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How do German manufacturers react to the increasing societal pressure for decarbonisation?

Stefan M. Buettner ^{1,*}, Christian Schneider ¹, Werner König ², Hannes Mac Nulty ³, Chiara Piccolroaz ¹ and Alexander Sauer ¹

¹ University of Stuttgart, EEP – Institute for Energy Efficiency in Production, 70569 Stuttgart, Germany; Stefan.Buettner@eep.uni-stuttgart.de (S.B.), Christian.Schneider@eep.uni-stuttgart.de (C.S.), Chiara.Piccolroaz@uni-konstanz.de (C.P.), Alexander.Sauer@eep.uni-stuttgart.de (A.S)

² REZ - Reutlingen Energy Center for Distributed Energy Systems and Energy Efficiency, Reutlingen University, 72762 Reutlingen, Germany; Werner.Koenig@Reutlingen-University.de (W.K.)

³ Mac Nulty Consulting, 01220 Divonne les Bains, France; Hannes@macnulty-consulting.com (H.M.)

* Correspondence: Stefan.Buettner@eep.uni-stuttgart.de; Tel: +49 711 970 1156

Abstract: From the perspective of manufacturing companies, the political, media and economic discourse on decarbonisation of the recent years manifests itself as an increasing social expectation of action. In Germany in particular, this discourse is also being driven forward by powerful companies, respectively sectors, most notably the automotive industry. Against this background, it was examined how German manufacturing companies react to rising societal pressure and emerging policies. It is examined which measures the companies have taken or plan to take to reduce their footprint, which aspirations are associated with this and by which structural characteristics (company size, energy intensity, sector) these are influenced. A mix methods approach was applied, utilising data gathered from approx. 900 companies in context of the Energy Efficiency Index of German Industry (EEI), along with media research focusing on decarbonisation plans and initiatives announced. We demonstrate that one-size-serves-all approaches are not suitable to decarbonise industry as the situation and ambitions differ considerably depending on size, energy intensity and sector. Even though the level of ambition and urgency are high, particularly micro and energy intensive companies are challenged. The research uncovers a series of questions that call for attention to materialise the ambitions and address the challenges outlined.

Keywords: decarbonisation, carbon footprint, net-zero, resources, energy consumption, implementation, manufacturing, product carbon footprint, carbon neutrality

1. Introduction

Facing the challenges to keep global warming below 1.5°C by 2050, the German so-called 'Climate Cabinet' negotiated a climate package that added sufficient new substance to existing agreements to get to address the United Nations General Assembly in lieu of the UN Climate Action Summit in September 2019. Publicly challenged for its ambition and doubtful impact, the package finally passed in late 2019 under several conditions, including increasing the proposed CO₂-levy starting in January 2021 to 25 EUR per ton of CO₂-eq. (CO₂-equivalents) emitted [1-3].

Simultaneously, the UN Summit led to pledges by the business and financial sector, as well as regional and country players to reach net zero carbon by 2050. A third of the global banking sector pledged to work to achieve the Paris Agreement goals, and companies with a capitalisation of 2 trillion euros united to commit to manage their companies to achieve climate targets [4-5].

In awareness of the relevance of both the climate package and the UN Climate Action Summit and their likely impact on the industrial sector, along with the frequent referrals

by politics on the alleged position and situation of industry towards both climate package requirements and decarbonisation, the Institute for Energy Efficiency in Production (EEP) chose to tailor its October/November 2019 data collection for the Energy Efficiency Index of German Industry (EEI) to capture the actual opinion of the German manufacturing industry on these issues [6] at the height of the discussion and public attention and ahead of the United Nations World Climate Conference COP25 in Madrid. In this paper, which builds and extends on a conference paper presented at the ECEEE Industrial Efficiency 2020: Decarbonise Industry! Conference [7], we focus on the outcomes in relation to decarbonisation.

Why is decarbonisation of the industrial sector of particular relevance in avoiding climate change? Industrial energy consumption is about as high as in the building sector and less than in the transport sector and accounts for 17.5 % of energy-related greenhouse gas emissions in Germany in 2018 [8]. Unlike the other two, the industrial sector decides on optimisations and investments on a daily basis, whereas the timespan of action for buildings and transport can be decades (i.e. heating systems, buildings, tractors, trucks, ships). Furthermore, nearly everything leading to emissions in all sectors (except livestock) has been in a factory at one point; i.e. entrepreneurs decide how products are designed and produced, where the raw materials come from and how products, components and equipment perform and can be recycled - therefore the industrial sector, in the long run, is the key to making net decarbonisation feasible by 2050 and hence is the focus of this study.

2. Methodology

This study builds on data gathered in the framework of the Energy Efficiency Index of German Industry (EEI). Introduced in 2013, in reaction to the lack of "targeted energy efficiency analysis" and "presented as an index for industry as a whole and especially the manufacturing sector" [9], EEI's methodology leans on the general approach of the German monthly economic indicator, the ifo-Index [8], and focuses on opinions, experiences, expectations and intentions of entrepreneurs from across 27 sectors and different company sizes.

In 2017, around 540,000 manufacturing companies (178,000 of them in the 27 most relevant subsectors) employed 10.25 million people and created a revenue of almost 3.07 trillion euros [10] (p. 524). The data set examined in this paper contains answers of 915 companies and was gathered in October/November 2019 – briefly after the September 2019 United Nations Climate Action Summit and the announcement of the German climate package.

Focussing on current issues at each of the semi-annual data collections, the 2nd data collection of the EEI in 2019 looked in particular at the position of the German manufacturing industry in respect to the German climate package and decarbonisation [6]. Among 28 questions in total, companies were asked to indicate the number of employees, energy consumption, revenue and sector (with their largest share of revenue), to allow for analysis and cross-referencing of these parameters with current-topic question results. However, energy consumption and revenue in particular are considered confidential and were not provided by a significant number of respondents, explaining the different number of observations in the analysis to come.

The data collection was carried out in mixed methods design, combining telephone and online surveys. Table 1 provides an overview of the sample by company size as defined by the European Commission [11]. For EEI's samples, we purposely aim for an approximately even distribution across company sizes rather than following the actual size distribution of manufacturing companies in Germany [10] (p. 526) to allow us making statements for all company sizes.

Table 1. Sample composition by company size (n=876).

Company size	Number of employees	Revenue	Observations	Percentage
micro	0-9	< 2 mil. EUR	206	23.5 %
small	10-49	2 to < 10 mil. EUR	208	23.7 %
medium	50-249	10 to < 50 mil. EUR	281	32.1 %
large	>249	≥ 50 mil. EUR	181	20.7 %

An even distribution across the relevant 27 manufacturing sectors (that represent 178,000 companies) was desired, but difficult to achieve. Therefore, several so-called core industries, from which at least 25 companies should participate, were defined in context of the telephone survey. These include sectors such as mechanical engineering and automotive, which are considered to be very important for German industry. Sectoral analyses in this paper only feature sectors with, overall, at least 20 participating companies providing answers to the respective questions. Micro sectors' ($N < 10$) results are taken note of ('**') when more than 50 % of the sector participated in this study; similarly, results of small sectors ($N < 100$) are taken note of (*) when at least 15 % of the sector participated. The sectors are coded according to NACE, the '*Nomenclature générale des activités économiques dans les Communautés Européennes*' (engl.: General Industrial Classification of Economic Activities within the European Communities), whose use is mandatory in the European Union and is in compliance with the global ISIC system (*United Nations' International standard industrial classification of all economic activities*) [12-14].

Responding companies are asked to indicate whether their responses are on behalf of their overall company or one specific site. Of the overall 915 observations, 686 refer to one specific site and 199 refer to multiple sites. Table 2 gives an indication what percentage of the total number of companies in a sector participated. In very small sectors, such as the 'crude petroleum and natural gas' sector (06), the percentage may appear to exceed 100 %. In this case, 3 out of 7 responses refer to multiple sites while 4 refer to one specific site, leading to the assumption that all four companies in the sector responded – one by site and the other three by company.

Table 2. Sample composition by sector (n=884).

NACE Code	Sector	Total population (N)	Observations (n)	Percentage n(N)
05**	Mining of coal and lignite	7	5	71.4%
06**	Extraction of crude petroleum and natural gas	4	7	175.0%
08	Other mining and quarrying	1,517	30	2.0%
10	Manufacture of food products	21,498	29	0.1%
11	Manufacture of beverages	2,033	21	1.0%
12*	Manufacture of tobacco products	44	5	11.4%
13	Manufacture of textiles	3,643	21	0.5%
14	Manufacture of wearing apparel	2,625	10	0.3%
15	Manufacture of leather and related products	1,166	40	3.0%

16	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	11,919	42	0.3%
17	Manufacture of paper and paper products	1,467	48	3.3%
18	Printing and reproduction of recorded media	9,832	32	0.4%
19*	Manufacture of coke and refined petroleum products	84	13	15.5%
20	Manufacture of chemicals and chemical products	3,019	55	1.8%
21	Manufacture of basic pharmaceutical products and pharmaceutical preparations	521	26	5.0%
22	Manufacture of rubber and plastic products	6,698	62	0.9%
23	Manufacture of other non-metallic mineral products	8,951	43	0.5%
24	Manufacture of basic metals	2,424	56	2.3%
25	Manufacture of fabricated metal products, except machinery and equipment	40,338	70	0.2%
26	Manufacture of computer, electronic and optical products	6,854	14	0.2%
27	Manufacture of electrical equipment	5,730	52	0.9%
28	Manufacture of machinery and equipment n.e.c.	15,408	64	0.4%
29	Manufacture of motor vehicles, trailers and semi-trailers	2,461	51	2.1%
30	Manufacture of other transport equipment	1,029	25	2.4%
31	Manufacture of furniture	9,615	35	0.4%
32	Other manufacturing	19,096	24	0.1%
99	Other			
	Total	177,983	884	0.5%

As we assume the position and intended action of companies towards the calls to decarbonise differ depending on the energy intensity of a company, we computed the energy intensity for each company, where possible, and clustered these into five intensity classes. It could be argued that energy intensity is an inadequate measure as it cannot take into account added value and therefore the cost share of energy in relation to total costs should be applied instead. In theory, this would make sense. However, gaining access to this type of data would, in practice, be quite difficult to accomplish.

Energy intensity is calculated as the ratio between the energy used and the revenue of a company. The variable 'energy use' contains information on the overall energy demand of a company (converted) in MWh (Megawatthours), while the variable 'revenue' provides information on the revenue of a company during the previous financial year in million euros. The results of this operation cover a wide range, which counts 688 cases and extends from 0.0001 to 10,000 Watthours (Wh) consumed per euro of revenue (Wh/EUR) for this sample.

In order to classify the variable energy intensity, corresponding values have been grouped into five classes as illustrated in Table 3. The lower (higher) the class of variable energy intensity, the higher (lower) the energy productivity level of an industry. Energy efficiency is a key measure to increase energy productivity. Since only ten of the energy intensity observations fall into the fifth class, there are not enough cases ($n \geq 20$) to include this class in the analysis conducted on the EEP 2019 survey data. For this reason, the analysis in this paper will feature just four energy intensity classes.

Table 3. Sample composition by energy intensity (n=688).

Energy Intensity Class	Energy Intensity Interval	Observations	Percentage
not energy intensive	0 to <10 Wh/EUR	150	21.8 %
less energy intensive	10 to <100 Wh/EUR	258	37.5 %
moderately energy intensive	100 to <1,000 Wh/EUR	203	29.5 %
energy intensive	1,000 to <10,000 Wh/EUR	67	9.7 %
very energy intensive	≥10,000 Wh/EUR	10	1.5 %

3. Results

How do companies react to rising societal pressure & emerging policies?

German industry, as many others, suffered from a shortage of skilled personnel ahead of the COVID-19-pandemic, meaning the demand for them exceeds the supply, allowing – in most cases young graduates – to choose where to start working. A McKinsey study has identified, that sustainability has become a more important factor than salary or job security and that similarly, according to a YouGov online poll, 68 % deem sustainability action by their employer as important. [15]

Unsurprisingly, companies increasingly state sustainability as a significant element of their corporate strategy to address this (e.g. Daimler, Henkel), but what does this mean? Is it a marketing activity, which if uncovered would have a negative impact on image and sales (i.e. 'greenwashing')? Or are there real intentions to act? According to a member of the board of the Federal German Working Group for Environmentally Conscious Management (Baum), "family-run SMEs['] and start-ups['] environmental efforts are often more authentic than [...] Dax corporations['], because the owner family acts sustainably with an inner conviction". [15]

Those large companies, however, that pledged at the UN summit, have a longer history of corporate culture that is positive towards climate change measures and are often companies that customers recognize well, i.e. good Corporate Social Responsibility matters a lot to their marketing strategy [4].

Many other companies made announcements or teamed up, such as the 'entrepreneurs for future', comprised of over 2,500 German SMEs that want to position themselves and make use of the arising chances as early movers, as well as 'Leaders for Climate Action' that bring together a number of known brands. [16]

What measures do companies take to tackle their carbon footprint?

Whilst pledges are already a reaction, they only work and do not backfire when real action follows. We therefore identified a number of practical measures that could be undertaken to reduce the carbon footprint of a company and their products.

What measures do companies take to reduce the footprint of their company, products and supply chain?

The 'reduction of energy consumption through energy efficiency measures', as well as 'own generation of renewable energies' can be considered as feasible internal measures, whilst the 'purchase of renewable energies', 'compensation measures', and a 'CO₂ optimisation of the supply chain' are external measures. To allow responders to name additional measures, the option 'others' was provided, as were 'not known' or 'no action'. With just a 1 % share of others it can be assumed that the range of options provided covered all relevant answer options. As the measures provided are not excluding each

other, the choice of multiple measures was provided to the 858 companies responding to this question, who on average selected two of them.

The majority of measures chosen to reduce the carbon footprint are internal actions

Across all companies, 54 % of the measures reported are internal actions, with 33 % energy efficiency measures, and 21 % own generation of renewables. Looking at this from a **company size** perspective (cf. Figure 1.1), the range of internal measures varies from 57 % in large companies to 49 % in micro companies, due to a larger share of efficiency measures in medium-sized & large companies (35 %) in comparison to the smaller company sizes (32 and 30 %). The higher emphasis on efficiency measures may be due to larger companies' increased means for dedicated personnel dealing with energy efficiency and related topics.

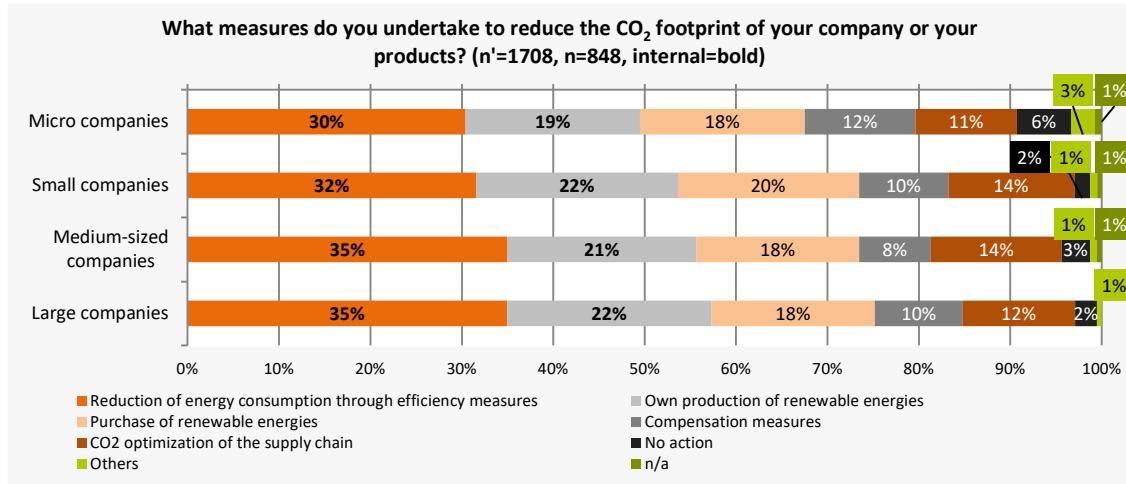


Figure 1.1. Measures undertaken to reduce CO₂ footprint of company or products, by company size.

From a viewpoint of **energy intensity**, internal measures vary from 53 to 56 %, with a gradual increase from non- (53 %) to energy intensive companies (56 %). With a share of 37 %, the energy efficiency measures of energy intensive companies outrank those of the other intensities (33 %) significantly, potentially a result of the energy management system obligation for (energy intensive) companies seeking to qualify for levy reliefs. Another reading is that particularly energy intensive companies have an interest in driving down their high energy costs, making up a much higher share of overall costs than in other companies and hence being in the focus of continuous optimisations of the cost structure. Similar to the company size review, the share for own generation is fairly constant at around 20 % across all energy intensity classes. (cf. Figure 1.2)

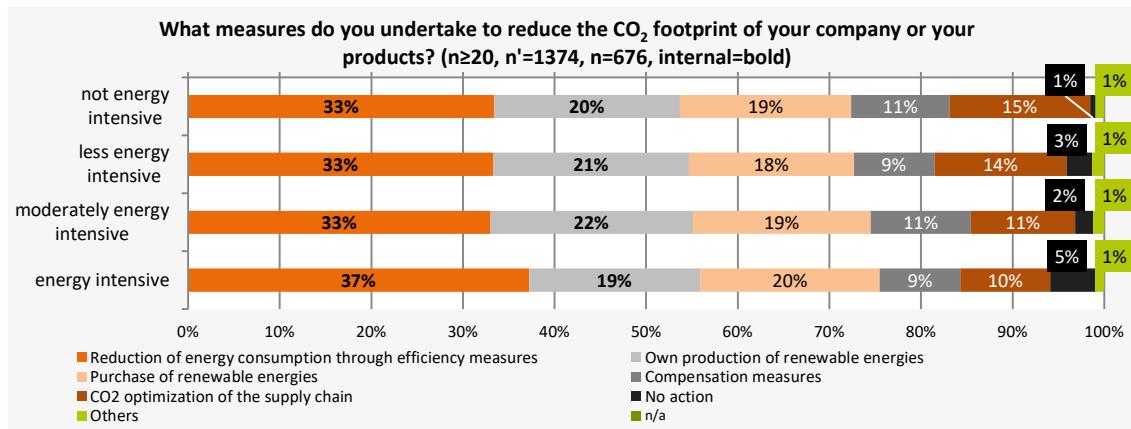


Figure 1.2. Measures undertaken to reduce CO₂ footprint of company or products, by energy intensity.

Reviewing the responses by **sector**, the situation differs completely and offers a large spread for internal measures, ranging from 42 % ('manufacture of pharmaceutical products') to 66 % ('beverage production'), underlining the different situations across the manufacturing sectors and the subsequent need for something else than 'one-size-fits-all' policies.

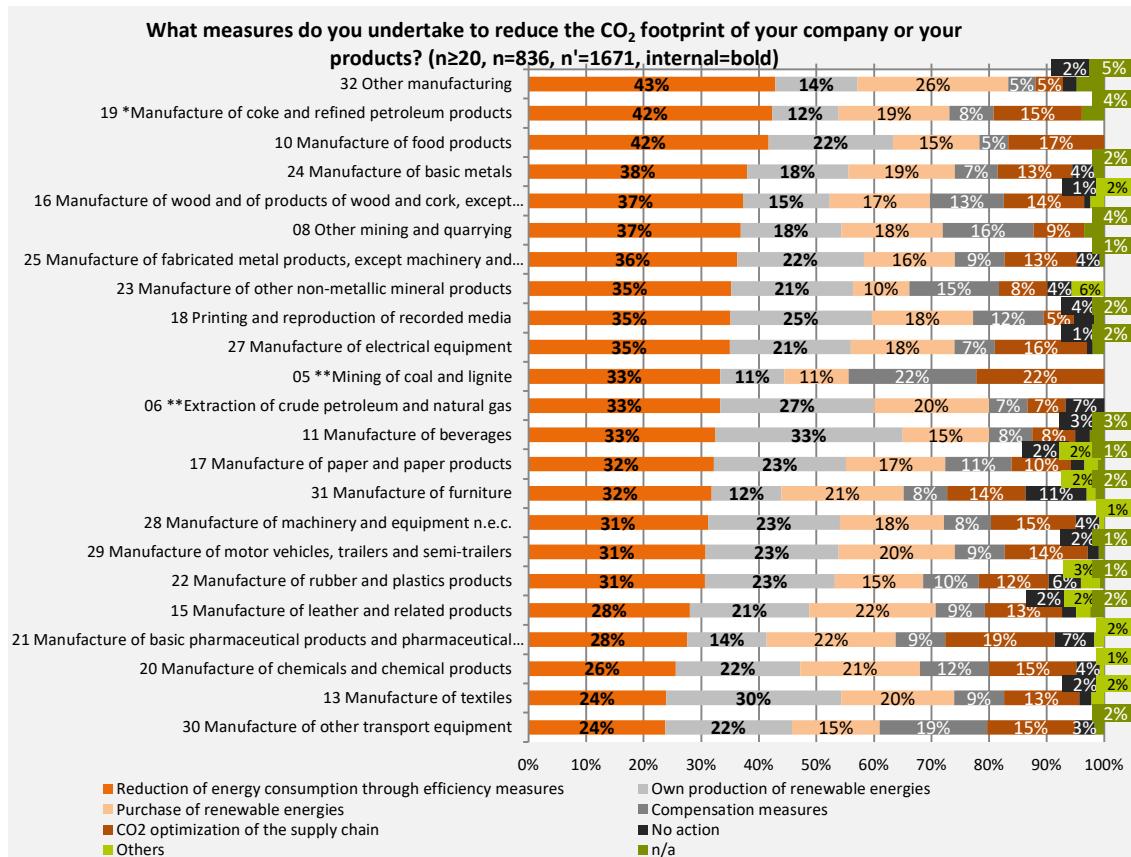


Figure 1.3. Measures undertaken to reduce CO₂ footprint of company or products, by sector.

The share of neither energy efficiency measures nor own generation follow this pattern in a linear or parallel way. To the contrary, it fluctuates largely from 24 % ('other

vehicle construction' and 'production of textiles) to 43 % ('manufacture of other goods') for energy efficiency measures. Even though only 13 companies of the 'coke and refined petroleum' sector responded, they represent 15% of 84 companies in this small sector [10] (p. 524), and therefore their 42 % should be noted. This allows to confirm the hypothesis made on energy intensity before: The levy relief affects the cost of energy, but not amount of emissions, which in the 'coke and refinery' sector stems mainly from non-electric sources. For own generation of renewables shares fluctuate from 12 % for that very sector (noting the 11 % of the 5 responding 'coal mining sector' companies that represent 71 % of the sector [10] (p. 524) – confirming the assumption regarding the source of energy – and the 'manufacture of furniture' to 33 % ('beverage production'). For the latter, as well as the 'production of textiles' sector (30 %), the share of companies deciding to generate their own renewable energy is about a third higher than in the other ones that, with one exception ('printed products'), do not exceed 23 %. (cf. Figure 1.3)

How do companies differ when it comes to external forms of intervention to reduce their carbon footprint?

Looking at the external forms of intervention to reduce the carbon footprint, purchase of renewable energy (18 %) outranks the CO₂ optimisation of the supply chain (13 %) and compensation measures (10 %). No measures are only undertaken by 3 % of the companies in that sample.

Figure 1.1 illustrates just marginal deviations when looking at the purchase of green energy and compensation measures from a **company size** viewpoint. This said, for compensation measures, micro companies lead the board (12 %), leaving medium sized companies (8 %) behind. The data indicates that the measure CO₂ optimisation of the supply chain does not depend so much on company size: deviating only marginally, it is chosen more often by small and medium-sized (14 %) than by large (12 %) and micro companies (11 %). The degree of inaction is largest with micro companies (6 %) but hardly visible for small companies (2 %), indicating that amongst smaller companies, the micro ones may need most support regarding the reduction of their footprint (cf. Figure 1.1)

The own generation of renewables is fairly similar when looking at **energy intensity**, only the energy intensive companies generate to a slightly lesser degree than the others. Only small differences occur looking at the degree to which compensation measures are chosen; for non-energy intensive and moderately energy intensive companies (11 %) it is a bit larger than for less and energy intensive companies (9 %). For non & less energy intensive companies comparatively low costs and corporate social responsibility considerations may be motivators; for energy intensive companies it may be difficulties to reduce their carbon footprint by optimising their supply chains as it is in the nature of energy intensive companies that the majority of emissions occur on site. Therefore, it is not surprising that this share increases by 50 % with decreasing energy intensity from 10 to 15 %. (cf. Figure 1.2)

Again, the variability is higher when looking at the **sectors**. However, the purchase of renewable energy only fluctuates between 15 and 22 %, with two outliers, 'manufacture of glass & ceramics' (10 %) and 'manufacture of other goods' (26 %). Compensation measures however vary a lot from 5 % ('food products' and 'other goods') to 19 % ('other vehicle construction', followed by 'extraction of stone & earth' and 'glassware & ceramics') – 'coal mining' would rank first at 22 %, again pointing to more energy intensive sectors with difficulties to decarbonise through other means. Externalisation of decarbonisation efforts to the supply chain also deviates a lot: from 5 % ('printing & media reproduction' and 'other goods', followed by again 'glassware & ceramics', 'beverage production', as well as 'extraction of stone & earth') to 19 % ('pharmaceutical products', followed by 'food products'). Here, however, there is a broad 'midfield' ranging from 8-15 %. It is striking that there are a few sectors with nearly twice the average percentage of inaction, all between 6 % ('rubber & plastics'), and 11 % ('furniture'), with 'pharmaceutical

products' in-between. All of these are sectors, where reducing the footprint is challenging as either the share of non-electric energy is much higher or emissions are released due to the nature of the process. (cf. Figure 1.3)

Do companies take energy & resource consumption, and CO₂ footprint into account when developing new products?

Energy & resource consumption, as well as CO₂ footprint of new products (in their production and use) largely determine the long-term energy & resource needs and emissions for the industrial sector. Beyond this, they also largely impact on the footprint of the place these products are used, as well - the transport, housing and energy sector. Therefore, it is crucial to explore how the manufacturing sector deals with this responsibility.

With 45 %, nearly half of the 856 companies responding to this question indicated they consider these factors in shaping their production process. Of the 36 % taking into account the full product life cycle, only a third looks also into the production process, and only a quarter does so vice-versa. Intuition would have suggested that those who look into the life cycle, do, to a large extent, consider the production itself as well. This identifies a potential weak point in the wording of the question, where some of the 36 % of companies may have considered the options mutually exclusive and others not, which may find support in a low rate of 12 % of companies providing two answers and calls for further analysis. That said, only 15 % consider neither option.

Looking at **company size** (cf. Figure 2.1), a significant share of large and small companies exceed (49/50 %) the average of 45 % of companies taking production into consideration, whilst the opposite is the case for micro companies (38 %), possibly due to the limitations they face with the machinery they possess and have in use longer than larger companies because of investment costs; the same applies in relation to not considering either factor (18 %), with 13 % and 10 % for small and large companies. In relation to the overall lifetime of products, the situation switches around with micro companies being ahead of the average (39 %) – potentially due to the nature and complexity of the product, e.g. a gasket versus goods whose use leads to energy consumption, but equally possible due to a decision by principle by the owner of micro companies.

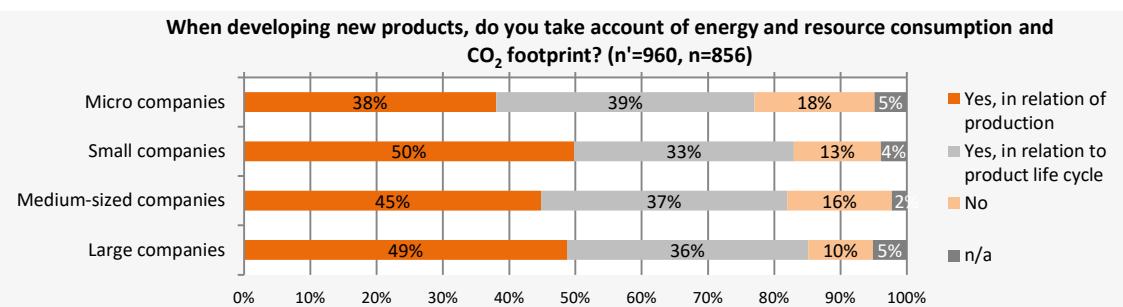


Figure 2.1. Consideration of energy/resource consumption & footprint in product development, by company size.

Among all but the **energy intensive** companies (35 %), a consideration of energy, resources and CO₂ footprint takes place in nearly half of the companies (48-49 %), whereas the not- and less energy intensive companies (39 %) consider the product life cycle only moderately more often than moderately and energy intensive companies (35 %). The share of companies not taking account increases nearly threefold from not energy-intensive (9 %), to energy intensive companies (24 %), again pointing to process and technical limitations in doing so. (cf. Figure 2.2)

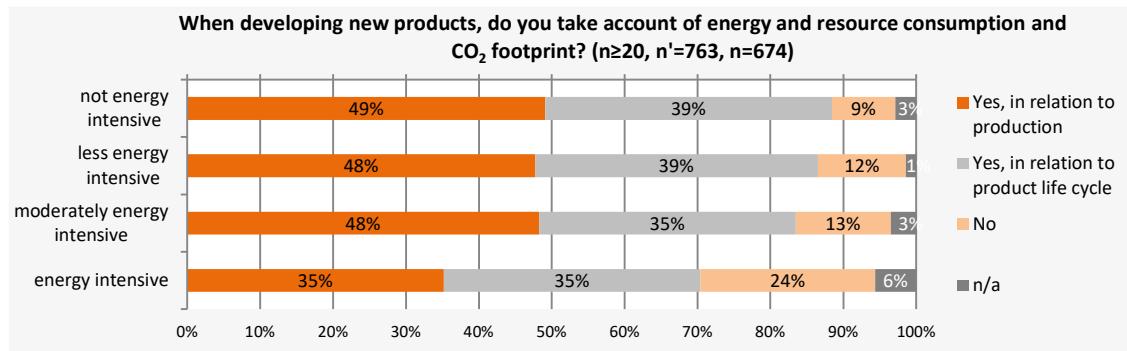


Figure 2.2. Consideration of energy/resource consumption & footprint i. product development, by energy in-tensity.

‘Beverage’ and ‘paper & paper products’ **sectors**, (58 %), as well as ‘printed matter & reproduction of media’ (57 %) and ‘other goods’ sectors (54 %) well exceed the average in relation to a consideration of the production process of newly designed products, whereas ‘textiles’ (32 %), ‘pharmaceutics’ and ‘glassware & ceramics’ sectors (36 %) fall significantly short. The entire life cycle, however, plays an above average role in the ‘textiles’ (52 %) and ‘pharmaceutics’ sectors (45 %), both sectors whose product portfolio is typically worn or consumed rather than used in an emitting manner. The life time performance is of least relevance in the ‘other goods’ sector.

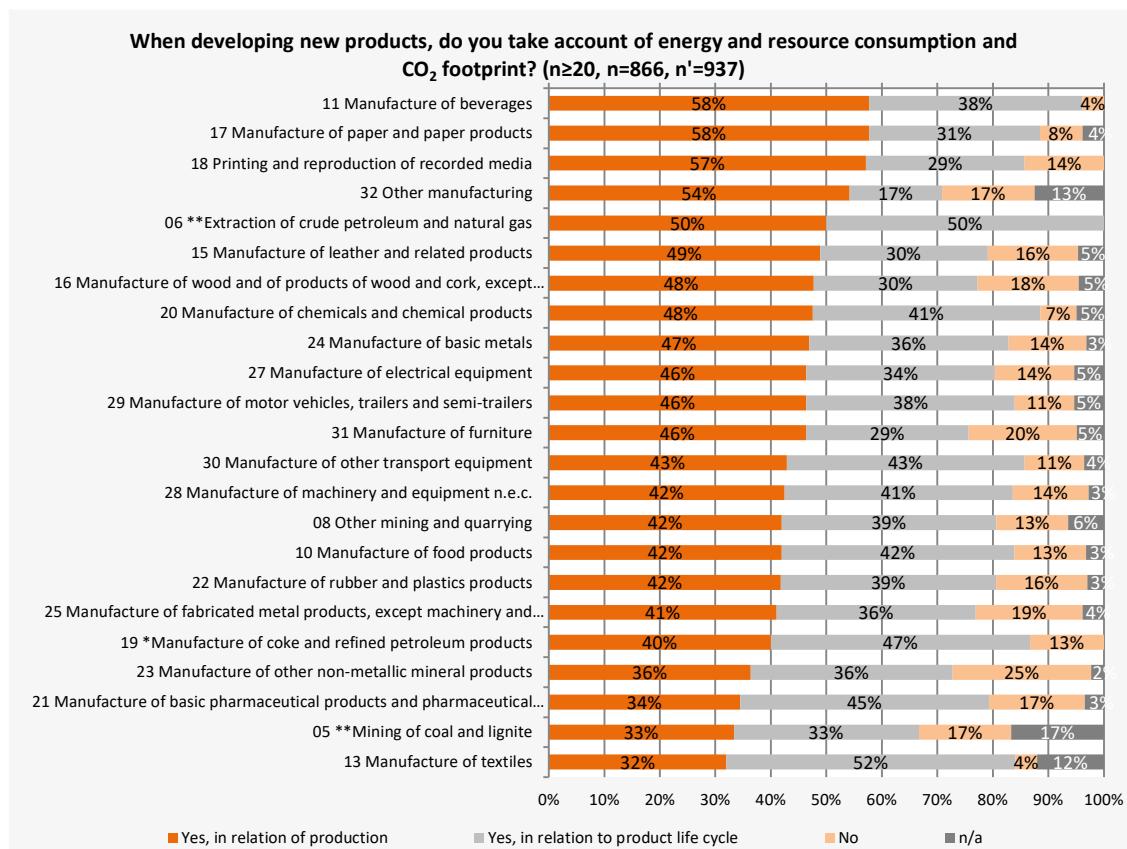


Figure 2.3. Consideration of energy/resource consumption & footprint in product development, by sector.

The share of companies taking no consideration is by far highest in the 'glassware & ceramics' sector (25 %) – understandable, as once the product exists, it rarely emits anything and can often easily be recycled. On the other side, the lowest share of companies not considering the performance can be found in the 'beverage' and 'textiles' sectors (4 %), followed by the 'chemical' (7 %) and 'paper & paper products' sectors (8 %). (cf. Figure 2.3)

Having assessed the consideration of environmentally relevant factors in shaping new products in principle, it is important to establish which one is assigned with the highest priority.

If considered, which of the three aspects has the highest priority?

Half the companies follow the path of efficiency first, as an energy consumption reduction leads to a smaller carbon footprint subsequently. Resource consumption has the highest priority to a third of the companies, whereas the footprint itself is leading factor only in 16 % of cases, perhaps as saving costs is primary driver so far.

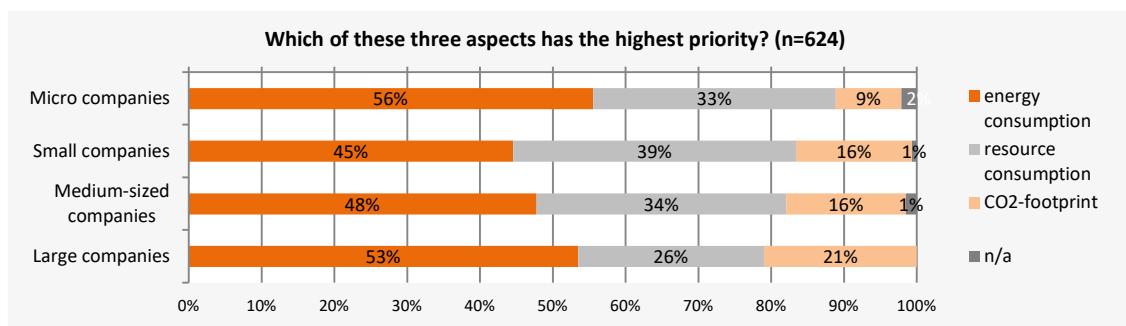


Figure 3.1. Energy & resource and footprint – which factor has highest priority, by company size.

Among micro companies (56 %) the priority of energy consumption reduction is highest, whereas it is lowest for small companies (45 %). Resource consumption, however plays a bigger role in small companies (39 %) and a much smaller one in large companies (26 %) – possibly as many small companies manufacture products with a higher likelihood of scrap and waste, whereas large(r) companies often 'just' combine specific parts they have ordered from their supply chain. As large companies are more visible and often – if also energy intensive – falling into the European emission trading system (ETS), the share of companies prioritising the CO₂ footprint is highest in that group (21 %), and for the same reason lowest for micro companies (9 %). (cf. Figure 3.1)

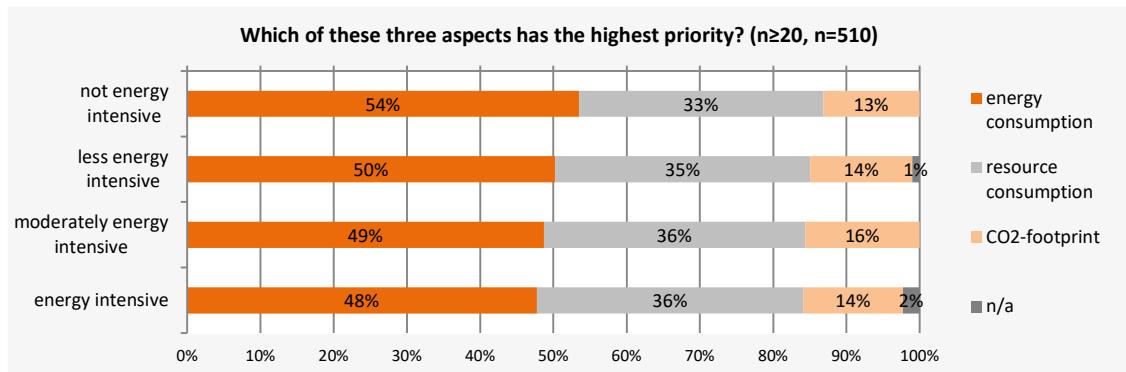


Figure 3.2. Energy & resource and footprint – which factor has highest priority, by energy intensity.

For not energy intensive companies, energy consumption has the highest priority (54 %). This decreases with increasing **energy intensity** to 48 %, whilst the priority of resource consumption increases with increasing energy intensity from 33 to 36 %: For the more energy intensive companies it may be easier to reduce the amount of resources than the amount of energy needed for a new product, as significant reductions in energy demand would require a complete redesign of the way they are manufacturing their product, i.e. the transformation in the steel industry towards hydrogen instead of coke as agent. The priority of the carbon footprint is similarly low across intensities, deviating from 13 (not energy intensive) to 16 % (moderately energy intensive), possibly as both energy and resource consumption directly impact on the CO₂ footprint and promise to reduce costs, whilst primarily looking at the footprint does not necessarily (e.g. switching to green energy). (cf. Figure 3.2)

In respect to **sectors**, energy consumption plays by far the biggest role in the 'glassware & ceramics' and 'metal production & processing' sectors (60 %), and is least regarded of highest priority by the 'paper and paper products' sector (32 %), followed by the 'furniture' sector (40 %), where in return, resource consumption (46/48 %) is most often of highest relevance, and least often in the 'extraction of stone & earth' sector (18 %). All this is understandable due to the nature of the products manufactured in these sectors. The carbon footprint is by far most often of highest relevance in the aforementioned sector (36 %), followed by the 'chemical' sector (23 %) – possibly as both cannot do much about resource & energy consumption without a bigger transformation – and least often in the 'glassware & ceramics' and 'furniture' sectors (8 %), followed by the 'wood/wood products' sector (10 %). (cf. Figure 3.3)

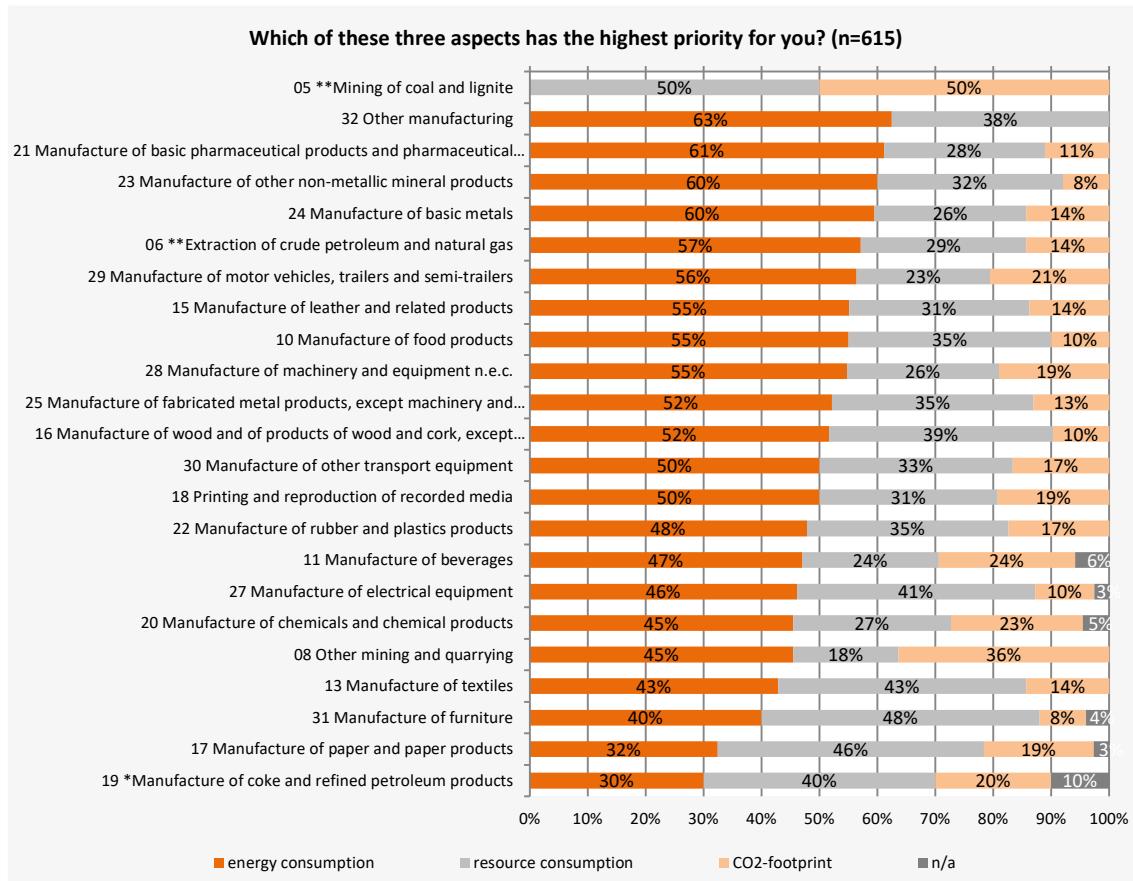


Figure 3.3. Energy & resource and footprint – which factor has highest priority, by sector.

How do German manufacturers react to the increasing societal pressure for decarbonisation??

Having gained a better understanding of measures intended and in place to reduce companies' carbon footprint and about their priorities regarding the development of new products and manufacturing processes for these, the big question remaining is how far companies are actually willing to go.

Are companies planning to become net carbon neutral?

In addition to the small number of big companies that pledged to become net carbon neutral, there is a large proportion of the sample that has similar intentions. Nearly 60 % of companies either plan (27 %), have started (31 %) or concluded (1 %) implementation to reach the state of net zero carbon. The prefix 'net' is of particular importance as the ability to fully decarbonise is very limited to a few cases, such as forestry's, but – at present – impossible for most manufacturing sectors. 28 % of companies hence state they are not pursuing that road, due to technical (15 %), economic (11 %) or other reasons (2 %). Once carbon has a price across all sectors and company sizes, and is not, as at present, only affecting larger and simultaneously energy-intensive companies via ETS, the share of economic reasons may shrink. Depending on the level of the carbon price, a point may be reached at which process-redesigns become an option. At which price levels this is, however, remains up for further research.

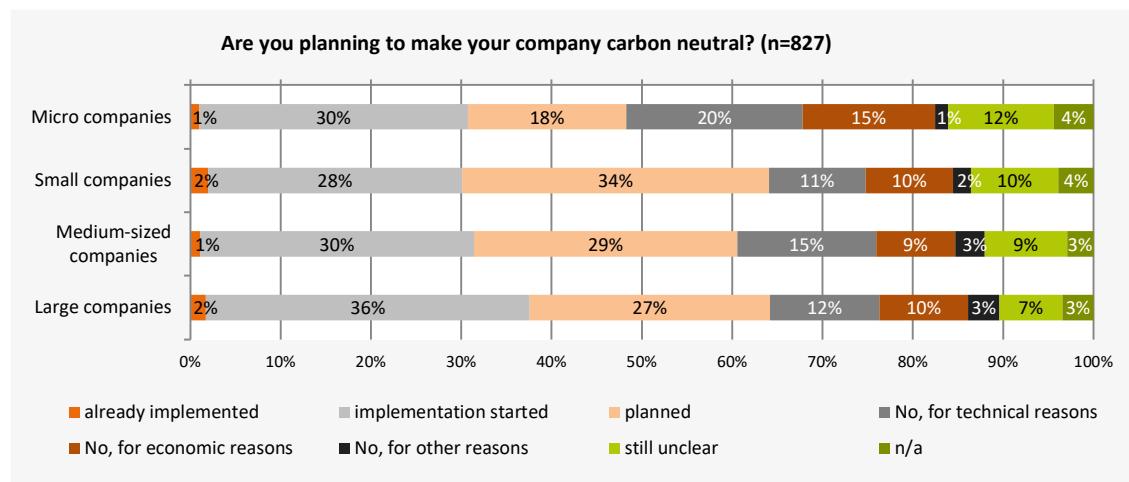


Figure 4.1. Plans to become net zero carbon, by company size.

From a **company size** perspective, the ambition to fully decarbonise is higher than average in large (65 %) and small (64 %) companies, and significantly below average for micro companies (49 %) – possibly because these may have the biggest difficulties assessing how to do it (without changing the better part of their machinery). This assumption is underlined by looking more closely at the fairly similar share of companies who have started implementation across all sectors; here, only the large companies are ahead by 6 %-points. When it comes to planned action, small companies are much above average (34 %), and micro companies much below (18 %). It is those companies that have the highest rate of unknowns (12 %), in contrast to large companies (7 %) who have largely made their decision. Economic reasons are, as eluded above, a bigger issue for micro companies (15 %), as are technical reasons (20 %), keeping them far away from becoming net carbon neutral. To some extent, the latter also applies to above average to medium-sized companies (15 %). (cf. Figure 4.1)

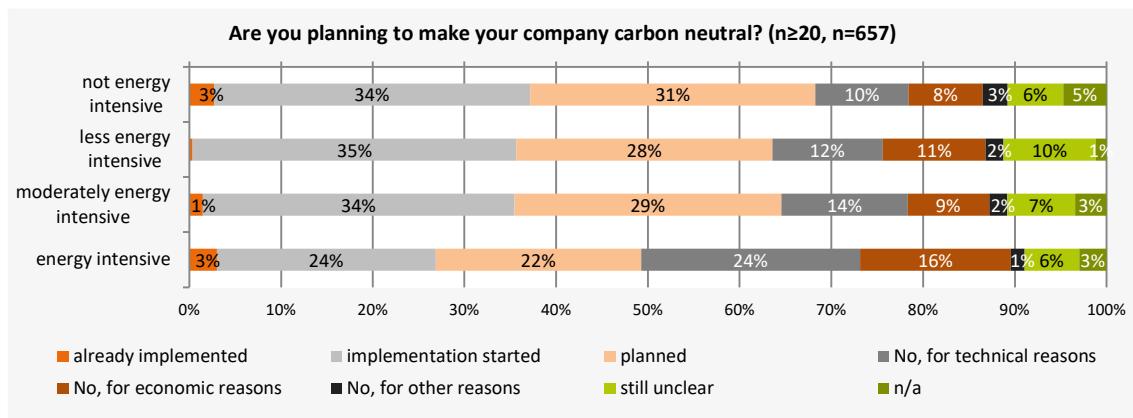


Figure 4.2. Plans to become net zero carbon, by energy intensity.

For **energy intensity**, the share of companies aiming towards carbon neutrality is unsurprisingly highest amongst the non-energy intensive companies (68 %), with moderately (65 %) and less energy intensive companies (64 %) close behind. As expected, energy intensive companies less often strive towards net carbon neutrality, but still nearly in majority (49 %). Looking more closely at the data provides a similar picture: energy intensive companies (24 %) lag 10 % points behind in implementing measures towards carbon neutrality, and 6-9 % points in planned action (22 %). Technical reasons keep energy intensive companies away from carbon neutrality 2.5 times more often (24 %) than not energy intensive companies (10 %), confirming the assumption made earlier when looking at the development of new products. Similarly, economic reasons, are the prohibitive factor for 16 % of energy intensive companies, which is twice as many as for not energy intensive companies (8 %), understandable due to the big transformation and costs involved in many cases. The share of undecided companies is highest among less energy intensive companies (10 %), and on a lower level for the other intensity classes (6-7 %). (cf. Figure 4.2)

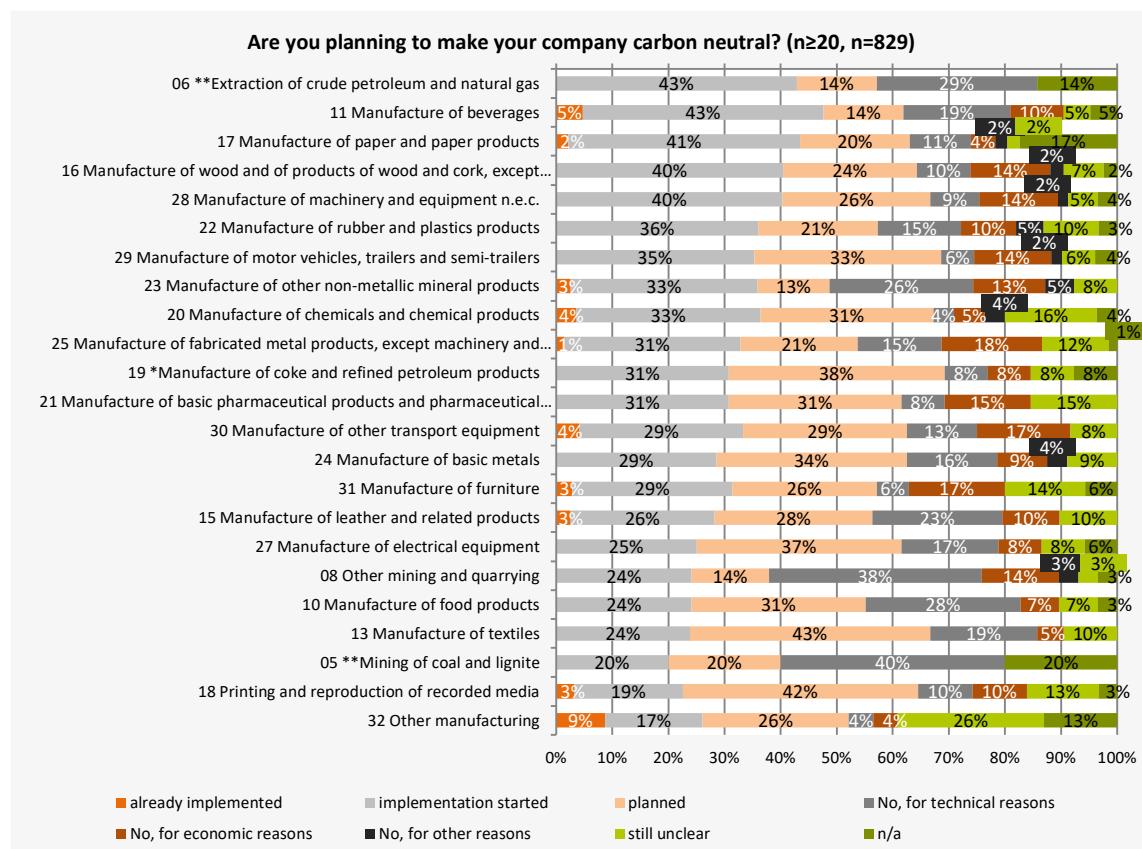


Figure 4.3. Plans to become net zero carbon, by sector.

The highest share of companies aiming to decarbonise can be found in the 'motor vehicles' sector (69 %), followed by the 'chemical', 'mechanical engineering' and 'textiles' sectors (67 %) and another eight sectors above average, leaving the 'extraction of stone and earths' far below (38 %), followed by the 'glass & ceramics' (49 %) and 'other manufacturing' (52 %) sectors. This, as assumed before, is due to their limited ability to decarbonise. We face nearly the inverted picture looking at those who choose not to fully decarbonise, the only difference being that 'other manufacturing' presents the lowest share of companies not decarbonising (9 %). Having simultaneously the highest share of 'still unclear' by a factor of two (25 %) describes the prefix 'other' of this apparently very inhomogeneous sector. Looking at the numbers with closer attention to progress, the 'beverages' (43 %), 'paper & paper product' (41 %), as well as 'wood & wood products' and 'mechanical engineering' (40 % each) sectors are ahead of all others, whereas 'other manufacturing' (17 %) and 'printing & media reproduction' (19 %) fall behind. The latter however nearly leads the board (42 %), together with the 'textiles' (43 %) and 'electrical equipment' (37 %) sectors, whilst 'glassware & ceramics' (13 %), 'extraction of stone and earths' (14 %) are falling short, together with the 'beverages' (14 %) sector. Economic reasons provide the biggest challenge to companies in the 'fabricated metals', 'furniture' and 'other vehicles' sectors (18/17 %). In line with previous assessments, technical reasons are most often the reason for the 'extraction of stone and earths' sector (38 %), followed, by the 'food products' (28 %), 'glassware & ceramics' (26 %) and 'leather' (23 %) sectors, who all have in common that changing the way their goods are manufactured is either not yet possible or requires a bigger changeover in processes and equipment. (cf. Figure 4.3)

Decarbonisation: Yes! But when?

With the carbon countdown running and frequent statements that faster action is required, some companies' announcements of a 2050 target date, or 2040 (after coal-fired power plants have closed in 2038), appear to fall out of time and may allow to distinguish between ambitious and marketing pledges, following the statement made by Bosch mid-2019 that becoming net carbon neutral by 2020 "can be done. Here and Now" [17]. We hence decided to incorporate the question by when the net zero carbon state shall be achieved – giving legislators a clear picture of what the private sector's level of ambition is, but also what support action, e.g. provision of sufficient renewables, is needed. EEIs first data collection 2020 aims to help quantify the latter.

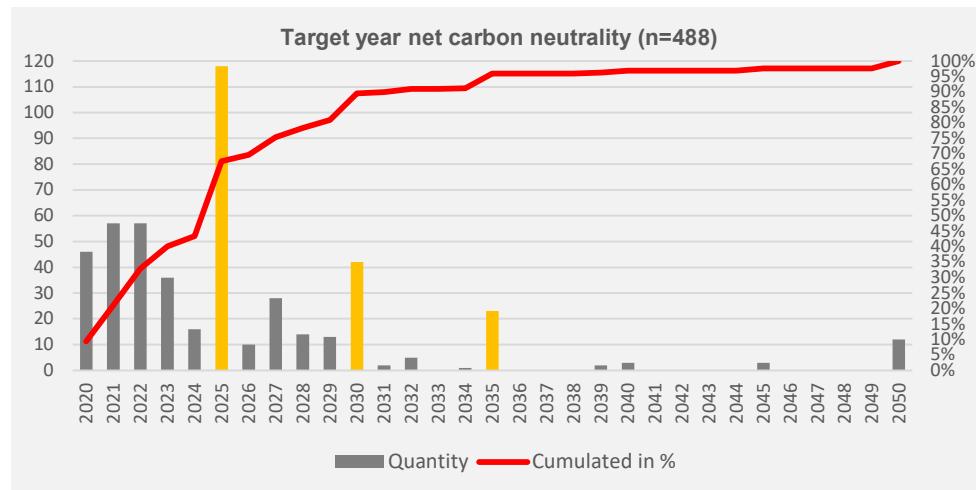


Figure 5. By when do companies plan to reach net carbon neutrality?

Of 489 companies that aim to reach net carbon neutrality, two thirds have this goal for 2025 already, surpassing 90 % by 2030 and 96 % by 2035. This calls for a series of five-year plans to facilitate this rather than a strategy for 2050 with an interim stop in 2030, as it appears that more than half the intended decarbonisation action until 2050 is scheduled for the next five years! (cf. Figure 5) Only one company aims to meet the goal later than 2050.

Looking at the ambition per **company size**, 71 % of micro companies plan to have reached carbon neutrality by 2025 (or earlier), 93 % five years later and 97 % by 2035. Fairly similarly, for medium-sized companies the percentage Figures are 70, 90 and 98 % for these milestones, whereas small companies aim a bit lower with 66, 85 and 94 % of companies planning to achieve decarbonisation by these dates. Of the large companies participating in this question, this is 61 % by 2025, 94 % by 2030 and 99 % in 2035.

From an **energy intensity** perspective, 64 % of the non-energy intensive companies plan to have reached net carbon neutrality by 2025, 88 % by 2030 and 96 % by 2035; the ambition rises looking at less energy intensive companies with targets of 68, 92 and 98 % of them having succeeded by then. Moderately energy intensive companies aim for 74, 93 and 99 % decarbonisation by the target years. Only energy intensive companies fall back to the level of non-energy intensive companies: 64 % in 2025, 90 % in 2030 and 97 % 2035.

Looking at the ten **sectors** comprised of at least 20 companies aiming to become net carbon neutral by a specific target date, 'motor vehicle' and 'wood & wood products' sectors (80 %) are ahead for the first milestone in 2025, with the 'chemical industry' (56 %), 'basic metals' and 'machinery & equipment' (59 % each) behind. By 2030 all participating companies of the 'motor vehicle' sector plan to have achieved the goal, with 96 % of the 'wood' & 'paper' sectors close behind and 81 % of the 'rubber & plastics' sector following below the average for that milestone. By 2035, 'leather', 'electrical equipment' and 'paper

& paper products' will have caught up to the automotive sector and thus have reached carbon neutrality, whilst the 'chemical' sector will have achieved 91 %.

Whether the 489 companies are representative of the level of ambition of their peers and whether they will succeed in the time planned is a different question. So are the challenges on their path.

4. Discussion

The ambitions described by the automotive industry in terms of their decarbonisation timeline and intended measures fall in line with e.g. Daimler and Volkswagen pushing the decarbonisation agenda with suppliers such as Bosch and Continental having to follow [18]. Whilst the data indicates that companies push the responsibility for decarbonisation down the supply chain more often (13 %) than being prepared to compensate emissions (10 %), the factor company size does not play the big role expected. That said, suppliers from the SME sector may face bigger problems satisfying such requests, as most of them are reported not to be ready for this transformation. For one because of the small margins and expensive replacement of machinery, but also because they are mostly not in a position to demand higher remuneration, unless being a unique specialist. Others have not recognised the state of affairs or do not dare to bid on a certain technology to invest in yet (*ibid.*). According to Müller [19] only one in five SME has taken measures to decarbonise themselves; it is a higher share in our sample but the reading is similar. Identifying their optimal mix of measures to reduce costs and emissions is even more complex than in the case of efficiency optimization alone.

If decarbonisation of the industrial sector moves ahead at the pace suggested by the EEI data, investments need to double and bottlenecks will become a problem soon: IG Metall approximates the need for 12,000 additional wind turbines to provide for a transition of the German steel industry alone to convert to Hydrogen [20]. Avoiding process emissions, which e.g. make up for approximately 30 % of emissions in the chemical, steel and cement industry, will require a drastic increase in renewable generation [21]. As this is scarce, it becomes evident that doing whatever is possible through a more efficient use of energy and own generation (internal measures) – as half the companies in the sample indicate doing – is a prerequisite to achieve overall decarbonisation. Implementing all this on-site and within the indicated timeframe will require a bigger number of skilled personnel being able to identify and implement and suppliers to deliver efficiency and microgeneration equipment. Particularly smaller SME require help, the distinct composition of which differs between sectors. If succeeding, this activity however promises a gradual decoupling from uncertain energy and emission charges, as well as from potential energy supply shocks, whilst increasing energy productivity.

While at present the ownership structure and corporate culture largely determines the degree of ambition (e.g. Bosch is owned by Bosch Foundation), the Climate Action Summit paved the way for an increasing number of investors considering investment in fossil business models a 'stranded investment' with a known due-date. This means that in future more and more shareholder-controlled companies are likely to decide for decarbonisation.

Decisions on decarbonisation are, however, not a mere question of the availability of technology or individual choices. For Sovacool [22] (p. 372), culture and its institutions are the "most surreptitious, yet powerful" barriers to renewable energy and energy efficiency. Similarly, König [23] emphasizes the institutional and cultural context of decision-making in industrial organizations whereas Rhodin and Thollander [24] underline the importance of corporate culture for the efficacy of measures within industrial enterprises.

5. Conclusions

Where is the line drawn? The question of scope

Having a better insight into companies' intentions and means they intend to apply to decarbonise, it remains unclear what companies actually consider as 'decarbonisation' and where the line is drawn – is it their estates? Is it including (scope 1) or excluding their mobile assets (e.g. trucks, vans, cars, etc.) or also the materials they use? The indirect emissions from the generation of the purchased energy (scope 2)? Or all indirect emissions beginning to end of the value chain (scope 3)? [25]

This question of scope cannot be answered at this point. From an operational point of view, it appears that for such analysis of intended action it is better to be able to draw a clear line as to where one company's responsibility for emissions ends and another one's begins. In an article for the Financial Times, Alecta chief executive Magnus Billing puts it like this: "The reporting of Scope 3 data will remain plagued by uncertainty for the foreseeable future". [26]

Why decarbonise? What is the range of factors that influence the decision?

Similarly, it remains unclear what set of triggers does lead companies to decide on decarbonising their operations in the first place? The understanding which factors besides regulation and carbon tax play a role in the decision to decarbonise is essential to tailor schemes and services appealing to these trigger points. Similarly of relevance is the (relative) weighting of the individual factors.

How do companies prioritise? How do they identify their ideal mix?

Motivation and scope aside, how do companies prioritise different options that come with direct costs, these being clustered as interventions reducing their energy demand, on-site generation of green energy, purchase of green energy, and compensation measures? Is it the level of investment, the cost of carbon saved per EUR, technical aspects, experience in the type of intervention or access to skilled personnel or other factors such as environmental considerations and image aka visible interventions – or is it a mix of them? How do they identify a mix of measures that is ideal for them, such as saving most emissions and preparing for the carbon tax? [27]

Drawing on the supply chain – similar to the question of Scope 3 –, we consider an external measure, similar to minimum requirements in tendering services (e.g. ISO 9001 to certify quality management procedures).

Are companies able to decarbonise?

Asking whether companies are planning to become net zero carbon and by when does not answer the question whether they are able to decarbonise at all and to what extent. Christian Stöcker [28] summarises nicely that there are six different types of companies with different means to decarbonise from carbon negative ones such as forest enterprises (cat. 6), to those whose business model builds on carbon, such as coal mines (cat. 1). Companies in the other four categories have differing means to decarbonise: those whose products emit CO₂, i.e. automotive industry that could switch to e-vehicles (cat. 2), companies whose business models currently lead to emissions but don't necessarily have to, i.e. logistics (cat. 3), category 4 – including most companies - comprises those who depend on cat. 2 and cat. 3. And finally those who claim to be carbon neutral (cat. 5) – many of these may only achieve this with compensation schemes. [28-29]

One could argue that manufacturing sectors could easily be tagged with one of these categories. But is this really the case, or does it depend on their individual business case? Tesla for example can be considered automotive, but their products do not emit CO₂ during operation if green electricity is used. Putting it differently: the six categories are where companies start off from by sectoral default and, through the choices they make

and the mix of measures they apply, they have different means and ambitions to move towards category 5 or 6.

What is the companies' individual 'Decarbonisability-Factor'?

Tagging a company to one of these six decarbonisation categories hence proves difficult from the outside and is more something arising from internal assessment of 'decarbonisability'. *Decarbonisability* describes what percentage of decarbonisation (emission reduction) can be achieved on site, through (1) reduction of consumption and choice of materials, and in a second step through on-site generation, flexibility and buffer storage means, i.e. internal measures. Identifying this *Decarbonisability-Factor* is of relevance to assess the weight imposed on the system to permit a full net decarbonisation of the economy. The problem: externalisation – someone else will take care of it. These emissions still remaining need to be compensated outside the factory premises through sustainable generation or compensation measures. However, considering the large number of companies aiming to become net zero carbon by 2025, combined with the policy goal striving for a coupling of energy sectors towards electricity as main source, will quickly lead to a run on the easiest decarbonisation option, the green electricity on the market. Whilst this market noted a 42.6 % record share of renewable electricity in 2019, the industry sector alone accounted for 45.7 % of overall electricity consumption [30-31]. Considering the increase in new renewable energy installations has plummeted in 2019 [32] due to public concerns and new transmission lines struggling with the same issues the demand will overshoot supply and eventually drive up their prices; same story on domestic compensation projects – finding ones with a reliable effect may be increasingly hard. The effect is decarbonisation leakage to other parts of the world (like with emissions leakage, the effect happens elsewhere) and it is to be questioned what this does to the country's emissions balance sheet. Therefore it is crucial to determine the *Decarbonisability-Factor*, to allow an aggregation of the required amount of green energy and to assess by how much it overshoots what is available on the market, and hence to inform legislators who still have to find a solution to end the green generation grid lock and generate acceptance in society.

Are all companies willing to become net-zero carbon? Those who are not, are they not willing at all, or just unwilling to go that far?

We must not forget about the third of companies that does not strive towards net carbon neutrality. For these, it is a question whether they cannot, or they choose not to do so. For both options it still remains to be explored how close to their *Decarbonisability-Factor* they want to come, and how high that factor is.

Do companies strive really for carbon neutrality or do they mean climate neutrality (or vice-versa)?

The policy goal of the European Union is reaching climate neutrality [33]. The measuring unit to achieve this goal is reaching a net-neutrality of CO₂-equivalents. As, according to Buettner [34], the suffix "equivalents" gets easily lost in the practical use and conversations, it is an impediment to create a common understanding and clarity of the actual goal, as otherwise actions are taken that would not have been needed to reach carbon neutrality, and more severely actions are not taken that are critical to reach climate neutrality (i.e. addressing methane emissions).

An Outlook: answers and transferability of findings

Whilst all these questions arising from the data discussed are remaining unanswered at present, the first iteration of the Energy Efficiency Index in 2020 will provide the basis to find an answer for many of these for German companies. In this paper, we focused on

data from companies manufacturing in Germany. Whilst the sector coding and technologies available differ only little between industrialised countries (i.e. the theoretical *Decarbonisability-Factor* for a company), the general stance towards climate questions and approaches and hence towards decarbonisation differs hugely.

It is in the nature of scientific studies that their results reveal limitations or open up new questions. As the EEI only captures the perspective of German manufacturing companies, the results reflect the institutional and cultural background of Germany. Comparative or cross-national studies might shed a light on how manufacturing enterprises act towards decarbonisation depending on their different contexts. Therefore, upcoming data collections of the Energy Efficiency Barometer of Industry (#EEBarometer), are of particular interest.

Whatever the decarbonisation choice and mix is, the combination of measures resulting will be quite individual based on individual priorities, goals, financial means and realities. Each puzzle hence differs. Let's start puzzling.

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