substantially to one the environmental objectives and
(b) does not significantly harm any of the environmental objectives.*

Finally the taxonomy will produce three categories of activities:

(1) supportive for sustainability

(2) detrimental for sustainability

(3) sustainability-neutral

Alert for the „S“ of the „EU Taxonomy for Sustainable Activities“

“Social sustainability” not only implies adequate food, water, housing and clothing, but first and foremost peace and security in order to preserve our standard of living for next generations.

Weapons as such cannot be distinguished as either defensive or not defensive; their qualification depends on internally recognized treaties and on the legal foundation on which their users are operating.

Therefore our industry’s products for armed forces in EU and NATO should be officially acknowledged as substantial contributions to peace and security in Europe.

**Which requests are to be put forward to the
EU Commission?**



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Requests of the German security and defence industry



- to acknowledge the fundamentally positive contribution of the defence ecosystem to security and peace within the Union,
- to acknowledge well equipped European defence forces plus respective industrial capabilities as basis for strategic autonomy,
- not to leave public goods to an adverse public opinion, but to take care of security and peace under governmental responsibility,
- to obey international treaties adopted by all EU Member States when defining exclusions for “controversial weapons”

„Security is key for any sustainability“

This sentence needs to be widely known and echoed also within the financial sector!

SICHERHEIT IST DIE MUTTER ALLER NACHHALTIGKEIT