



Transport Investment Decisions
(TIDE): An exploration of climate
alignment in freight related
investment decisions



**Decarbonising
UK Freight Transport**

Research questions

1. Who are the key financiers/investors in freight transport?
2. How are financiers/investors (in freight and other sectors) currently screening their investments for climate alignment?
3. What climate alignment methodologies are being developed or in use currently?
4. What are the challenges and barriers faced in their implementation and how can these be overcome?

RQ1 - Identification of freight financiers

| Freight Type | Infrastructure | Vehicles |
|--------------|--|--|
| Road | Roads: public finance Depots: concern of the operators; financiers unclear | Atomized market. 25% of the fleet is leased/hired by identified companies, but the rest is unclear |
| Rail | Railway tracks: public finance Sidings and rail-connected sites (depots, factories, warehouses) remain to be electrified; source of finance unclear | 3 ROSCOs identified owned by large institutional investors. Source of finance remains unclear |
| Shipping | Ports: few identifiable private equity firms | Historically banks, but growing influence of Chinese leasing agencies |

Output: over 50 financiers identified

Main findings (RQ1) – mapping & the role of finance in freight sector decarbonization

- Financiers of road freight vehicles are not easily identifiable; the asset owners and financiers are very fragmented and the role of finance in pushing for decarbonization is limited compared to other actors (manufacturers, government).
- Financiers of rail rolling stock and ports are less identifiable and finance companies rather than assets. Asset owners and operators often have a decarbonization agenda and are starting to seek sustainability-liked finance.
- Financiers of ships are easily identifiable, link their financing to assets and have a proactive role in engaging with asset owners on climate alignment.
- High variation in the levels of infrastructure investors ranging from private to public investors, leading to various structures for financing

| Classification | Initiative/tool | Target users |
|--|---|--|
| High-level commitments and guidance | Collective Commitment to Climate Action | Banks |
| | Green Bond Principles | Asset owners, managers |
| | Green Loan Principles | Banks |
| | Net Zero Banking Alliance | Banks |
| | Net-Zero Asset Owner Alliance | Asset owners |
| | Principles for Responsible Banking | Banks |
| | Principles for Responsible Investment | Asset owners, managers |
| | Task Force on Climate-related Financial Disclosures | Asset owners, managers, banks, insurance |
| Assessing: carbon accounting and alignment tools | Paris Agreement Capital Transition Assessment for investors | Asset owners, managers (listed equity and bonds) |
| | Paris Agreement Capital Transition Assessment for banks | Banks |
| | Paris Aligned Investment Initiative | Asset owners, managers, insurance |
| | Partnership for Climate Accounting Financials | Asset owners, managers, banks, insurance |
| | Poseidon principles | Banks |
| | Science Based Targets for Financial Institutions | Asset owners, managers, banks, insurance |
| | Transition Pathway Initiative | Asset owners |
| Assessing: classification and taxonomies | China Green Bond Catalogue | Bond holders (typically asset managers and owners) |
| | Climate Bond Initiative | Bond holders (typically asset managers and owners) |
| | EU Taxonomy on Sustainable Finance | Large companies (asset owners, managers, banks, insurance) |
| Collective Action | Climate Action 100+ | Asset owners, managers |
| | Climate Change Commitment | Banks |
| | Poseidon principles | Banks |

Main findings (RQ2) - Awareness and use of climate alignment tools

- Large adoption of general guidance on climate action measurement and reporting : 23 out of 48 companies identified
- 13 companies have emitted a climate bond aligned with CBI or CGBC
- Large 'use' of alignment tools in shipping (10 out of the top 20 shipping banks are PP signatories) but much lower use and divided between the existing tools in road and rail sectors (6/21 use at least one of the listed scenario alignment tools)

Main findings (RQ2) - Awareness and use of climate alignment tools

Awareness and use of the tools by financiers vary widely depending on the institution:

- A few of the financiers identified use a wide variety of tools and are proactive in developing them; they have started to use them to screen their investments, among other criteria.
- Others are lagging and are just starting the process of aligning their portfolios and currently, the emphasis is on first understanding their emissions and disclosing.
- Overall, climate alignment tools have failed so far at having any concrete impact on investment decisions.

Main findings (RQ3) – alignment tools and frameworks

- Different tools are often used in combination by one single freight financier because:
 - They correspond to different use cases (backward vs forward looking; carbon accounting vs technology mix)
 - They target different asset classes (equity vs loan vs bond) and different financier type (bank vs asset manager vs asset owner)
 - Institutions might be keen on using a multi-criteria analysis, including but not only climate alignment metrics
- Output of the climate alignment tools, but also data provided by external data providers are not always comparable, and not one single tool is emerging as a consensus in general.
- The EU Taxonomy has the potential to harmonize data collection and reporting in the EU and maybe beyond, but will likely coexist with other initiatives
- Shipping is an exception in this regards, as the Poseidon Principles provide a harmonized and coherent methodology to its signatories and managed to attract enough signatories to cover a large share of the sector's finance.

Main findings (RQ4): Barriers to adoption

- Barriers faced by firms at the beginning of the process:
 - Institutional/organizational barriers, where change is difficult and a slow process
 - Lack of clear view on which is the best climate alignment tool
- For the firms which are further ahead:
 - lack of comparability of results from the data providers for the alignment methodologies

Concluding remarks

- Worrying trend - as stakeholders with significant (and powerful) interests in the assets are:
 - quite behind in understanding the risks
 - not engaging/detached from the assets they're investing in
- Some investors who are taking tangible early action on alignment are potentially using easy to score metrics/tick box activity, which are not genuinely aligned to 1.5oC
- Investors/financiers scared to lose business with too strict criteria



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Thank you

Data collection methods

Financiers

- Asset manager
- Public-private credit export bank
- In discussion with more financiers active in road freight

Framework/tool providers/NGOs

- 2*Think-do tanks on climate alignment
- Bond market

Asset owners

- Ports Association
- Haulage Association



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Desk research/literature review findings

Comparison of the tools – scenario alignment

| | PACTA | SBT-FI | Poseidon Principles |
|---------------------------|--|---|--|
| Freight specific guidance | LDV HDV (under development) Shipping (under development) | Road and Rail Freight Shipping (under development) Financial Institutions (under development) | Shipping |
| Climate pathway/target | By default IEA B2DS, but any scenario can be used | Well below 2°C and pursuing 1.5°C based on IEA's models 2DS ad B2DS | IMO Absolute Target (50% absolute reduction in GHG emissions by 2050 compared to 2008) |
| Emissions metric | Technology/fuel mix and production volume trajectory when a technology roadmap is available (electric, hybrids, fuel cells and ICE vehicles) or portfolio emission intensity (shipping). | Sector intensity pathway (gCO ₂ e/tkm) at portfolio level | Annual Efficiency Ratio (gCO ₂ /dwt-mile) |

Comparison of the tools – taxonomies

| | CBI | | EU Taxonomy TEG | | Climate Green Bond Catalogue | |
|----------------------------|--|---|--|--|--|-----------|
| | Eligibility | Exclusion | Eligibility | Exclusion | Eligibility | Exclusion |
| Railways and rolling stock | Freight railways and rolling stock | >50% fossil fuel transport | Zero emission or low emissions trains (g CO2/tonne-km <50% reference value of HGVs) | Assets dedicated to the transport of fossil fuels and fossil blended fuels | Any rail freight construction, and upgrade to more energy-saving rail freight assets | None |
| Freight ships | <ul style="list-style-type: none"> - zero-emission ships - ships with 1/ emissions intensity remaining under threshold throughout the lifetime of the bond and 2/ Managed Reduction Plan to remain under intensity threshold during the operational life | <ul style="list-style-type: none"> - Vessels transporting solely fossil fuels - dry bulk carriers having transported >25% coal or exceeds declining threshold for allowable coal carried in tons | Inland freight transport only: <ul style="list-style-type: none"> - Zero emissions ships - Ships using biofuels under efficiency conditions - Low emission ships (gCO2/tkm <50% reference value of HGVs) | | | |