Transition Pathway Initiative

Wed 09 December 2020

INVESTORS WARN STALLING TRANSPORT SECTOR FACES 'MOMENT OF RECKONING' ON CLIMATE

New research from $23 trillion Transition Pathway Initiative says car, plane and shipping industries must take low carbon opportunities post-COVID

- Only **23%** of transport companies have emission reduction plans in line with keeping global warming to 2°C or below by 2030. Even fewer, **only 18%,** have plans in line with a 2°C or below pathway by 2050.
- "*Transport assets including vehicles, factories and infrastructure in danger of becoming stranded*" warns TPI Co-Founder **Emma Howard Boyd**
- Aviation sector is worst performing of all high-emitting industries on Carbon Performance.

(09/12/20, London). The transport sector drives demand for fossil fuels and is responsible for nearly one quarter of total energy-related CO_2 emissions worldwide. However new investor research on 62 of the world's largest transport companies finds that **less than one in five (18%)** have emissions reduction plans in line with a path to keep global warming to 2°C or below by 2050.

The study, which analyses both the climate 'Management Quality' and 'Carbon Performance' of the largest automobile, aviation and shipping companies by market capitalisation, was carried out for the Transition Pathway Initiative (TPI) by the Grantham Research Institute on Climate Change and the Environment at the London School of Economics.

Today's data shows that while the 'Carbon Performance' (i.e. the emissions reductions plans) of the transport sector as a whole has improved modestly compared to last year, the airlines sector is a clear laggard and has the worst Carbon Performance score of any industry assessed by TPI. In total **91%** of airline companies fail to align with even the least ambitious climate targets (the Paris Pledges*) by 2050 – almost double the proportion in the automobile sector (where 48% fail to align with at least the Paris Pledges).

One reason for aviation's poor performance is its wide use of *offsets* to contribute to emission reduction plans. The TPI methodology, based on IEA (International Energy Agency) models, discounts these partly due to uncertainty in quantifying them and because emission reductions must be achieved directly within the aviation sector itself to be comparable with assessments of other industries. Encouragingly, today's data shows six airlines have this year committed to gross emissions targets that *exclude* the use of offsets (Azul, EasyJet, IAG, Turkish Airlines, United Airlines and Wizz Air).

Emma Howard Boyd, Chair of the Environment Agency, and TPI Co-Founder said:

"This year's severe drop in travel has accelerated change in global transport. No one wanted this to happen the way it has and everyone wants to protect the jobs of the hard-working employees of the sector.

"For investors transition risks remain, with transport assets including vehicles, factories and infrastructure in danger of becoming stranded. At the same time, increased public understanding of climate change and targeted public policies, such as the phase out of petrol cars, are driving greener

opportunities for the sector. The UNFCC has launched a race to zero emissions ahead of COP26 next year, but the reality is that this race is already on and no one can afford to be left behind."

Euan Stirling, Global Head of Stewardship & ESG Investment, Aberdeen Standard Investments:

"The transport sector has been substantially disrupted by the coronavirus pandemic as demand patterns have contorted and supply chains been disrupted. The latest TPI report on the sector highlights how much there is to do for the various industries included in the sector to build back greener. It helps us understand as investors what we can do to influence positively and where to target our efforts."

Antonina Scheer, Researcher at the Grantham Research Institute on Climate Change and the Environment at the London School of Economics, and the report lead said:

"There is a unique opportunity for industries to transform themselves as we look to build back better post-COVID. Unfortunately, our findings show that the transportation sector still has the brakes on in transitioning to a low-carbon future, with only 18% of firms assessed in line with a path to keep global warming at 2°C or below in 2050. It is particularly alarming that some companies are back-loading efforts to align with the Paris goals to 2050. The transportation sector needs to step on the accelerator in addressing Carbon Performance and Management Quality because we need improvements from this sector now, not in a few decades, to ensure a net-zero future takes-off."

TPI's data also shows that the transport sector performs poorer than other high-emitting sectors on potential climate lobbying issues. Only 31% of transport firms disclose involvement in trade associations that engage on climate-related issues (compared to 45% in the energy sector).

Other findings include:

<u>Shipping</u>

- In total **16** companies were assessed. The shipping sector is the worst performer in the transport sector on 'Management Quality' with an average score of just 1.8 out of 5.
- However, the sector has the best 'Carbon Performance' of the three transport sub-sectors. More than half of shipping companies (nine in total) are aligned with a 'Below 2°C' pathway by 2030, however only two are aligned with 'Below 2°C' pathway by 2050 - suggesting more ambitious long-term targets are required.
- Five of the companies assessed, either do not disclose their emissions from shipping operations, or do so in a form that TPI cannot assess.

<u>Automobiles</u>

- In total, 23 companies were assessed including Tesla, Toyota and General Motors. The average 'Management Quality' (i.e. climate governance) score for the sector decreased slightly from last year (from 3 to 2.7) but remains relatively high compared to other sectors.
- BMW is the only transport company to achieve the top 4* ranking for Management Quality – meaning it had satisfactory responses across all 19 indicators assessed.
- On 'Carbon Performance' metrics, the sector is showing improvement with an 11% increase in the proportion of companies in alignment with at least the Paris Pledges by 2030 (from nine firms in TPI's 2019 transport report to 12 firms in this year's report).

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- **Eight** companies aligned with 2°C pathways* by 2050, though just three will currently be aligned by 2030. This suggests that (in contrast to shipping), automobile companies are deferring their climate action.

Aviation

- In total 23 companies were assessed including Delta, IAG and Qantas. The average 'Management Quality' score for airlines is 2.8, an increase from 2.6 last year, with seven airlines moving up at least one level this year.
- The aviation sector is the worst performing of all TPI-assessed sectors on Carbon Performance (partly due, as described above, to an overreliance on offsetting in the industry). The best performer is United Airlines, who are the only airline company of the 23 assessed aligned with a pathway to keep global warming below 2°C.
- Encouragingly, six airlines have committed to gross emissions targets that *exclude* the use of offsets this year including Azul, EasyJet, IAG, Turkish Airlines, Wizz Air and United Airlines (although only the latter two are ambitious enough to align with any of TPI's three benchmarks).

ENDS

Notes to editor

- For more information or exclusive interviews with the TPI team please contact:
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- **The full transport sector analysis report is available on request**.
- The TPI research studied the Management Quality and Carbon Performance of 23 automotive manufacturers, 23 airlines, and 16 shipping companies. All companies are publicly-listed and selected on the basis of market capitalisation. 'Management Quality' covers companies' governance of greenhouse gas emissions and the risks and opportunities arising from the low-carbon transition. Carbon Performance assessment involves quantitative benchmarking of companies' emissions pathways against both the ambitions of and pledges to the 2015 UN Paris Agreement. These assessments are based on company disclosures, derived from publicly available third-party websites. TPI cannot take responsibility for the accuracy of these sources.
- * In the case of automobiles i.e. those aligned with 2°C either through increased efficiencies and operations OR through a shift in passengers to lower-carbon transport. Note that in all cases the 'Paris Pledges' pathway denotes the emissions pledges made by countries as part of the Paris Agreement. However, these still leave the world on track for approximately 3.2°C warming.
- **TPI's assessment of shipping focuses on international freight shipping, which represents around 87%of the total shipping emissions. The assessment of automobile manufacturing focuses on passenger cars
- Companies' Management Quality and Carbon Performance ratings may not always reflect their most up-to-date disclosures. TPI updates its assessments once a year. The previous TPI assessment of the transport sector was produced in December 2019 (covering 57 companies). New additions include BYD, Air Canada and three shipping firms.

About TPI:
The Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by asset managers. Aimed at investors and free to use, it assesses companies' preparedness for the transition to a low-carbon economy, supporting efforts to address climate change. It is backed by 90 investors with circa $23 trillion of combined assets under management or assets under advice. More information: www.transitionpathwayinitiative.org