THE ERA OF SUSTAINABLE
LOGISTICS

NAVIGATING SUSTAINABILITY GOVERNANCE

ZONE 2 DIGEST

GOVERNANCE

A condensed look at sustainability governance today as explored at the Era of Sustainable Logistics Global Summit.

NAVIGATING SUSTAINABILITY GOVERNANCE

FROM PURE COMPLIANCE TO COMPETITIVE EDGE

While a business strategy charts a company's way forward, corporate governance keeps the organization on course. But the governance landscape is becoming increasingly difficult to navigate. Standards and regulations at global, national, and local levels are constantly changing as compliance, reporting and incentives around environmental, social, and governance (ESG) evolves. The EU Green Deal and the US Inflation Reduction Act are two prominent examples.

ESG reporting is also steadily shifting from a matter of compliance to a competitive edge in many industries – one more set of business performance metrics that are considered positive indicators of corporate health. To stay ahead and ensure long-term success, companies must establish the necessary structures and governance processes to ensure that they adhere to recognized sustainability standards – and take a holistic approach to sustainability governance that accounts for both internal and external stakeholders and leverages partnerships with suppliers, customers, regulators, and other relevant parties.

In the following pages, we discuss what sustainability governance means, outline some of the challenges, and explore the new standards and legislation having the biggest impact on business.

> *"Our world desperately needs resolute commitment and strong leadership from the industry and all stakeholders to promote more sustainable business practices and leverage its central role to help build a more sustainable future."*
>
> **Patricia Espinosa Cantellano**
> CEO of onepoint5 and former UNFCCC Executive Secretary

THE EMERGING SUSTAINABILITY LANDSCAPE

EMBRACING GOVERNANCE TO ENSURE LONG-TERM SUCCESS

At its core, governance is about public trust and confidence in an organization's ability to operate sustainably. But good intentions and vague promises are no longer enough. Expectations are at an all-time high, with governments, consumers, employees and investors all now scrutinizing business practices. Companies must develop, publish, and adhere to concrete pathways to improving sustainability, while being subject to rigorous verification and assessment. This requires making the necessary financial investments in sustainable practices that align the business with the urgency of the climate crisis.

The transition to sustainability is clearly underway, as evidenced by the growing number of stakeholders joining global initiatives, such as the Science Based Targets initiative and the Principles for Responsible Investment[1]. To build and maintain trust, companies must look beyond short-term profits to long-term impact and realize that profitability alone will not make a business sustainable.

Business leaders must see protecting the planet's future as the right business decision. And with a robust governance approach, they can ensure their business is a part of that future.

> *"Real momentum is growing for faster, bolder action on climate, unprecedented collaboration across industries, collective courage from leading companies, an unbending commitment to evidence-based policymaking, and a shared vision of a global economy that is both green and just."*
>
> **Paul Polman**
> Business leader and co-author of *Net Positive: How Courageous Companies Thrive by Giving More Than They Take*

THE PRINCIPLES FOR RESPONSIBLE INVESTMENT

5,000+
Signatories

$121 trillion
Combined assets under management 2016 to 2021

28%
Increase in signatories between 2021 and 2022

THE CHALLENGES

MEETING CHANGING EXPECTATIONS WHILE ACHIEVING BUSINESS GOALS

Expectations regarding the role business should play in mitigating climate change are not only growing, they are also evolving. This dynamic environment is highly complex, making it difficult to monitor much less respond to appropriately.

The emergence of new standards and regulations impacting business at home as well as abroad represents another challenge. To ensure compliance, companies must know the new rules at all operating locations and across their supply chains. What's more, they need to understand the impact these changes have on their business while keeping track of the evolving landscape on the horizon.

Stakeholder expectations toward ESG have also shifted. Investors now factor in ESG performance more prominently, arguing that strong ESG practices reduce risk. Young job seekers place a high priority on sustainability when looking at prospective employers. And governments are introducing supply chain due diligence and green claims regulations to protect consumers and prevent greenwashing, therefore further tightening compliance requirements. Such shifts underscore the increasing need for transparency and reporting in ESG practices, as well as continuous improvement.

Overall, the challenge of sustainability governance centers on reporting, investing, and compliance. The goal should be to create the transparency needed to allow stakeholders to evaluate a company's goals and their progress toward achieving them.

FUTURE OUTLOOK

CREATING A CULTURE OF COMPLIANCE

Sustainability governance will not get any easier in the future, but it is likely there will be increased harmonization and interchangeability as regulation matures. Companies that adopt a sustainability mindset will be best equipped to manage the many moving parts.

Embracing sustainability and creating a compliance culture must be seen as the right business decision. This starts at the top and spreads across the entire organization, making ESG reporting, investing, and compliance a standard operating procedure. With a comprehensive sustainability strategy and a robust governance organization, companies will have the roadmap they need to navigate what will continue to be a complex labyrinth of legislation and expectations. They will also be able to identify upcoming changes, anticipate impacts, and capitalize on potential opportunities.

COMPLIANCE FOR BETTER BUSINESS

The seven components of a robust compliance management system

1 Compliance culture
Active, visible, consistent commitment from the top

2 Compliance objectives
Defined scope, objectives, and tasks

3 Compliance risks
Identified risks and systematic risk assessment and reporting

4 Compliance program
Policies, guidelines and risk mitigation measures to address identified risks

5 Compliance organization
Suitable organizational and operational structures and resources

6 Compliance training
Routine information to relevant stakeholders and defined reporting lines

7 Compliance monitoring and improvement
Suitable monitoring and continuous improvement structures

THE GLEC FRAMEWORK

THE PRIMARY INDUSTRY GUIDELINE FOR CALCULATING TRANSPORT EMISSIONS

The GLEC Framework[2] is a global method for calculating and reporting logistics emissions. It was developed by the Smart Freight Center and the Global Logistics Emissions Council (GLEC), a voluntary coalition of over 150 organizations that includes DHL and is working to reduce emissions and improve efficiency across global supply chains. The goal of the GLEC Framework was to create a consistent basis for measuring greenhouse gas (GHG) emissions across different modes of transport or suppliers.

Designed to inform business decisions that reduce emissions and track progress toward climate goals, the GLEC Framework provides a simple and practical approach for companies to understand, calculate, and lower freight transport emissions. Using it demonstrates leadership, increases credibility of reporting, influences suppliers, and communicates commitment to customers.

THE FUEL LIFE CYCLE – GHG EMISSIONS WELL TO WHEEL (WTW)

The GLEC Framework divides overall GHG emissions into emissions from operations and emissions from energy generation

WTW GHG emissions of the transport chain = **GHG emissions of all transport activities in the transport chain** + **GHG emissions of all hub operations activities in the transport chain** + **GHG emissions of energy provision of the transport activities of each TCE (transport chain element)** + **GHG emissions of energy provision of the hub operations activities of each TCE (transport chain element)**

WTW emissions of the transport chain = **GHG emissions of all operations in the transport chain** + **WTW GHG emissions of all operations in the transport chain**

Source: The GLEC Framework[2]

CARBON PRICING

INCREASINGLY WIDESPREAD AND AMBITIOUS

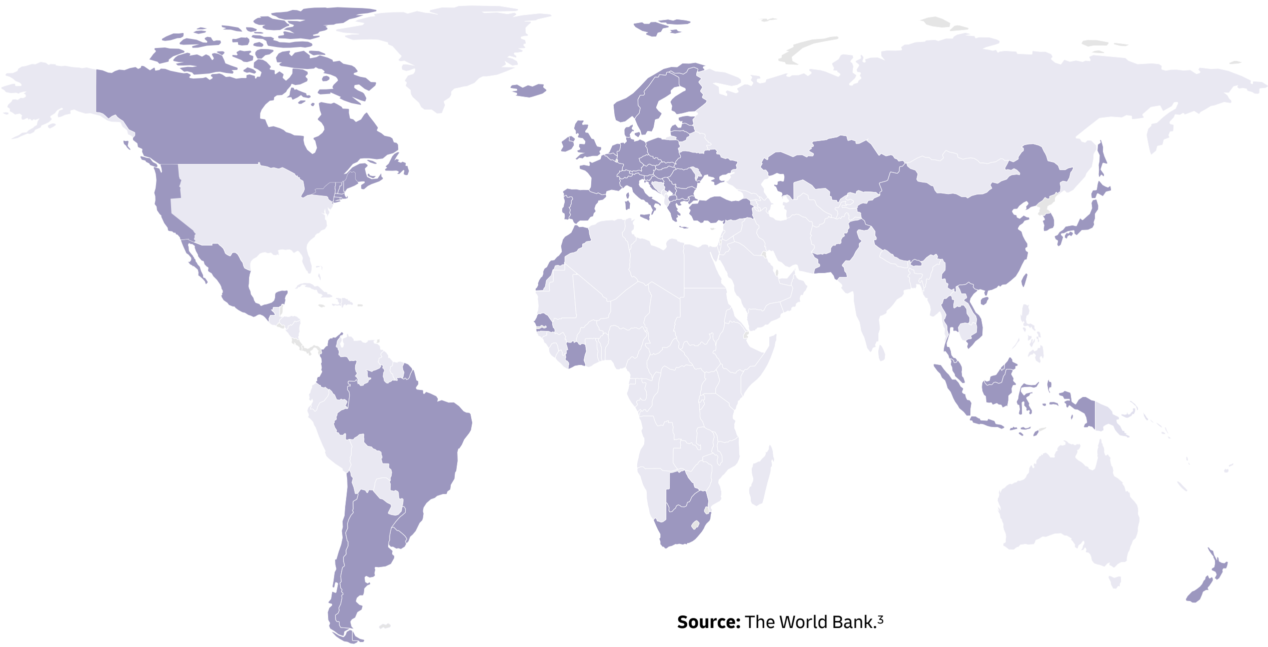
More and more countries are turning to carbon pricing to address climate change. In 2023, 73 programs were in place worldwide covering 23% of all global GHG emissions.[3] These programs generally take one of two forms: a carbon tax or an emissions trading system (ETS). Carbon taxes are levied on companies based on carbon emissions. An ETS usually operates on a 'cap and trade' principle: Once a cap is set on total allowed emissions, carbon credits are allocated to emitters who use them to cover their own emissions or may trade them them with other companies. The map below shows those countries where a carbon tax or ETS is in force, scheduled for implementation, or under consideration. Recent developments, such as the "Fit for 55"[4] package in the European Green Deal, aim to make carbon pricing programs more ambitious. Fit for 55 is designed to add new provisions to the EU ETS.[5] These reforms have triggered new processes, such as reporting, emissions trading, and tax collection, which is also impacting the logistics industry.

Some countries, such as Germany, are going beyond the EU ETS. In 2021, the German government launched a national fuel ETS, covering all fuel emissions excluded from the European system (mainly heating and road transport). It is being phased in gradually, with a fixed price on emissions allowances rising incrementally from 2021 to 2025.

CARBON PRICING PROGRAMS WORLDWIDE

73 carbon pricing initiatives implemented, representing 23% of global GHG emissions

■ ETS or carbon tax has been implemented, scheduled, or is under consideration



Source: The World Bank.[3]

THE EUROPEAN GREEN DEAL

STRIVING TO MAKE EUROPE THE MOST CLIMATE-NEUTRAL CONTINENT

Source: The European Commission.[7]

Introduced in 2019, the European Green Deal represents a comprehensive action plan by the European Union (EU) to transform the continent into a modern, resource-efficient, and competitive economy.[6] As one of the most significant pieces of sustainability legislation worldwide, it's having an enormous impact on governance. Companies need to know what those changes mean for their business.

The goal is to make the EU a climate-neutral bloc by 2050, effectively addressing environmental challenges while fostering economic growth. The Green Deal encompasses a wide range of policies, from clean energy to sustainable agriculture, circular economy, biodiversity, and pollution reduction. It is being implemented by revising existing EU laws, introducing new regulatory frameworks, and leveraging significant investment from both the public and private sectors.

Transport emissions represent around 25% of the EU's total GHG emissions, which is why the Green Deal includes ambitious changes for the industry. The European Commission proposed a package to make freight transport in the EU more efficient and sustainable to help achieve the goal of cutting transport emissions 90% by 2050.[7]

UNITED STATES INFLATION REDUCTION ACT

HISTORIC LAW TO PROMOTE GROWTH WHILE ADDRESSING CLIMATE CHANGE

Signed into law in 2022, the US Inflation Reduction Act (IRA) represents the largest climate investment in US history. It's designed to mobilize private capital to strengthen long-term growth and achieve climate goals. The IRA encourages innovation by incentivizing firms to invest in developing and deploying clean energy technologies. The US government describes it as a prime example of government action to promote growth while addressing climate change.[8]

Together with the Infrastructure Investment and Jobs Act of 2021[9], the US government has introduced a host of complementary climate investments. Transport-related funding has been earmarked for e-vehicle production and charging infrastructure, zero-emission equipment for ships and buses, accelerating availability of sustainable fuels, electric grid modernization and resilience, and more.

COMPLIMENTARY CLIMATE INVESTMENTS

Inflation Reduction Act (AUGUST 2022)		**Infrastructure Investment and Jobs Act** (NOVEMBER 2021)
$2 billion for domestic manufacturing grants	ELECTRIC VEHICLES	**$7.5 billion** for charging infrastructure
$3 billion for zero-emission equipment and climate action plans at ports	SHIPS & BUSES	**$5 billion** for clean or zero-emission school buses
$3 billion for Neighborhood Access and Equity Grants to improve transportation access	TRANSIT	**$66 billion** for passenger and freight rail
$9.7 billion for better reliability and resilience in rural areas	ELECTRIC GRID	**$65 billion** to modernize and expand the national grid

Source: The White House.[10]

DHL GOGREEN DASHBOARD

LEVERAGING TECHNOLOGY FOR BETTER GOVERNANCE

You are what you measure. In the highly complex and changing landscape of sustainable corporate governance, tracking real progress toward sustainability goals is becoming ever more demanding. Companies must leverage technology to measure and monitor ESG performance systematically.

The latest tools, like the DHL GoGreen Dashboard[11], utilize big data and interconnected networks to calculate GHG emissions across the supply chain and at a granular level. The Dashboard provides DHL's customers with a single-point solution for automated and efficient carbon calculation and reporting for their entire footprint with DHL. For example, it can illustrate the customer's footprint on many dimensions such as trade lane, customer business unit, mode of transport, etc. outputting metrics like absolute CO_2e emissions, emission intensity, and energy use, along with detailed reports and breakdowns to enable customers to identify optimization potentials.

YOUR DHL CARBON FOOTPRINT AT YOUR FINGERTIPS

The benefits of the DHL GoGreen Dashboard

Source: DHL GoGreen Dashboard.

Consolidation
All data in one place

Customization
Dashboard & displays

Compliance
ISO & GLEC

Reporting
In-depth & in-time

Direct export
Reports & data

KEY TAKEAWAYS

NAVIGATING SUSTAINABILITY GOVERNANCE

Build credibility and trust by meeting standards
Sustainability reporting that meets the latest and most stringent standards drives credibility and stakeholder confidence.

You are only as strong as your weakest link
Regulators increasingly require companies to take responsibility for indirect emissions, which means compliance extends across the entire supply chain. Identify potential for improvement and work with suppliers who share your values and demonstrate their commitment to sustainability.

Look ahead and stay ahead
The legal landscape is changing rapidly, making it essential to understand upcoming changes, anticipate impacts, and assess potential opportunities.

Make ESG compliance your business
With customers, employees, investors and other stakeholders increasingly scrutinizing ESG performance, compliance has become a critical part of decision-making. Companies investing resources to achieve both business goals and ESG targets will gain a competitive edge.

> *If we act now, we can still secure a livable, sustainable future for all.*
>
> **Hoesung Lee**
> Chair of the IPCC

Sources

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