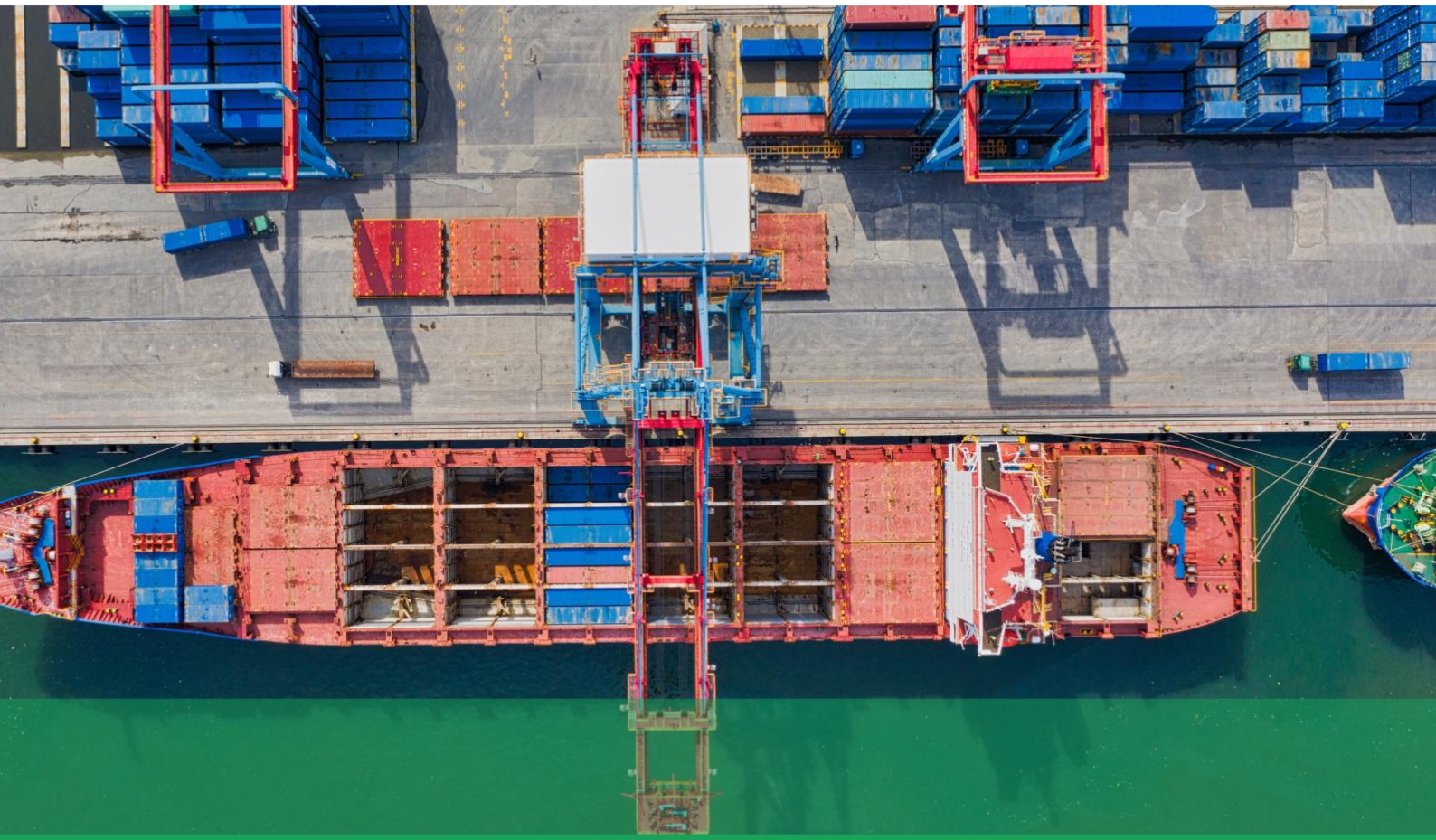
World Benchmarking Alliance



2022 Climate and Energy Benchmark on the Transport Sector

Insights Report

October 2022

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The 2022 Climate and Energy Benchmark on the Transport Sector

We are running out of road. Without urgent action to limit climate change, the world will experience more extreme weather events, rise in sea levels and negative impacts on biodiversity, ecosystems and oceans. The IPCC's 2022 Sixth Assessment Report: Impacts, Adaptation and Vulnerability shows that global warming, exceeding 1.5°C in the coming decades, will cause increases in climate hazards and present a multitude of risks to ecosystems and humans. These will have a disproportionate effect on the poorest and most vulnerable populations for decades to come.

In 2015, 196 countries signed up to the Paris Agreement for climate action. In the same year, 193 countries committed to the UN Sustainable Development Goals (SDGs). However, the world still needs a major decarbonisation and energy transformation if we are to align global efforts to achieve the goals set out in the Paris Agreement and prevent the worst impacts of climate change. These goals include limiting global warming to 1.5°C. Moreover, efforts need to be carried out in a just and equitable way, so that no one is left behind. Yet, even after the 10th anniversary of the publication of the United Nations Guiding Principles on Business and Human Rights (UNGPs), companies are still lagging on due diligence processes.

To accelerate action towards a just global decarbonisation and energy transformation, the World Benchmarking Alliance (WBA) has formed a strategic partnership with the Assessing low-Carbon Transition (ACT) initiative developed by ADEME, the French Agency for Ecological Transition. ACT has been co-developed with CDP, the world's environmental disclosure platform. WBA is continuing to work in partnership with CDP to apply ACT assessments for the WBA Climate and Energy Benchmark.

The WBA Climate and Energy Benchmark assesses companies in critically high-emitting sectors. It aims to assess 450 companies by 2023. The Transport sector[1] is the latest in the Climate and Energy Benchmark series (following Automotive, Electric Utilities and Oil and Gas). Transport is critical to achieving global decarbonisation: it has the highest reliance on fossil fuels of all sectors. In 2021, transport accounted for 37% of CO2 emissions among all end-use sectors. In the US, the transport sector accounted for 27% of total greenhouse gas (GHG) emissions in 2020, the highest of any sector. In China, transport accounted for 10% of total GHG emissions in 2021, with the share growing rapidly.

The Paris Agreement serves as an accountability mechanism for states, as they need to report the progress on their national climate plans under the UN Framework Convention on Climate Change (UNFCCC). WBA's Climate and Energy Benchmark aims to provide an accountability mechanism for corporate non-state actors, specifically key companies in high-emitting sectors, to track their progress and contributions to the Paris Agreement goals. WBA's ACT assessments track companies' low-carbon

[1] Automobiles are excluded from the 2022 Transport Benchmark, but they were covered by the WBA 2021 Automotive Benchmark.

transition, and the social assessments track whether they are transitioning in a just and equitable way. Details of how we integrate the two assessments can be found in our latest methodology report. In this way, the benchmark assesses and ranks high-emitting companies on their contributions to a just low-carbon transition, which includes respect for human rights through a due diligence process. We engage companies themselves in the process of the assessments and on the findings. We are also continuing to explore ways to track the private sector's contribution to adaptation, access to energy and loss and damage.

The Transport Benchmark assesses 90 keystone transport companies that have a disproportionate influence on achieving the Paris Agreement goals and the SDGs[2]. In line with the scope of the ACT methodology and available decarbonisation scenarios, this benchmark covers freight and passenger companies across air, rail and road, as well as sea freight (shipping) transport companies. The benchmark does not cover sea passenger transport companies. This benchmark is the first of WBA's Climate and Energy Benchmark series that combines the ACT assessment and the just transition and social assessment to provide an overall score and ranking. By considering social and decarbonisation issues together, the benchmark can mobilise stronger action needed to hold companies accountable on contributing towards a low-carbon transition that leaves no one behind.

The companies in this benchmark play a vital role in our societies and global economy, connecting the flow of people and goods across countries and around the world. Transport companies are heavily reliant on other sectors for their low-carbon transition: the sector is more exposed to the oil and gas industry than any other, with more than 90% of its energy coming from crude oil-derived products. Collaboration across sectors is needed to scale up the use of sustainable fuels. Transport companies also need manufacturers to supply low-carbon vehicles, and they need infrastructure (such as charging stations) to operate these vehicles.

Freight companies are also critical for functioning of supply chains – highlighted in 2021 when a container ship ran aground in the Suez Canal, halting international freight movement on this key shipping corridor. The sector was also heavily impacted by COVID-19 and geopolitical shifts with international conflicts have affected companies and stakeholders in various ways. Nonetheless, the climate crisis must continue to be addressed. Furthermore, in 2022, as people with the means to travel are returning to using aviation and long-distance rail and road transport, social challenges for workers in the sector have come to the fore and in Western Europe, strikes have become widespread. The imperative of a just and equitable low-carbon transition has never been more pressing in the transport sector.

This report presents the five key findings from the benchmark results, as well as a deeper dive into findings across each type of transport mode used by the assessed companies. The findings are designed to provide investors, civil society and policymakers – as well as the companies themselves – with the insights they need to take action.

WBA's mission is to build a movement to measure and incentivise business impact towards a sustainable future that works for everyone. Working with 330+ organisations in our Alliance, we envision a society that values the success of business by what it contributes to the world. To achieve this, we need all actors in the ecosystem to drive the needed transformations. If you have any

[2] 53% (32) of the publicly listed companies in Transition Pathway Initiative and 83% (5) of the publicly listed companies in the CA100+ Net Zero Company Benchmark (both comprising airlines and shipping categories) are assessed in the WBA Climate and Energy Benchmark on the Transport Sector. The CA100+ Net Zero Company Benchmark published its latest results on 13 October 2022.

feedback on our findings, please reach out to Vicky Sins, Decarbonisation and Energy Transformation Lead at WBA: v.sins@worldbenchmarkingalliance.org.

Five key findings

The 2022 Climate and Energy Benchmark on the Transport Sector shows an industry with an illusion of progress: companies report many targets and commitments to net zero, without the necessary details, financial clarity and collaborative action needed to turn low-carbon transition commitments into action. Transport companies' activities are all about connecting people and goods geographically. They need to show leadership in connecting and collaborating with other sectors and stakeholders to enable the low-carbon transition and alignment with the 1.5°C goal. It is not impossible for companies to get a sound rating on the ACT assessment: evidence from the Transport methodology roadtest shows that the best score achieved in that pilot assessment, using public and private data, was 12A+.

The findings also show that overall, only a minority of the assessed companies are engaged with a just transition, if undertaking a low-carbon transition at all. As with the low-carbon assessment, companies demonstrate some commitment but little action in relation to the social impacts of the transition. A just transition requires urgent attention from companies and policymakers. A concerted effort is needed to bring people along in the transformation. Lack of action by companies could arguably risk the success of the low-carbon transition and could lead to increased inequality, mass unemployment and civil unrest.

Key finding 1: Even though over half of the assessed transport companies have set long-term net-zero targets, their low-carbon transition plans lack detail, depth and intermediate targets. This limits sufficient tracking of their progress towards the Paris goals.

51% (46) of the 90 companies in the benchmark have set net-zero targets. Four out of 90 have 1.5°C targets validated by the Science Based Targets initiative (SBTi). However, many of the companies lack interim targets and details in their low-carbon transition plans, which are necessary to demonstrate a credible path to achieving their commitments. Of the companies with net-zero targets, 50% (23) have not conducted scenario analysis, 65% (30) do not include any financial details in their transition plans and 87% (40) have not set any targets between 2030 and their targeted net-zero year. Companies need to back up their commitments with detailed roadmaps showing how they will move forward on a 1.5°C-aligned path.

The road ahead: most companies have targets but need more detail

Transport companies are responding to the expectation that they should set net-zero targets: just over half (51%) of the 90 companies have set one. By comparison, our 2021 findings showed that 52% of the companies in WBA's Electric Utilities Benchmark had set net-zero targets, while only 22% of companies in the Oil and Gas Benchmark and 17% of companies in the Automotive Benchmark had done the same.

The majority of the transport companies are aiming to achieve net zero by 2050, and 11 companies have set this target for earlier. However, only ten of the companies have committed to achieving net

zero without the use of carbon offsets. Most of the companies have not clearly set out how they plan to achieve their targets, which undermines the credibility of their ambitions.

Only eight of the companies with net-zero targets have set more than one intermediate target between now and their targeted net-zero year, and only six have set any targets between 2030 and their net-zero year: American Airlines Group, FirstGroup, Mediterranean Shipping Company, Royal Mail plc, United Airlines and Go-Ahead Group. This is a crucial period for emissions reductions if these companies actually expect to reach net zero by 2050 or earlier. The lack of targets for this period raises questions about how the companies plan to achieve their long-term targets and casts doubt on their ability to achieve the goals they have set in their transition plans. None of the companies has set intermediate targets spaced at regular gaps of no more than five years. Setting regularly spaced interim targets is crucial as it increases the credibility of a company's low-carbon transition planning and incentivises short-term action towards longer-term goals. The coverage of the companies' targets can also be strengthened: only 19% of all the assessed targets cover scope 1, 2 and 3 emissions.

Further, only 29% (26) of the 90 companies disclose sufficient data to assess alignment with their 1.5°C pathway. Of these companies, 13 were found to have targets fully aligned with their 1.5°C pathway. Additionally, 11 of the 90 companies have had their targets validated by the SBTi, but only four of these have set targets in line with 1.5°C. However, a further 17 companies have committed to having their targets validated by the SBTi, which can help these companies set robust targets and be held accountable for achieving them.

FIGURE 1: TRANSPORT COMPANIES ON NET-ZERO GOALS

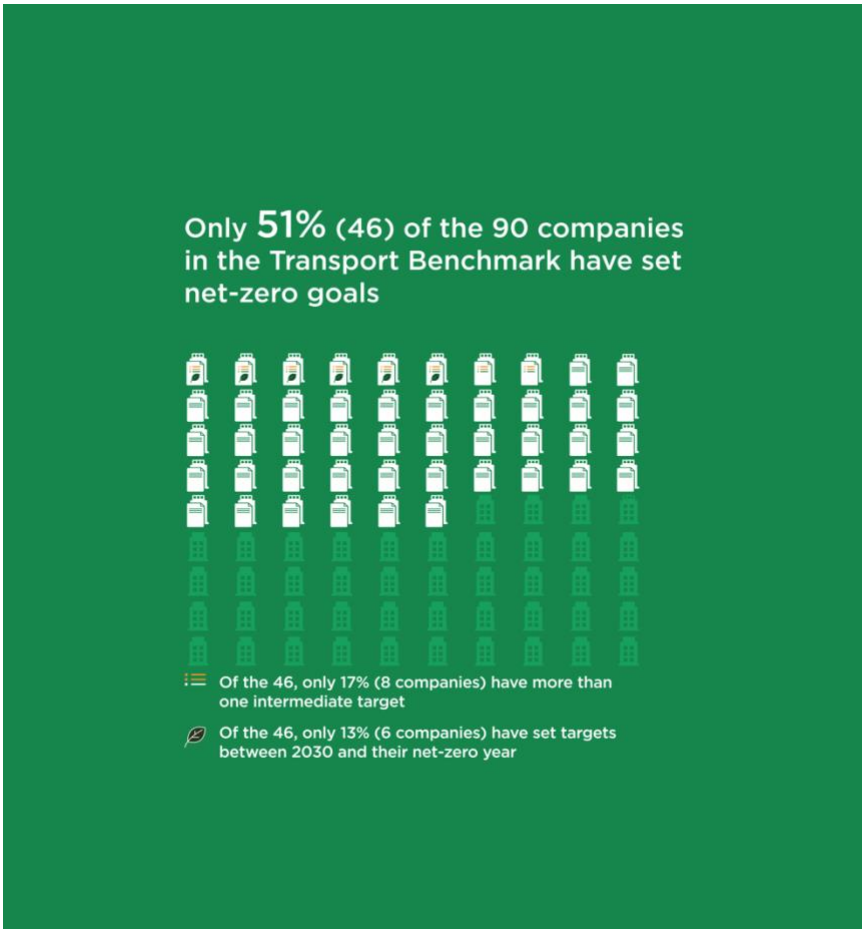


FIGURE 2: QUALITY OF NET-ZERO TARGETS OF TRANSPORT COMPANIES

Reaching the destination: low-carbon transition plans should be stronger

Detailed low-carbon transition planning that includes financial commitments is crucial to ensure that a company's long-term targets are realistic and achievable. A transition plan should outline how an organisation plans to align with a 1.5°C world. 80% (72) of the companies have elements of a transition plan; however, many of them lack details and commitments. Of the 72 companies, 49 provide no financial details related to their transition planning and the majority do not include a vision of how they realistically expect their low-carbon business models to operate in the future. Many of these companies will soon be required to disclose transition plans, for example, under the UK government's new Sustainability Disclosure Requirements, the disclosure frameworks developed by the European Financial Reporting Advisory Group (EFRAG), the International Sustainability Standards Board (ISSB) and the U.S. Securities and Exchange Commission (SEC). Other major economies, such as China, are also increasingly tightening their rules on sustainability disclosure requirements, with domestic enterprises and major carbon emitters now obliged to disclose a series of environmental information. Companies risk falling behind if they do not develop and report a detailed transition plan.

Low-carbon transition plans should be informed by company-wide scenario analysis to ensure their ambition matches that required by a 1.5°C pathway. However, less than half of the companies undertaking transition planning have used scenario analysis, and only five of those companies have used a 1.5°C scenario and considered both physical and transition risks. There is a clear gap between the ambition of the transport companies' targets and the quality of their transition planning.

Nonetheless, there are companies that stand out, showing that good practice is possible. ComfortDelGro Corporation (ranked 1st overall and 1st on the ACT assessment) has set multiple 1.5°C aligned, SBTi-validated targets, covering all its emissions. The company has also developed a detailed transition plan informed by scenario analysis and its board has oversight of climate change as well as significant expertise related to the low-carbon transition.

Key finding 2: Transport companies are not using enough of their expertise and industry platform to drive key stakeholders to transition in line with the 1.5°C goal. They need to take decisive leadership towards reaching the climate goals, instead of relying on other stakeholders for solutions.

Passenger and freight companies play a critical role in connecting people and supply chains across the world. However, these companies show a disconnected approach when it comes to driving change among the other sectors and stakeholders that are needed for their low-carbon transition. 66% (59) of the 90 assessed companies do not engage with suppliers on environmental issues beyond integrating climate change issues into the supplier code of conduct. A sector that is all about connection needs to show leadership in collaborating with other sectors and stakeholders which will enable its low-carbon transition.

The companies in this benchmark play a critical role in society and the global economy by transporting goods and passengers and connecting supply chains. They also rely heavily on other sectors – oil and gas, electric utilities and vehicle manufacturers – and other stakeholders, including policymakers and customers, that enable the low-carbon transition.

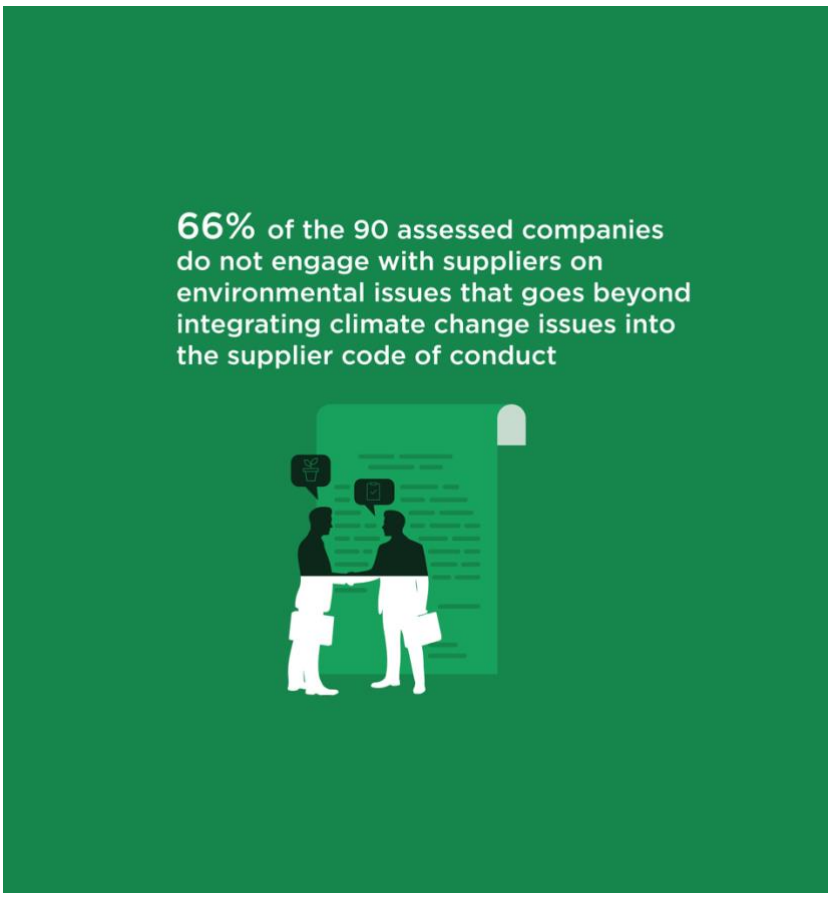
The assessed companies show insufficient evidence of collaboration with other sectors and stakeholders to achieve their decarbonisation goals.

Supplier engagement

There is no company in the benchmark that scores full marks for engagement with manufacturers or fuel providers. Technology limitations mean that efficiency improvements and alternative fuels are critical for aviation and shipping to decarbonise. Only four of the 43 assessed shipping and aviation companies – American Airlines Group, Hyundai Merchant Marine, International Airlines Group and Japan Airlines - show evidence of collaboration with manufacturers or fuel providers on low-carbon vehicle research and development (R&D) that has led to a reduction in emissions.

Of the 44 companies that have subcontracted activities, 23 do not have a strategy for dealing with subcontractors, and only one company (Deutsche Bahn) has a proven track record of reducing subcontractors' emissions. Further, 17 of the 44 companies have a net-zero target but no clear strategy for reducing emissions from subcontracted activities.

FIGURE 3: ASSESSED COMPANIES AND SUPPLIER ENGAGEMENT



Policy and infrastructure

Climate policy at both national and international levels is essential to enable the development of low-carbon solutions, such as suitable infrastructure. Of the 90 assessed companies, 41 do not publicly support decarbonisation policies. Further, only three companies – A.P. Moller – Maersk, Deutsche Bahn and MSC Mediterranean Shipping Company – show sufficient support for climate policy to be assessed as being aligned with the low-carbon transition.

If companies favour market-based solutions, engagement with key stakeholders such as infrastructure operators or local authorities should be part of their strategy. Only six companies demonstrate that they have pushed infrastructure operators to commit to the development of low-carbon infrastructure. Only four companies in the assessment – ANA Holdings (All Nippon Airlines), Deutsche Bahn, Tokyu Corporation, Renfe Operadora, Rossiyskiye Zheleznye Dorogi (JSC Russian Railways) and Go-Ahead Group – collaborate with local authorities to introduce low-carbon transport at the scale required for a transition.

Overall, the sector not only shows a lack of support for regulation but also fails to engage with key stakeholders to implement the changes required, which keeps companies operating with business as usual. As an example, it is only recently with the Fit for 55 Package that the EU proposed including shipping as part of its emission trading scheme (ETS) and gradually from 2023 onwards. Similarly, the EU ETS does not cover long-haul flights, which account for the majority of emissions in the aviation sector. While some companies do support more stringent environmental regulations, European trade associations in the transport sector, particularly for shipping and aviation are the ones that most actively lobby against such regulations: see InfluenceMap's 2022 report.

Customer engagement

Transport companies can influence customers to reduce their GHG emissions through education, marketing campaigns and by offering customers low-carbon alternatives. Of the 90 assessed companies, 47 do not have a strategy to influence customers to reduce emissions. Notably, no company has set emissions reduction targets for its customer engagement strategy.

Freight forwarding companies organise the delivery of goods via multiple modes of transport. To reduce emissions, they can offer intermodal solutions, such as a combination of road and rail to replace higher emitting air freight. While seven of the companies that provide these services have a strategy that is low-carbon aligned, only J.B. Hunt Transport Services was found to actually be putting its strategy into practice at the level required for the low-carbon transition.

Waiting for the train?

The assessments show that transport companies are not using their influence to push for solutions, either in the development of low-carbon infrastructure and technology or in climate policy. While they wait for the solutions to be handed to them, they continue to operate business as usual with minor advancements in vehicle efficiencies and an insignificant shift in business models. These efficiencies will not lead to the required emissions reductions. Companies need to show leadership and use their industry platform to drive the level of change needed for a low-carbon economy.

Key finding 3: Current research and development investments in emerging, unproven technologies and new business models in the transport sector will not close the emissions reduction gap in time.

Transport companies need to make significant investments to shift to low-carbon business activities. Most of the companies in this benchmark fail to disclose sufficient information on research and development (R&D) and capital expenditure. The data available suggests that on average only about 0.3% of total transport-related revenues are reinvested in low-carbon technology and fuel R&D. Companies must act now to invest in the technology and business models that will secure a low-carbon future.

Companies need to accelerate low-carbon investments

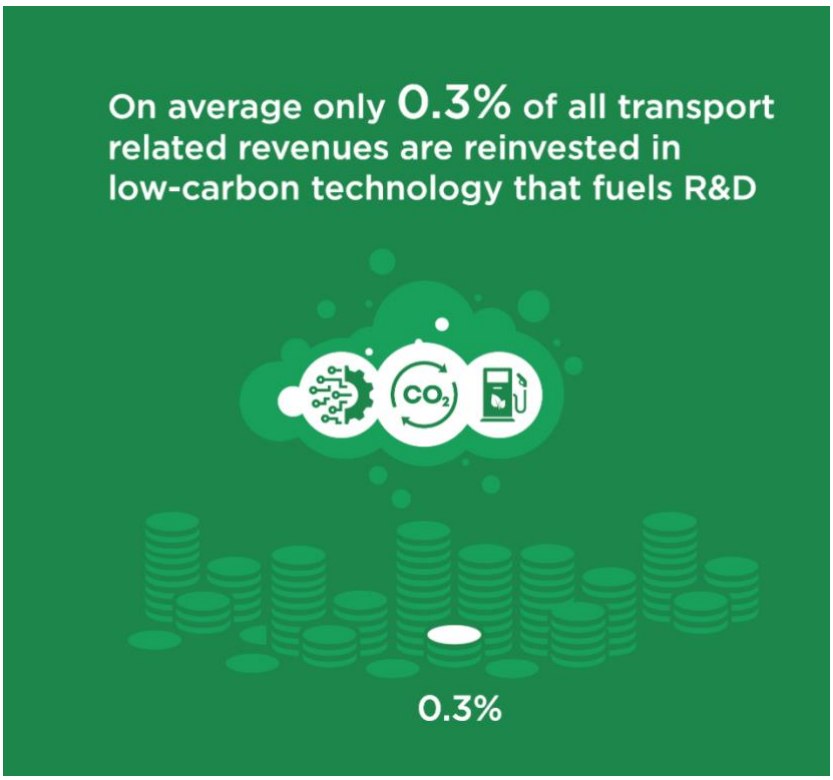
Transport is a high-emitting sector which faces major challenges in decarbonisation. Technological solutions are uniquely important to the sector's transformation. Moreover, as the sector is diverse, a one-size-fits-all approach does not apply.

Past R&D and capital expenditure (CapEx) and current business models are failing to align companies with the Paris Agreement goal to limit temperature increase to 1.5°C. Transport is more exposed to the oil industry than any other sector, with more than 90% of its energy coming from crude oil-derived products. Smart investments in low-carbon vehicles, fuels and business models are critical to decarbonising the sector. Infrastructure and vehicle investments have long-lasting consequences in a sector where assets generally have long lifetimes. 83% (75) of the 90 assessed companies have fleets that are incompatible with a low-carbon transition. These companies are projected to substantially exceed their total 1.5°C carbon budget.

The majority of companies fail to disclose current levels of and plans for new, low-carbon vehicles in their fleets. Of the 90 assessed companies, just four – CJ Logistics Corporations, MTR, Tokyu Corporation and NS Groep – provide sufficient information about their fleets. Although some companies are investing in new vehicles and alternative fuels, most companies do not disclose investment plans or outline how and when they aim to increase the share of low-carbon vehicles in their fleets.

Technological advances are particularly important for this sector. Many of the solutions, such as cleaner vehicles (fuel cell buses, electric trucks) and alternative fuels (ammonia, hydrogen, sustainable aviation fuel (SAF)), are still underdeveloped. Investment in R&D and working in partnership with suppliers and technology developers (e.g. vehicle manufacturers or fuel producers) are critical to reducing the lead time for new technologies to hit the market. Despite this, most companies do not provide any detail on R&D expenditure. Companies that do disclose R&D investments fail to provide a comprehensive plan that aligns their R&D with emissions reduction targets. 94% (85) of the companies do not provide relevant data on their R&D in low-carbon vehicles and energies. Where they do disclose information, companies report investing in solutions such as fuel efficiency, transport electrification or SAF, but not at the required rate.

FIGURE 4: TRANSPORT-RELATED REVENUES ON LOW-CARBON TECHNOLOGY



Need for robust new business models

Companies show a lack of effort to shift towards robust new low-carbon business activities. Only six companies have committed to phasing out fossil fuels: Deutsche Bahn, DSV, MSC Mediterranean Shipping Company, JD Logistics, NS Groep and ZTO Express. In addition, efforts at shifting demand to low-carbon transport modes could not be clearly evidenced among the 90 companies. Only eight companies have business models that aim to change demand patterns. Moreover, only four of these companies – Go-Ahead Group, J.B. Hunt Transport Services, NS Groep and United Parcel Service (UPS) – have relatively mature business models (e.g. route electrification, intermodal transport) which are profitable and of substantial size.

The most common category of new business activities is promoting technical and operational low-carbon innovation. Route optimisation and fuel blending are the most common new business models. However, only four companies' business models – Bolloré, Cathay Pacific, Deutsche Post DHL Group and United Parcel Service (UPS) – meet all the criteria covered in the assessment due to a major gap in corporate reporting.

High-quality disclosure is crucial for stakeholders to be able to hold companies accountable on their investments and their contributions to reaching the Paris Agreement goals. The disclosure frameworks developed by EFRAG, ISSB and SEC will greatly strengthen companies' disclosure, which will enforce increased accountability and action.

Key finding 4: The vast majority of transport companies must accelerate necessary action immediately to make the low-carbon transition just and equitable, to prevent placing a workforce of millions at risk.

A 'just transition' envisions resilient and thriving workers and communities, existing within the global 1.5°C boundary set out in the Paris Agreement. WBA's Climate and Energy Benchmark on the Transport Sector is the first to holistically rank companies on their contributions to a just and equitable low-carbon transition. It shows a striking and systemic lack of action by companies to prepare for and mitigate the social impacts of decarbonising. Alarmingly, all companies score 0 on just transition planning, placing a workforce of around 10 million people at risk.

The benchmark findings show a worrying lack of action by companies across all parts of the just transition assessment. Moreover, when comparing the ACT results with the social assessment results, almost no correlation was found between a company's relative performance on decarbonisation and its efforts to mitigate social impacts. This suggests that many companies continue to see their social and environmental impacts as independent, rather than interrelated, and are failing to link their low-carbon planning and activities to impacts on workers and communities.

People are being left out of decisions that affect their future

Transport companies' scores are worse than those for the oil & gas, electric utilities and automotive sectors in 2021 on all just transition indicators. This includes the first steps towards a just transition: social dialogue and stakeholder engagement. Social dialogue with workers, unions (or equivalent groups) and, where necessary, governments, is key to a just transition. Social dialogue should guarantee the effective participation of workers in a meaningful negotiation, so that they have the opportunity to influence decisions and outcomes on bringing about a just transition and avoiding adverse social impacts. Stakeholder engagement is essential to include the voices and expectations of those impacted by the transition and should involve a wide range of stakeholders including government and business representatives, communities, and other civil society groups. While 13% (12) of the 90 companies commit to social dialogue, only one company – A.P. Møller - Maersk – discloses which stakeholders it engages with on just transition. Critically, no company discloses the steps it takes towards engaging stakeholders or demonstrates social dialogue and engagement on a just transition.

Planning for a transition that is just and equitable is fundamental to ensuring companies cause no harm to workers and communities impacted by their activities. Decarbonisation is not possible without adequate and thought-through planning. Further, this planning should encompass time-bound and measurable indicators, developed in partnership with stakeholders, to manage the impact of the transition on workers, communities and vulnerable groups. Alarmingly, all transport companies score 0 on all four aspects of just transition planning, signalling a lack of fundamental and concrete steps to prepare for, prevent and mitigate harm and maximise positive outcomes for people. This picture of 'some commitment, general lack of disclosure and little to no evidence of action' echoes the trend found in the ACT (low-carbon) assessments (see key findings 1, 2 and 3).

FIGURE 5: TRANSPORT COMPANIES ON JUST TRANSITION PLANNING

The benchmark also assesses companies' commitments and measures related to reskilling and upskilling, employee retention, and green and decent job creation and access. As in 2021, companies were found to score higher across these indicators than others and appear to have some existing capacity and ability to act on job creation and training, including for women and vulnerable groups. The best performance was on measures for skills, training and education, which 38% (34) of the companies met.[3] Additionally, 13% (12) of the companies disclosed actions to embed equality of opportunity for women and vulnerable groups in job creation, and 7% (6) of the companies disclosed actions to embed equality of opportunity in reskilling, training and education. However, similar to last year's findings, none of the companies assesses and discloses the risks and impacts of employment dislocation linked to its low-carbon transition. This is critical to ensure the right skills and jobs are being provided in the transition. Only one company, FirstGroup, publicly commits to both green and decent jobs and reskilling and upskilling of workers displaced by the low-carbon transition.

Companies are not using their influence to protect people, manage social impacts and advocate for a just transition

Given that none of the assessed transport companies meet any just transition planning elements, it is perhaps unsurprising that all companies score 0 on social protection and social impact management. This is necessary to complement national systems by preventing stranded workers and communities and lessening inequalities between formal and informal workers and vulnerable groups. The same is true for advocacy of just transition policy and regulation, where no company was able to demonstrate that its lobbying activities support and do not undermine a just transition. These findings add to a

[3] It is important to note that for the 2022 assessments, companies' ACT results did not directly feed into the just transition indicator assessments, but it is our ambition to explore having a more combined assessment with ACT. Therefore, the rigour of the assessment for indicator elements 3c, 3d, 4c, and 4d may increase in future assessments.

deeply concerning picture of a high-emitting sector almost wholly lacking the capacity to take adequate action to manage the social impacts of decarbonisation.

All actors in the ecosystem need to step up for a successful transition. Governments need to establish an enabling policy environment and incentivise green and socially positive practices, such as green fiscal policy and public procurement. Companies' role is crucial too: they must co-create robust transition plans with those who will be affected by them. They must provide green jobs and support skills development, contribute to social security systems, support governments through lobbying and advocacy efforts, and respect human rights. It is notable that the company scoring highest on the social assessment – Maersk – operates in the shipping sector; read more about that sector and related initiatives below.

Key finding 5: Only a minority of transport companies demonstrate effective human rights due diligence – without adequate priority for human rights and decent work practices, a just transition will not be possible.

Decarbonising the transport sector can be globally transformative, but it also brings a responsibility to ensure decarbonisation is carried out in a socially just way. Respect for human rights and providing and promoting decent work underpins a just transition. Beyond the 10 million or so people estimated to be directly employed by the 90 assessed transport companies, millions more are likely to be affected through the operations and supply chains of these companies. The benchmark highlights a gap between corporate commitments to respect human rights and provide decent work and the processes companies have in place to ensure these in practice. 43% (39) of the companies have a human rights policy commitment, yet only 3% (3) of the companies demonstrate an effective human rights due diligence process.

The core social indicator (CSI) assessment findings echo the ACT (low-carbon) and just transition findings: some companies show commitments towards human rights and workers' rights, but generally, companies provide limited disclosure on these topics and demonstrate little action. Companies are assessed on their fundamental actions for human rights, decent work and ethical business, all of which underpin a just and equitable low-carbon transition.

A just transition is underpinned by respect for human rights and providing and promoting decent work

The UN Guiding Principles on Business and Human Rights (UNGPs), which have been in place for over ten years, establish how companies should address their human rights impacts, including those caused through decarbonisation efforts. Companies signal their intent by committing to respect human rights in their operations and expecting the same from their business partners. They should further undertake human rights due diligence to understand and avoid or address the potential negative impacts of their activities on people and communities and provide access to remedy.

Across the 90 companies assessed in this benchmark, 43% (39) of the companies have human rights policy commitments. However, only 3% (3) of the companies demonstrate having a due diligence process that includes identifying, assessing and taking action to prevent, mitigate and remediate salient human rights risks. The lack of a sound due diligence process undermines progress achieved on human rights, effectively causing harm to workers and communities. Inaction on human rights due diligence by companies translates into a step backwards when it comes to upholding workers' and communities' wellbeing.

FIGURE 6: TRANSPORT COMPANIES WITH HUMAN RIGHTS POLICIES

Similarly, companies are expected to make public commitments and disclose their actions in relation to decent work practices, but disclosure on actions is severely lacking. 43% (39) of the companies have a publicly available policy statement committing to respect the health and safety of workers. Further, 44% (40) of the companies have a public expectation of those in their supply chain[4] to respect worker health and safety. Regardless, only three companies (3%) – Cathay Pacific, Evergreen Marine Corporation and Singapore Airlines – disclose quantitative information on health and safety for their workers. Commitments are an important first step and signal intent, but companies can and should do more to take and disclose actions towards decent work.

Human rights due diligence and decent work practices are integral to a just transition. By integrating existing international standards, such as the UNGPs and International Labour Organization (ILO) Conventions in their policy commitments and business operations, companies can address adverse human rights and decent work implications that undermine just transition processes. Doing this as part of a just transition plan may also allow companies with a weaker track record on human rights to remediate the harm done and integrate workers' and communities' rights protection in their operations. It is also a means for companies to increase investor confidence and access to capital, maintain good relationships with civil society, and achieve higher employee retention.

Overall, the benchmark shows that companies need to significantly display leadership and enhance disclosure on a just and equitable low-carbon transition. WBA has welcomed the proposed mandatory disclosure frameworks developed by EFRAG, ISSB and SEC as these can greatly strengthen companies' disclosure, thereby enabling increased accountability and action.

[4] The term used in the indicator is 'business relationships'.

Sub-sector findings

Aviation

Aviation is a high-profile sector. Of the 25 aviation companies assessed, 16 have net-zero targets and some have social and just transition commitments. However, many aviation companies lack interim targets, plans and details to back up and fulfil these commitments.

Low-carbon transition

Aviation is a high-profile sector and public scrutiny has compelled airlines to set ambitious emissions reduction targets. The assessment of the 25 most influential airlines revealed that 16 of them have set a 2050 net-zero target, aligned with the sectoral target set by the International Air Transport Association (IATA) and the Air Transport Action Group (ATAG). In fact, Alaska Air Group aims to achieve net zero by 2040.

However, these long-term ambitions lack supporting short- and medium-term targets. Only International Airlines Group (IAG) has a meaningful 2025 emissions reduction target. Further, only ten companies have 2030 or 2035 targets. Ten of the assessed airlines have committed to set a science-based emissions reduction target. However, so far, the Science Based Targets initiative (SBTi) has only validated a 2035 emissions reduction target set by American Airlines Group and a 2030 target set by Lufthansa Group.

Further, only IAG, Japan Airlines and United Airlines Holdings have specifically excluded the use of offsets to achieve their net-zero targets. Moreover, out of the remaining companies relying on offsets, only four companies specify the percentage of reductions they intend to achieve through their use of offsets. The remaining companies do not disclose these details, which leads to the question whether this is just another smoke and mirrors tactic to divert public attention.

Currently, the only discernible emissions reductions being achieved are through fleet modernisation, but airlines should be held accountable for making greater changes as this is not a long-term solution. Only three airlines disclosed their low-carbon R&D spend, which was mostly focused on scaling up sustainable aviation fuel (SAF). Nearly all airlines' plans rely on SAF for decarbonisation.

Although ASTM D7566, the standard regulating the technical certification of SAF, allows only 50% of jet fuel to be replaced by SAF, it is one of the few realistic options to reduce emissions in the medium term. Airlines must support SAF production and infrastructure development by giving long-term certainty to the SAF sector through commitments, contracts and offtake agreements.

Urgent action and considerable investments are required to develop all of the low-carbon solutions needed to decarbonise the sector. Almost half of the aviation companies in the benchmark mention hydrogen-fuelled planes or battery electric aircraft as low-carbon solutions for short-haul flights. Both technologies are currently only at the early prototype stage.

No evidence was found that airlines are developing business models related to shifting demand from high-emission modes of transport, such as flying, to low-emission alternatives. Only Air France Group (excluding KLM), offers train and air travel on the same reservation in partnership with the rail company SNCF Group. It currently offers this service at 18 stations in France.

The assessment shows that airlines tend to rely on third parties to create the solutions required for a successful low-carbon transition. Airlines urge policymakers to adopt certain policies, governments to create incentives and increase funding, and aircraft manufacturers and fuel suppliers to provide low-carbon solutions. Instead of waiting for all this to come to fruition, airlines should be more proactive and drive change themselves. On 7 October 2022, the International Civil Aviation Organization (ICAO) established a goal to achieve net-zero emissions in the aviation sector by 2050, which can further support member states in regulating emissions. However, this goal was undermined at the 2022 UN ICAO assembly, with member states agreeing on a lower baseline for offsetting emissions. As such, it is urgent for member states to complement this scheme with binding targets that will better regulate emissions in the aviation sector.

Social and just transition

On the social assessment, companies in the aviation sub-sector have a median score of 5.0/40, higher than the benchmark median of 4.4/40. There is a higher level of commitment and action compared to other sub-sectors, with three of the top five scoring companies on the social assessment – ANA Holdings (All Nippon Airlines), China Airlines and Japan Airlines – being in this sub-sector. However, ten of the companies in this sub-sector score 0 on the just transition indicators, indicating an opportunity for greater disclosure and action in this area.

Shipping

Shipping is a sub-sector with some evidence of decarbonisation and a just transition; but its low-carbon plans are heavily reliant on alternative fuels such as ammonia and methanol that will need an investment of between USD 1.4-1.9 trillion between 2030 and 2050. Some shipping companies show awareness of just transition, but overall, the sub-sector has a long way to go.

Low-carbon transition

International shipping accounts for three-quarters of total freight transport activity and 3% of global emissions. Ten of the 18 shipping companies assessed in the benchmark have, to varying degrees, decreased their emissions intensity over the last five years, primarily through improvements in energy efficiency. However, long-term decarbonisation relies on the use of alternative fuels. Although shipping is the most energy-efficient way to transport cargo, it is currently heavily reliant on fossil fuels, which account for 99.9% of final energy consumption in the sub-sector.

The sub-sector's pathway to net zero by 2050 relies almost exclusively on the development of low-carbon alternative fuels. To align with the sub-sector's 1.5°C pathway, these fuels are expected to account for 84% of fuel usage by 2050. Currently, none of the assessed shipping companies operate any vessels using alternative fuels. Maersk is aiming to be the first to operate a zero-emission vessel with its plan to bring a green methanol-operated ship into operation in 2023.

Ammonia and methanol are the most popular options for future alternative fuels among the assessed companies. However, significant investment will be needed to make these fuels viable for use at scale. It is estimated that in order to fully decarbonise shipping by 2050, an investment of USD 1.4-1.9 trillion will be required between 2030 and 2050.

Some of the companies have started investing and collaborating with other actors to develop these fuels. For example, Maersk launched the Maersk McKinney Møller Center for Zero Carbon Shipping, an independent research and development centre, and MISC Group co-founded the Castor Initiative

to develop ammonia-fuelled tankers. However, a significant proportion of the shipping companies show no evidence of having taken any action to contribute to the development of alternative fuels, instead choosing to rely on outside actors to bring them to maturity. This lack of action calls into question the credibility of many of the shipping companies' decarbonisation targets.

As shipping operates globally, the role of international regulators is crucial to ensure that companies are held to account. The International Maritime Organization (IMO) is a key regulatory body for shipping. The IMO is currently targeting a 50% reduction in shipping emissions by 2050 compared to 2008, which itself falls short of the ambition required by the Paris Agreement. Over half of the assessed shipping companies have set more ambitious targets, with ten of the 18 companies having set net-zero targets for 2050 or earlier (2040 in the case of Maersk and 2045 in the case of Hapag Lloyd). However, four of the companies have not set net-zero targets and have instead set their targets in line with the IMO.

Social and just transition

On the social assessment, companies in the shipping sub-sector have a median score of 4.5/40, comparable to the benchmark median of 4.4/40. There is a similar lack of commitment and action as in other sub-sectors, with the exception of a few notable differences.

Maersk receives the highest score of 12.4/40 on the social assessment, which includes a just transition. It is this sub-sector that shows the most efforts across several initiatives, bringing shipping companies together in dialogue and establishing best practices in relation to a just transition and human rights.[5]

Road

Passenger road companies are critical for day-to-day mobility in society. Over two-thirds of the assessed road transport companies live up to that public role, engaging customers and policymakers on the low-carbon transition. Road freight companies play an equally significant role in our economy and can show more dedicated leadership towards a low-carbon transition and its social aspects.

Low-carbon transition

Out of the 90 companies assessed in the benchmark, 39 have road transport operations. Of these, just six companies provide road-only transportation services. It is clear that road transport is integral to multimodal transport solutions, whether providing port-to-depot, last-mile delivery or bus services alongside rail. The assessed companies with road transport operations fall into two distinct categories.

The first group comprises public transport operators (ten companies). Typically offering road and rail services, the primary form of road transport used by these companies is buses. They comprise a mix of state-owned and publicly listed organisations. However, all are public-facing organisations. This is reflected in two ways: 60% of companies describe how they are engaging with their customers

[5] The Institute for Human Rights and Business (IHRB), the Rafto Foundation for Human Rights, the International Labour Organization (ILO), the Office of the United Nations High Commissioner for Human Rights (OHCHR), the Danish Institute for Human Rights (DIHR), the UN Global Compact, the International Transport Workers' Federation (ITF), the International Chamber of Shipping (ICS), the International Maritime Organization (IMO) and the Sustainable Shipping Initiative, jointly and separately, provide resources for the shipping sector. Information can be found here: https://www.ihrb.org/focus-areas/oceans/shipping and via each organisation's website.

through education and information sharing and 70% are working either directly or through trade associations to influence government climate policy. Public transport companies have been hard hit by COVID-19, with reports of a decline in passenger trips by over 90% in many of the world's major cities. Despite this, companies are investing in R&D and new business activities. These relate to low-carbon vehicles, such as electric buses, and generating or investing in alternative sources of energy to power their fleets, such as biofuels or renewable energy.

The second group comprises logistics companies, which encompass road haulage and postal services (29 companies). Their main forms of road transport range from local delivery vans to large trucks. 66% of these companies subcontract some proportion of their operations (almost two-thirds on average).

Most logistics companies with road transport operations are predicted to perform worse if the assessment were to be repeated in the near future. While 72% of companies have a transition plan of some sort, only 41% have scope 3 emissions reduction targets and 34% haven't set any target at all. Notably, nearly 40% of these road logistics companies are projected to face serious risks that could undermine their profitability and ability to successfully implement a low-carbon transition plan. The risks highlighted by the analysis include a lack of knowledge about subcontracted emissions, a lack of investment in low-carbon vehicles and lack of R&D on low-carbon solutions. To add to this, 41% of these companies are members of trade associations that hold positions on legislation that could hinder progress towards a low-carbon economy. This suggests that not only are many road logistics companies failing to transition to a low-carbon future, they are also supporting organisations actively working against it.

However, there are companies that stand out from this trend. La Poste Groupe (ranking 2nd overall and 2nd on the ACT assessment) has reduced its emissions in line with its 1.5°C pathway from 2015 to 2020 and is on track to achieve its targets to reduce scope 1, 2 and 3 emissions by 30% by 2025 compared to 2013. The SBTi has validated this target to be consistent with a 1.5°C pathway. Royal Mail plc (ranking 9th overall) has set a target to achieve net-zero emissions by 2045, and its detailed low-carbon transition plan is informed by climate scenario analysis including a 1.5°C scenario. It has also linked CEO incentives to progress on climate change. Deutsche Post DHL Group (ranking 16th overall) shows similar strengths. These companies set clear examples of how road freight companies can plan for decarbonisation.

Social and just transition

On the social assessment, companies in the road transport sub-sector have a median score of 4.4/40, in line with the benchmark median of 4.4/40. There is a similar lack of commitment and action as in other sub-sectors. However, certain multimodal companies with road transport operations stand out in their efforts, such as FirstGroup (see the multimodal finding below). Nevertheless, five of the companies in this sub-sector score 0 on the just transition assessment, and it is clear that the majority of road transport companies assessed in the benchmark can increase disclosure and action in this area.

Rail

Rail companies have a key role to play in decarbonising the transport sector – providing low-carbon transport for passengers and freight – and are critical to the functioning of society. However, they have a long way to go in terms of disclosure, especially companies operating in the public sector. Nevertheless, public sector rail companies are among the stronger performers on a just transition, because they commit to engaging in social dialogue and actively work to include opportunities for women and vulnerable groups in their efforts to educate and create jobs.

Low-carbon transition

In 2016 rail accounted for 8% of global passenger travel and about 7% of freight activity, but only 2% of energy use in the transport sector. Rail transport companies are key to decarbonising the sector by promoting a shift from high-emitting transport modes towards rail passenger and freight. However, public sector rail companies are among the worst in the benchmark when it comes to disclosure, with many failing to report robust transition plans and activity data. Logistics rail companies are, however, pursuing new business activities that seek to shift road and shipping transport services to rail through intermodal transport solutions, but these efforts are in early stages and lack robustness.

Of the 90 companies assessed in the benchmark, 34 have rail transport operations. Of these, 18 companies are passenger rail transport companies, and 16 are multimodal logistics companies. These two distinct categories, logistics and passenger rail transport, have different levers and priorities in relation to a low-carbon transition.

Over 55% of the 18 passenger rail companies are majority or fully state-owned, claiming to align with their national governments' climate targets. 67% of passenger transport companies have set net-zero targets for 2050. Deutsche Bahn (ranking 10th overall) and SNCF Group (ranking 13th overall) have near term 2030 science-based targets aligned with a 2°C scenario and NS Groep (ranking 4th overall), National Express Group (ranking 6th overall), Ferrovie dello Stato Italiano (FS Italiane) (ranking 7th overall), and Deutsche Bahn are leading with carbon-neutral targets for 2040. To achieve their targets, passenger rail companies are expanding their electrified route mileage to promote a modal shift in their countries. Rail networks are highly electrified, with just over half of the companies having about 70% of their national route mileage electrified and another quarter reporting around 100% electric vehicles in their fleet. In fact, the American National Railroad Passenger Corporation (Amtrak) stands out in how significantly it falls behind, with just 22% electric trains in its fleet and no clear plan to expand this share in future.

For those rail lines that cannot be electrified, passenger rail companies are investing in energy efficiency, and R&D in hydrogen fuel cells, batteries and biofuels. However, these efforts are undermined by companies' lack of disclosure and transparency on R&D investment, activity and robust transition plans. 55% of companies do not provide enough information to assess their alignment with their 1.5°C pathway. Companies are falling short in driving the shift from fossil fuel to renewable energy generation or procurement, with only a third of the companies considering this change to their business model. Moreover, only 23% of companies have client engagement strategies to make a modal shift attractive by improving customer convenience in local and long-distance transport.

Logistics companies with rail freight services account for 45% of the rail companies in the benchmark. 88% of these companies subcontract some proportion of their operations, with an average of 60% of their activity being subcontracted. Most logistics rail operators are predicted to perform worse if the

assessment were to be repeated in the near future. For the majority of these companies, rail represents the smallest share of activities, being negligible in some cases. This suggests that freight companies are failing to promote a modal shift away from their high-emitting operations. However, some companies such as J.B. Hunt Transport Services, JD Logistics, Nippon Express and SG Holdings do report early-stage and weak business models to shift road and shipping transportation services to intermodal transport, primarily using more fuel-efficient rail services for freight.

Social and just transition

On the social assessment, companies in the rail transport sub-sector have a median score of 2.3/40, lower than the benchmark median of 4.4/40. There is a lower level of commitment and action among rail-only companies compared to other sub-sectors. However, public sector and public-facing rail companies are among the stronger performers on the just transition assessment, because they commit to engaging in social dialogue and actively work to include opportunities for women and vulnerable groups in their efforts to educate and create jobs. FS Italiane ranks 5th on the social assessment, while Deutsche Bahn ties in 6th (with FirstGroup).

Multimodal

Multimodal transport companies have a unique role to play in the shift towards low-carbon modes of transport. The vast majority of these companies use subcontractors. So, increased transparency and targets for low-carbon vehicle use are key to drive the low-carbon transition among these companies. Notably, one multimodal company, FirstGroup, has the strongest just transition commitments out of all the 90 transport companies assessed.

Low-carbon transition

Multimodal transport companies operate services across more than one mode of transport: air, rail, road and shipping. Out of the 90 companies assessed in the benchmark, 27 are multimodal. Of these, 24 are logistics companies, i.e. companies facilitating the movement of goods. Moreover, 74% of these companies operate more than three modes of transport, and all the multimodal companies have road transport operations.

81% of multimodal transport companies subcontract a part of their business activity. The median value for these companies indicates that they subcontract 75% of their operations. Companies that subcontract a significant proportion of their business are asset-light, and therefore transforming their own fleet alone is unlikely to be sufficient to reduce their emissions intensity in line with a 1.5°C pathway. 55% of the companies report investment in digital solutions such as route optimisation and reducing empty miles. However, only UPS and Royal Mail plc report that these solutions reduce emissions. Around 70% report their subcontractor emissions as part of their scope 3 emissions. However, only 50% show engagement with subcontractors, for example, through a supplier code of conduct. Only Deutsche Post DHL Group has a clear strategy to reduce subcontractor emissions, including targets for alternative fuels and vehicles.

Of the three remaining companies that do not subcontract any of their activity, none report their share of low-carbon vehicles. National Express Group is the only one of these companies with clear targets for low-carbon vehicles.

It follows then, that no multimodal company has demonstrated recent emissions intensity reductions in line with their 1.5°C pathway. In fact, nearly half of these companies report insufficient data to even allow for the analysis.

Multimodal companies have a unique role to play in the shift towards low-carbon modes of transport. Beyond transitioning to low-carbon vehicles and fuels, these companies can shift transport modes used within their business activities. Six of the companies mention strategies for a modal shift. For example, US Postal Service plans to switch its subcontracted air operations to a ground fleet. J.B. Hunt Transport Services has formed an agreement with a railway company to switch from road-only to intermodal road and rail operations, which they expect to be 2.5 times more fuel efficient. Deutsche Post DHL Group is providing opportunities for customers to select shipping over air to reduce both parties' emissions.

Social and just transition

On the social assessment, multimodal transport companies have a median score of 4.6/40, comparable to the benchmark median of 4.4/40. There is a similar level of commitment and action as in other sub-sectors. Notably, FirstGroup (ranking 3rd overall and tying in 6th on the social assessment) has public commitments on green and decent job creation and reskilling and upskilling of workers and affected stakeholders in the low-carbon transition. It is the only company to publicly disclose commitments in both of these areas.

About the World Benchmarking Alliance

Founded in 2018, the World Benchmarking Alliance (WBA) is a non-profit organisation holding 2,000 of the world's most influential companies accountable for their part in achieving the Sustainable Development Goals. It does this by publishing free and publicly available benchmarks on their performance. WBA shows what good corporate practice looks like so that leading companies have an incentive to keep going and laggards feel pressure to catch up.

WBA has identified seven systems that, if transformed, have the greatest potential to put our society, planet and economy on a more sustainable and resilient path. These are the transformation of our social system, our agriculture and food system, our decarbonisation and energy system, our nature system, our digital system, our urban system and our financial system.

By benchmarking companies on each system transformation every second year, WBA reveals where each company stands in comparison to its peers, where it can improve and where urgent action is needed. The benchmarks provide companies with a clear roadmap of the commitments and changes they must make. Over time, they will show whether or not these 2,000 companies are improving their business impact on people, workers, communities and the environment. They equip everyone – including a community of 300+ organisations known as 'Allies' – with the insights that they need to collectively ensure that the private sector changes.

For more information, visit www.worldbenchmarkingalliance.org and follow us on Twitter @SDGBenchmarks.

If you have any feedback on our findings, please reach out to Vicky Sins, Decarbonisation and Energy Transformation Lead at WBA: v.sins@worldbenchmarkingalliance.org.

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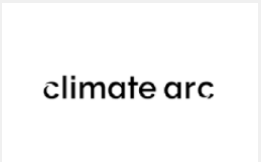


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