South Pole **Climate Solutions**

White paper

Climate action guide

The key to unlocking impact for companies in the transport and travel industry

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south pole
The Climate Company

The transport and travel industry covers a wide range of sectors, including but not limited to: manufacture of vehicles; transportation of goods; logistics; resource extraction and refining; air, rail, and road travel; and travel[1]. We are dependent on this industry to make the world run — from access to food and other necessities, through jobs and income, to our desire to be connected to others around the globe.

Currently, the travel and transport industries are heavily dependent on fossil fuels at every step — from manufacture, through transport, to end of life — and therefore a significant emitter of GHGs. [In absolute terms, the transport sector accounts for roughly 15% of total GHG emissions]. This significant environmental footprint also means there is a tremendous opportunity to decarbonise and lead the way to reaching the 1.5°C goal set by the Paris Agreement. The agreement calls for all sectors of society to take concerted climate action to reduce GHG emissions in order to limit global warming to 1.5°C above pre-industrial levels.

As some of the fastest growing sectors, with one of the highest reliances on fossil fuels, travel, transport and logistics companies have a critical role to play in achieving global net zero goals. The sector faces significant challenges to decarbonise. This is because of: pressures resulting from demand; expensive long-life assets; and reliance on alternative fuel and energy systems that have not yet scaled to meet demand, which may have technological limitations or questionable financial viability.

There is an urgency to act now. It is expected by your investors, employees, customers and other key stakeholders that you start clearly and publicly defining your targets and the actions you'll take to reach them. This is about business performance and preparing for the future. In addition, by engaging your suppliers and customers in your climate roadmap, your climate ambitions can have a ripple effect.

South Pole summarises the strongest levers for decarbonisation along a company's climate journey. These measures mitigate the risks associated with climate change and also open up lucrative opportunities to manage costs, meet stakeholder expectations (especially regulators and customers) and engage productively with suppliers in developing innovative new solutions.

The Climate Journey

Measure footprint & risks

Understand your carbon emissions, reduce impacts and climate change risks

Set targets & create roadmap

Develop sustainability strategies, targets and roadmaps

Reduce footprint

Increase efficiency, procure renewable energy and decarbonise your supply chain

Fund climate action

Finance climate action, e.g. through avoidance and removal of unavoidable emissions or investing in impact funds

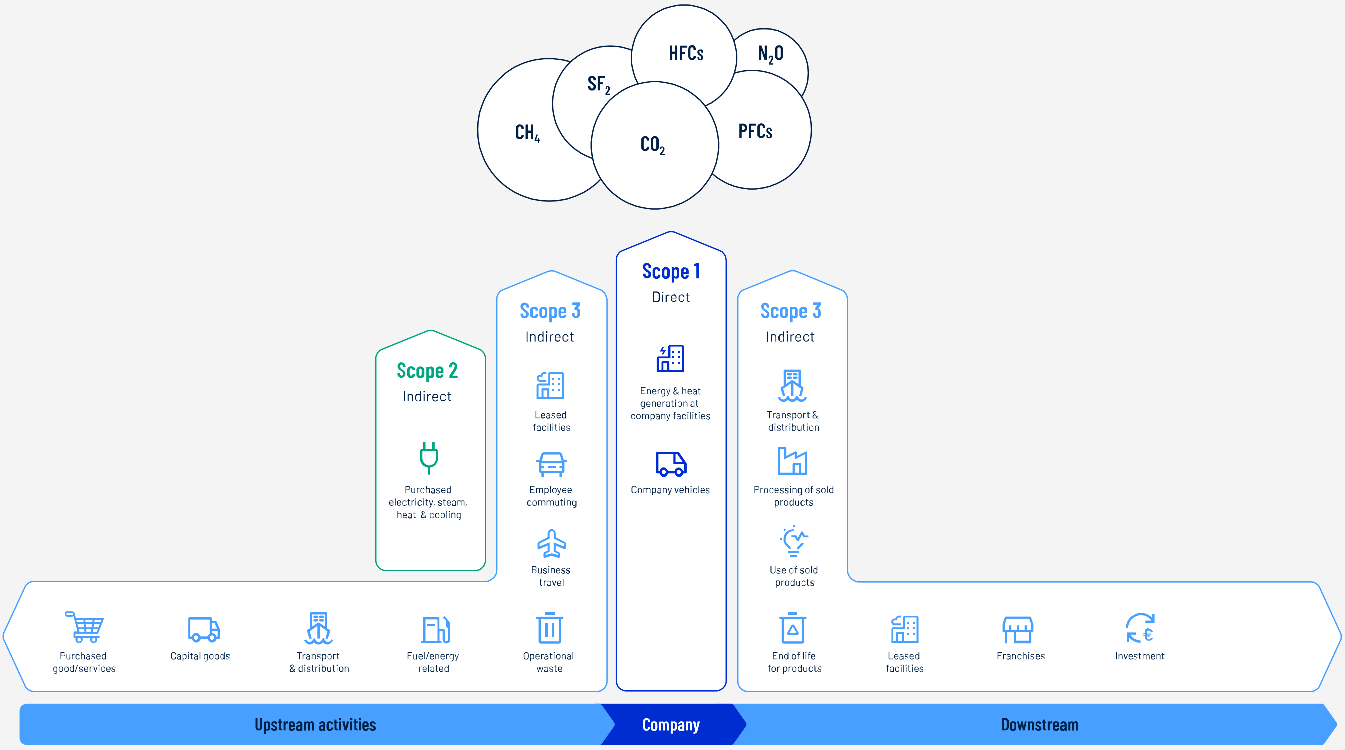
Communicate & lead

Engage stakeholders in your sustainability vision and communicate the results

[1] For this piece, we are covering transportation, automotive, logistics and travel.

1. Measure footprint & risks

Quantifying your emissions is the first step towards effectively reducing them. Start with emissions that are within your control – scope 1 and 2 – which can be easily reduced with the right efforts without neglecting your company's emissions within your upstream and downstream supply chain, your scope 3.



Scope 1 emissions:
GHGs being emitted directly from sources owned or controlled by the company (e.g. buildings or vehicles).

Scope 2 emissions:
GHGs coming indirectly from the generation of purchased energy (e.g. on your electricity provider's facilities).

Scope 3 emissions:
GHGs that come indirectly from sources within your upstream or downstream value chain.

Assess climate risks

Travel and transport are highly regulated both at national and international levels. As countries begin to commit to and implement GHG-emission-reduction policies to meet environment and climate goals, travel and transport companies must be prepared to navigate and meet increasing requirements - an example of a transition climate risk as the world shifts to a low carbon world. In addition, travel and transport companies are highly exposed to physical climate risks, such as extreme weather and rising sea levels. Mandates on climate risk disclosures are strengthening, and travel and transport companies need to demonstrate they are resilient to transition and physical climate risks, or alternatively are capitalising on any transition opportunities.

Transport professionals and business leaders need to be aware that their working environment is shifting to favour the transport and logistics providers who decarbonise their networks. If organisations do not act now to begin the decarbonisation transition, then the regulations in place now will soon hammer hard with penalties, taxes and structural impediments which restrict market access.

Every ocean vessel on the ocean is to provide its fuel efficiency numbers which will then categorise them all comparatively for use by insurance companies and port officials, as well as shippers that are looking to lower their carbon emissions. This transparency will quickly identify the good, the bad and the ugly vessels in our global supply chains. Additionally, ports in Europe will be cleaning up the fuels allowed on ships in their ports. This cleans the air near ports while also cutting global emissions, and if ships are not running clean, then heavy costs will quickly hit those not in compliance.

Transportation companies in Europe will have costs increase for their carbon emissions. Countries in Asia will also increase carbon taxes on fuels. In the USA, California is moving networks to decarbonise via other regulations to accelerate the transition. The California regulations even cover transport to and from ports, as well as large class 8 trucking fleets. So if your logistics team is not working on initiatives to decarbonise, then start making the case – doing nothing is no longer an option.

In the US, the EU and Singapore, new regulations are starting to require companies to disclose sustainability and climate information that is relevant to investors and other stakeholders. As part of the European Green Deal — which aims to achieve a 90% reduction in transport-related GHG emissions by 2050 — companies in the EU are now required to report on sustainability aspects, including the environment, human rights and corporate governance, through the Corporate Sustainability Reporting Directive (CSRD). It's part of a broader regulatory effort which steers decisively towards a more sustainable future: building on the Sustainable Finance Disclosure Regulations (SFDR) and linking to the EU Taxonomy, the CSRD is intended to facilitate transparency and help stakeholders assess investment risks associated with climate change and other sustainability issues.

In the US, the Securities and Exchange Commission (SEC) proposed mandatory rules on disclosing climate-related information in March, 2022. The rules apply to all US public companies and disclosures are required to be integrated into regular financial filings. The SEC rules are built on the well-established recommendations from the Taskforce on Climate-related Financial Disclosures (TCFD), but, in many areas, go much further. At the moment, it is not yet clear what their final form will be, and their publication date is still uncertain. However, regardless of when the SEC rules are published, all public companies in the US will need to use them as a reference to understand the most important issues relating to climate risk disclosure and how they should focus their efforts in the short to medium term.

The **Singapore Stock Exchange:** SGX has introduced a phased approach to mandatory climate reporting based on the recommendations of the TCFD following a public consultation in 2021. Between 1 January 2023 and 31 December 2023, climate reporting is mandatory for issuers in a) the financial industry; b) agriculture, food and forest products industries; and (c) the energy industry. For other issuers, climate reporting runs on a 'comply or explain' basis. It will become mandatory for a growing number of industries in subsequent years.

2. Set targets & create roadmap

Align ambition with science

All of your sustainability efforts should be based on data and science. For many years, companies have been communicating about their sustainability efforts without much coherence or standardisation across the industry, making it difficult to assess their contribution to global Net Zero 2050 goals. Initiatives such as the Science Based Targets initiative (SBTi) are ensuring that targets are ambitious enough and that efforts in decarbonisation are focused in the right places and not getting wasted.

Reach for net zero

Net zero refers to a state in which the GHG emissions entering the atmosphere are balanced by the GHG emissions removed from the atmosphere. While the term 'net zero' is industry agnostic, the expectation is that all companies need to reach this state on or before the year 2050. The SBTi defines two key criteria for a company to reach net zero.

1. Companies must achieve emission reductions in their value chain (across scopes 1, 2 and 3) in line with the 1.5°C pathway. The 1.5°C target refers to the goal set out by the Paris Agreement, which calls for all sectors of society to take concerted climate action to reduce GHG emissions in order to limit global warming to 1.5°C above pre-industrial levels.

2. The SBTi acknowledges that some emissions are unavoidable and cannot be reduced. Therefore, the necessary reduction of over 90% of emissions must be supplemented by investments in the permanent removal of GHG emissions to neutralise any remaining emissions that a company generates.

We have outlined your pathway to achieve net zero below.

1. Setting a science-based target

The first step on the journey to net zero is setting science-based targets (SBTs) and developing a plan to achieve them. The SBTi provides various sector-specific, target-setting pathways, such as for aviation or maritime transport. These target-setting pathways allow transport companies to model physical intensity reduction targets that focus on their material emission hotspots, helping to better reflect the challenge this hard-to-abate sector faces in achieving net zero. In other words, these pathways allow transport companies to set more realistic reduction targets, which reflect the challenges of their sector. Setting SBTs will provide you with a clearly defined reduction pathway that is in line with the Paris Agreement. The corporate net zero standard, launched by the SBTi, provides clear requirements on what a company needs to do to

2. Develop a roadmap towards net zero

The clarity provided by the SBTi's net zero standard was much needed in a time where many companies were setting net zero targets without fully understanding the implications. For a company to reach a state of net zero, it must reduce the majority of the scope 1, 2 and 3 GHG emissions it produces. This is an extremely ambitious target that will be very challenging to achieve before 2050. Identify and prioritise reduction opportunities within your core operations and value chain. Improving operational energy efficiency, the electrification of fleets and scaling alternative fuels will all have a role to play in decarbonising the sector.

3. Mitigate emissions beyond your value chain

Companies can raise their ambition further by choosing to fund climate action beyond their value chain on the way to net zero, by supporting impactful and high-quality certified projects that promote sustainable development and protect ecosystems. In the long-term, companies should develop a strategy to neutralise any remaining residual emissions that cannot be abated through permanent emissions removals.

See the South Pole blog for more information →

4. Implement the strategy across the business

Developing a plan is a big step for most companies and requires complex stakeholder consultations. Having the right map is an important milestone, but doesn't mean you have reached the destination of your journey. Many companies fail to implement their strategies, especially if they are long term. You will need to transform your business fundamentally to achieve the 90% reduction that is required to achieve your net zero target within the next few years. It is therefore important to break down your long term strategy into more actionable steps. Leadership commitment and resources allocated to specifically focus on the implementation of your roadmap are absolutely crucial.

Learn more about the SBTi guidance on transport here.

3. Reduce footprint

To achieve material progress towards reaching net zero, companies need to take action across their entire value chain. You will need to make bold changes, including but not limited to: enhancing efficiencies; switching to renewable energy across production sites; embracing alternatives to fossil fuel combustion as well as a circular economy approach; and supporting your suppliers in transitioning to clean electricity. Meeting net zero targets will rely on a comprehensive move towards decarbonisation that combines impactful measures from the industry along with behavioural changes by individuals. One form of guidance towards decarbonisation would be the A-S-I (Avoid/Reduce, Shift/Maintain, Improve) model, championed by GIZ Transport Policy Advisory Services. This approach aims to achieve significant emission reductions by promoting alternative mobility solutions and developing sustainable transport systems. While the transport sector needs to 'avoid' emissions by enhancing the efficiency of the whole transport system and through improved planning, as well as 'improve' in terms of vehicle and fuel efficiency, travellers need to 'shift' towards more sustainable modes of transport. Both individual travellers and their employers will need to prioritise emission-saving measures, such as replacing short-haul flights with train journeys and business travel with videoconferencing.

4. Fund climate action

The transport sector is currently at a crossroads: despite best efforts, it remains incredibly hard to decarbonise. With just over six years until we reach 1.5°C degrees, companies are recognising the importance of maximising their impact today. Supporting climate projects through verified mitigation contributions (e.g. high quality carbon credits) channels vital finance into activities that are reducing and removing GHG emissions right now, such as protecting vital carbon sinks and biodiversity hotspots, accelerating the transition to renewable energy and delivering clean cooking solutions. This so-called 'beyond value chain mitigation', recommended by the SBTi, isn't just good for the planet but also helps you to achieve your goals faster. Research has shown that companies buying a material amount of carbon credits typically reduce their emissions twice as fast as than those that do not. One reason for this is that purchasing carbon credits essentially sets an internal price on carbon, putting a cost of emissions on your balance sheet, helping to prioritise reductions. Funding climate action also aids companies get ahead of potential upcoming regulations such as carbon pricing schemes, which now cover 23% of global emissions, by building internal expertise and structures to deliver results.

5. Communicate & lead

Governments – spurred on by voters and investors – are demanding greater clarity around climate action. Environmental claims not grounded in a meaningful and science-led climate journey pose serious reputational risk and can lead to fines, accusations of greenwashing and even litigation, which doubled between 2017 and 2020.

This means companies must become savvier about communicating their corporate climate action, by making climate-related claims that resonate with stakeholders and showing their progress as transparently as possible. When you make a claim that meets the strict criteria set by global standards, your company demonstrates a legitimate, meaningful and credible commitment to climate action.

Engage your customers in your climate journey

As a company that keeps the world moving, you have a unique position very close to your customer's needs and wants. Take advantage of this by enabling your customers to be more sustainable by providing services that help them reduce their environmental footprint. Help your customers understand their impact and either participate in reducing it, or take responsibility for unavoidable emissions.

The transport industry is taking action – where do you stand?

According to the SBTi,

‘We need a race to the top, led by pioneering companies and financial institutions. This will empower peers, suppliers and customers to follow suit and drive governments to take bolder action.’

Percentage of companies in the transport and travel industry taking climate action

Out of

7,056

companies analysed in the transport and travel industries*:

471 (6.68%) have set, or committed to setting a science-based target (SBT)

309 (4.38%) have available CDP scores in 2022, and 21.04% of them are A scorers

158 (2.24%) are TCFD supporters

22 (0.31%) are RE100 members

*Data source: South Pole based on publicly available information in the sectors: travel, logistics, transportation (including aviation) and automotive. Data collection and analysis as of May 10th, 2023.

The world needs the global transport and travel sectors to go through a rapid sustainability transformation. At South Pole, we have been working with leading brands in the industry since 2006. Let us talk about successful climate journeys and inspire you to embark on yours.

Contact us for more information.