AEROSPACE & DEFENCE INDUSTRIES TO ENCOUNTER HEAVY OBSTACLES WITH NEW PRESSURES MOUNTING

While cluster munitions financial investments already banned in some EU countries, sustainable fuel sources and supply chain issues are among the most pressing challenges faced by the sector.

Often situated in very different markets, the sectors of Aerospace & Defence (A&D) experience many of the same trends across the world with important ESG challenges, as Eurosif’s latest report discusses. Jet kerosene accounts for 25% of total airline costs, therefore climate change and increasing oil prices are one of the key challenges for the aerospace industry. One of the most secretive sectors in which corruption and bribery issues are likely, the defence sector deals with flattening military budgets and controversial weapon international legislation to take effect in 2012.

Eurosif’s Aerospace & Defence report is 13th in a series of sector reports. Research was provided by Sustainalytics, and the project was supervised by a steering committee of representatives from CM-CIC Asset Management, ECPI and Edmond de Rothschild Asset Management. Events to publicly present this report are planned for the autumn 2011.

With the EU Emission Trading Scheme taking effect on January 1, 2012, the report finds that the demand for alternative fuels is expected to grow in the coming years.

Giuseppe van der Helm, Eurosif President, comments:

As air travel continues to become more important to the global economy and more accessible to the public, it is imperative that this industry maintains a level of integrity in its environmental impact as well as its service standards. The research and development of alternative fuels is just one way to ensure this sector’s longevity; product quality is also of the utmost importance for passenger safety and business’ reputations.

Research shows that approximately 60 listed companies are involved in controversial weapon production globally, with the A&D sectors being subject to international regulation, such as the Army Trade Treaty, currently negotiated by governments. Investors are increasingly avoiding investments in companies involved in controversial weapon production, transfer or stockpiling.

Diederik Timmer, Sustainalytics Managing Director Europe, states:

Aerospace & Defence companies that demonstrate leadership in the areas of ethics and sustainable innovation will be the winners of tomorrow. Therefore, investors have the opportunity to contribute to sustainability by investing in companies that demonstrate leadership by implementing sustainable business practices. By doing so, investors can benefit from high performance, while mitigating risks in the medium and long term.

The report also discusses the A&D sector’s operation shift to emerging markets, as some of these countries have recently become top weapons importers and their labour costs are still low compared to other countries. However, companies must be mindful of various risks like corruption, supply chain management and labour relations when working in these countries.

Two case studies are provided in this report to show best practices, focussing on effective supply chain management and the integration of biofuels into the sector, respectively.

Eurosif has been lobbying for the integration of ESG issues and transparency relating to operations and investments in the Aerospace and Defence sector and will continue its work in the field all throughout 2011.

The report can be downloaded at: http://www.eurosif.org/research/sector-reports/aerospace-a-defence

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Note to the editors

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Eurosif publishes four sector and thematic reports annually. These documents continue to aid policy makers, companies and mainstream and specialist SRI investors to understand various risks and that are not consistently integrated into traditional financial analysis, but which have the potential to influence companies’ shareholder value and fund managers’ investment decisions.

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Sustainalytics
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