



Formula 1:
a first recognition of the current state of
Sustainability

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Recycled Paper



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Standard Ethics, business model and indices

Standard Ethics is a Self-Regulated Sustainability Rating Agency that issues Non-Financial Sustainability Ratings (“**solicited**” and “**unsolicited**”). Standard Ethics has been self-regulating since the beginning of its activity, applying the models of credit rating agencies.

As a brand, Standard Ethics® has been making a name for itself in the world of Sustainable Finance and ESG (Environmental, Social and Governance) studies since 2004 and aims to promote Sustainability and governance standard principles emanating from the European Union, the OECD and the United Nations.

The ratings that Standard Ethics offers to the market are the result of twenty years of activity that has been consistently based on supranational indications. In other words, on a set of uniform rules, objectives and strategies valid for all players in the sector. In the main:

- Standard Ethics’ clients are the companies that apply for a rating (**Applicant-pay Model**);
- Standard Ethics does not provide institutional investors with advice, analysis or data regarding companies it is currently rating, to ensure its independency from the financial market and credit rating agencies;
- Standard Ethics uses a proprietary algorithm based on international sustainability indications (UN; OECD; EU) which provides consistency in its ratings. By applying this methodology, Standard Ethics’ approach can be considered as ‘**ethically neutral**’;
- Standard Ethics’ analysts directly guide the process without using artificial intelligence or software, and without requiring questionnaires to be filled in or the provision of additional documentation (**Analyst-driven Process**);
- The reporting offered by Standard Ethics through the Final Report aims to provide the client (requesting a **solicited rating**) with publishable material from an independent source that adequately represents the client’s commitment to Sustainability;
- **Chinese Walls**, procedures, compliance offices and independent committees are part of Standard Ethics’ governance structure.
- When entering a new national market or sector, Standard Ethics analyses major companies and issues them an '**unsolicited**' (unsolicited and unpaid) rating to create an index that can be freely used as a benchmark. Each Standard Ethics Index is an *Open Free Sustainability Index* and offers full disclosure: the methodology, selection criteria, and calculation formula are public and can therefore be used for free as a benchmark by decision makers and stakeholders.

Formula 1 Racing teams' analysis

Formula 1 racing has a long tradition that officially began with the first race in 1950 at the Silverstone Circuit, England. Now it is the world's most prestigious motor racing competition and one of the most popular annual sporting series followed by billions of fans. The competition's organization is managed by the *Formula One Group* which is a private corporate entity made up of various subsidiaries owned by Liberty Media Corporation.

In 2019, Formula 1 announced its important commitment to reduce CO2 emissions in all F1 racing team operations - '**from factory to flag**'. The main target is to achieve Net-Zero Carbon emission by 2030, developing a 100% sustainable fuel which will be used in F1 cars from 2026. This ambitious agenda includes a further three crucial targets:

1. ultra-efficient and low carbon logistics
2. 100% renewably powered facilities, factories and venues,
3. and lastly a credible biological and breakthrough technical carbon sequestration.

In order to provide an overview on Formula 1's approach to Sustainability, **Standard Ethics'** analysts have examined various aspects of the following **ten Formula 1 racing teams**, currently competing in the Formula 1 World Championship.

Teams	Racing License
Alfa Romeo	Switzerland
AlphaTauri	Italy
Alpine	France
Aston Martin	United Kingdom
Ferrari	Italy
Haas	United States
McLaren	United Kingdom
Mercedes	Germany
Red Bull	Austria
Williams	United Kingdom

From this sample analysis, some basic aspects were identified in the shaping of a Sustainability framework. These include:

- the availability of a Code of Ethics and its clear references to international indications on Sustainability (EU, OECD, UN)
- the quality of standard ESG reporting
- the coverage of human rights issues
- the disclosure of environmental targets

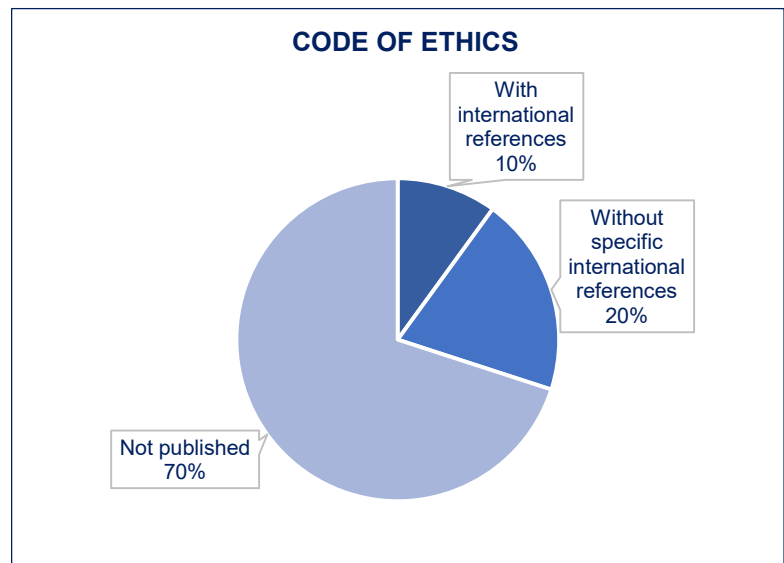
These are just a few of the "markers" that Standard Ethics routinely uses to evaluate companies' ESG strategies and to estimate the level of compliance with international sustainability guidelines - such as the **OECD Guidelines for Multinational Enterprises**. . In the more comprehensive analyses for the issuance of Sustainability Ratings to clients, the analysis is obviously much more detailed and covers 220 points of analysis, not only to perform accurate ESG screening, but also to provide the "Applicant" with a detailed picture of its positioning and enable it to improve its strategic choices and risk management activities.

How racing teams are aligned: aspect by aspect

Code of Ethics

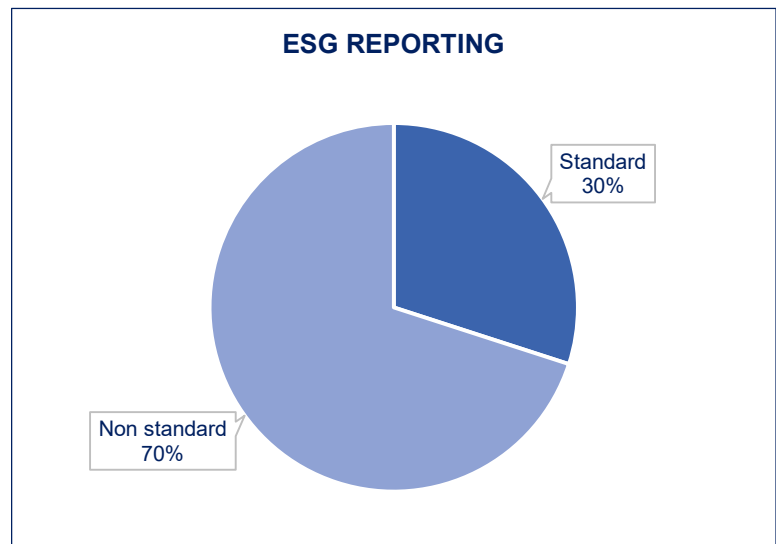
Among the F1 racing teams in the Report it emerges that only three teams (30%) have a Code of Ethics. Analysts have noted that *Scuderia Ferrari* has a Code of Ethics with international references, i.e. the UN Universal Declaration of Human Rights and both ILO and OECD Conventions.

As a matter of principle, Standard Ethics recommends that in defining governance instruments, companies refer to **UN**, **OECD** and **EU** principles and standards on Sustainability and corporate governance. Within this framework, the Code of Ethics, which defines the rights and duties of the organisation's members, is considered compliant if it formally cites at least two of the main international standard references related to Sustainability, including for example the **UN Universal Declaration of Human Rights**.



ESG Reporting

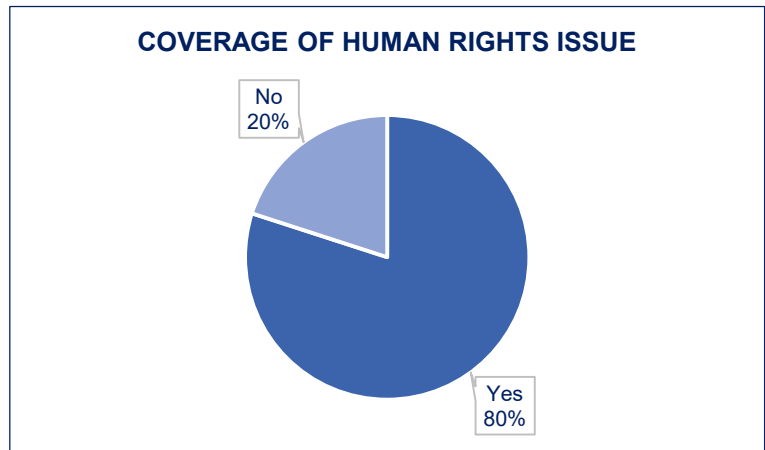
With regards to ESG reporting, five of the F1 racing teams (50%) have a non-financial report on Sustainability or Corporate Social Responsibility (CSR). Analysts are pleased to note that three teams (30%); *Scuderia Ferrari*, *McLaren F1 Team* and *Aston Martin F1 Team*, offer Sustainability reporting, which is based on international and standardised criteria mentioning the Global Reporting Initiative (GRI). Analysts have also evaluated the Sustainability Strategy adopted by *Williams Racing* and the CSR Report of *Mercedes-AMG*.



The subject of **ESG** reporting, promoted by the **EU**, the **OECD** and the **United Nations**, is now the centre of attention in the economic and financial system. In this context, Sustainability Reporting based on internationally recognised and standardised criteria - such as, for example, the **GRI (Global Reporting Initiative)** - is to be considered a fundamental tool that enables the presentation of **ESG** performance improvement targets and also enhances a company's reputation and attractiveness to customers and investors. Extra-financial reporting is not a substitute for strategic choices and governance of Sustainability, but it is a vital tool for supporting corporate strategy, verifying performance, and also improving planning processes. It also represents attention to transparency and inclusion towards its stakeholders.

Human rights

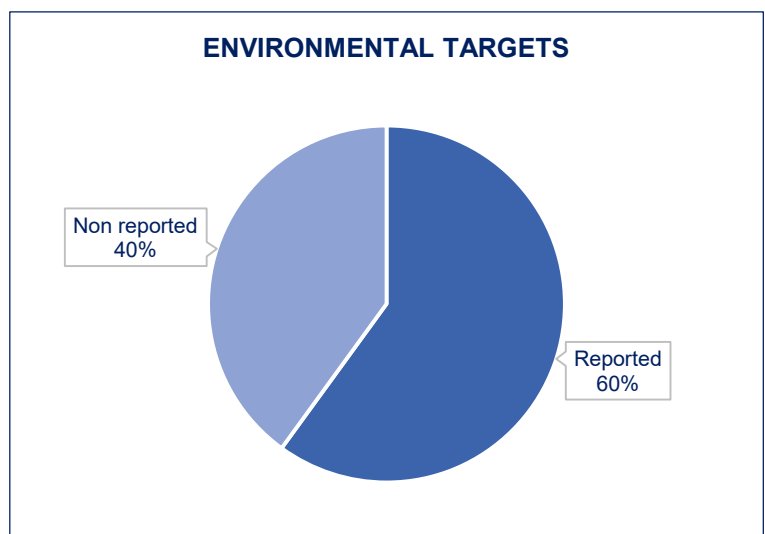
The issue of human rights is broadly covered among the F1 racing teams. Indeed, eight teams (80%) mention the importance of human rights and the commitment to act ethically and with integrity. F1 teams are also involved in the implementation and reinforcement of effective control systems to avoid the risk of modern slavery potentially taking place in their companies or their supply chains. It is important to highlight that four teams (40%) have an adequate Modern Slavery Statement.



The respect of Human Rights is a crucial and essential requirement since 1948 when the UN General Assembly proclaimed the **UN Declaration of Human Rights** as a common standard and achievement for all peoples and all nations. The recognition of equal and inalienable rights of all members of the human family is the foundation for a world characterized by freedom, peace, and justice. Standard Ethics recommends that corporates have an appropriate regulation about the issue of human rights. Standard Ethics positively considers the reference to international declarations or conventions such as the **UN Declaration of Human Rights, UN Guiding Principles on Business and Human Rights, European Convention on Human Rights (ECHR)** and **ILO Declaration on Fundamental Principles and Rights at Work**.

Environmental targets

Six F1 racing teams (60%) have clear environmental targets while the remaining teams (40%) still lack them. Analysts believe that environmental targets are a crucial aspect for achieving Sustainability, considering the huge effort made by Formula One Group to be Net-Zero Carbon emission by 2030.



Standard Ethics is aligned with the definition of Sustainability outlined in the 1987 Brundtland Report which focuses on the planet and above all on future generations whose prospects must not be compromised by the needs and actions of the present. The preservation of the environment and the attention to the territorial impact become crucial factors for sustainable development. The voluntariness that is left to companies and stakeholders remains a central element, but focuses on the 'how much', and to a large extent also on the 'how', to achieve common goals and implement sound ESG strategies. In the last few decades, international institutions have made considerable efforts to map out common global strategies, such as the **UN Global Compact, the OECD Guidelines for Multinational Enterprises, the Paris Agreement (COP 21)** and the **2030 Agenda with the Sustainable Development Goals (SDGs)**.

Other aspects

Four F1 racing teams (40%) have the Gender Pay Gap Report; a document which measures the difference in hourly average earnings of men and women. The Report is an important mechanism in the building of a pragmatic approach to the topic of diversity and inclusion in the Formula 1 context. According to Standard Ethics' analysts, teams must commit to reduce the gender pay gap because a heterogeneous workforce and a strong inclusive culture could boost a higher level of performance.

Only one team (10%) has the Whistleblower Policy.

Conclusions

This brief, but detailed analysis, has resulted in the generation of data from which specific conclusions can be drawn. In general, Standard Ethics' analysts observe that through its commitment to Net-Zero Carbon emissions by 2030, the world of Formula One is now on a virtuous path towards Sustainability, but the racing teams can and still have to make numerous steps forward to reach the finishing line.

The notion of Sustainability is not yet declined in all its facets, especially regarding transparency and disclosure. For example, we have found that the dissemination of a Code of Ethics is not yet widespread among the teams, whilst careful attention is paid to the issue of human rights, both in teams and in team supply chains. A possible absence of or a low quality in the predisposition of a Code of Ethics can generate elements of risk across all ESG areas; from the governance of Sustainability to the entire structure of risk control and management.

An acceleration in the disclosure of key documents such as ESG reporting and environmental targets would be positively viewed, especially since the racing teams currently participating in the Formula One World Championship are renowned for their industrial, technological and research excellence. For this reason, and because of their visibility, their driving force could be an example to guide industrial subsidiaries, such as those in the automotive and components industry, en route to Sustainability. Indeed, the ambitious and strategic goal of introducing 100% sustainable fuels by 2026 is expected to impact the entire automotive supply chain, speeding up the decarbonisation process that is already underway in the sector.



This analysis is based on documents and public information available as of 31.07.2022. A possible margin of error of no more than 0.5% is estimated by the Research Office. A value around the estimate does not affect the validity of the results.

For inquiries or comments about supposed errors or discrepancies, please contact Standard Ethics at the following e-mail address: research@standardethics.eu



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