

Decarbonisation

Insight Report 2024

Part I ★ Political and economic drivers



Executive
Membership

LOGISTICS UK

We support, shape and stand-up for safe and efficient logistics

Logistics UK is one of the biggest business groups in the UK, supporting, shaping and standing up for efficient logistics. We are the only organisation in the UK that represents all of logistics, with members from the road, rail, water and air industries, as well as the buyers of freight services such as retailers and manufacturers whose businesses depend on the efficient movement of goods.

An effective supply chain is vital to keep Britain trading, directly impacting over seven million people employed in making, selling and moving the goods that affect everyone everywhere.

With EU Exit, technology and other disruptive forces driving changes in the way goods move across borders and through the supply chain, logistics has never been more important to UK plc.

As champions and challengers, Logistics UK speaks to government with one voice on behalf of the whole sector, greatly increasing the impact of our messages and achieving amazing results for members.

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This report is intended to support member zero emissions strategy development. We will continue to update as policies and legislation evolve. Companies will need to take their own legal and financial advice on net zero strategy, delivery planning and accounting.

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Foreword



The logistics industry has had to grapple with many major challenges in recent years – Brexit, the COVID-19 pandemic, an acute skills shortage and now a cost-of-living crisis. But arguably the challenge that will

dominate the coming years and decades is the need to decarbonise, and to do so at pace.

Transport accounted for 34.0% of all territorial carbon dioxide emissions in 2022. With climate tipping points now edging into view, the logistics industry must play its part in helping the UK to achieve net zero.

While the direction of travel for our industry is clear, we in no way underestimate the scale of the task and recognise there are significant challenges and barriers on the journey to decarbonise.

In this report, our policy team sets out the wider context for global warming and the political and economic drivers for decarbonisation, including the legal and financial frameworks, shareholder expectations, UK procurement rules, carbon pricing, science-based targets and the funding and government support available.

The changes required to deliver net zero are profound – they are already affecting shareholder, investor and client behaviour and these reports seek to help share best practice, inform member business plans and strategies and test and update our asks of government. The logistics sector is agile and highly competitive – but we cannot deliver change at the scale and pace required on our own – hence we are seeking closer partnership working with government with the right frameworks, public investment to stimulate innovation, and deliver the infrastructure required and regulatory and fiscal incentives to drive success.

This report aims to give you the wider historical, political and economic context for climate change. We would welcome your feedback as we plan further reports, research and events ahead.

A handwritten signature in black ink, appearing to read 'Phil Roe', written over a thin horizontal line.

Phil Roe
President
Logistics UK

Executive summary

Written by Logistics UK's policy team, this report aims to set out the wider context for global warming and the political and economic drivers for decarbonisation, including the legal and financial frameworks, shareholder expectations, UK procurement rules, carbon pricing, science-based calculators and the funding and government support available. The principal points are as follows:

1 Setting the context

- 1.1 This section covers the wider international context to aid understanding of the UK's own climate legislation, carbon budgets and targets.
- 1.2 As many different agreements and organisations are often referenced when net zero is talked about, this section offers an overview for logistics companies beginning their own net zero journey.
- 1.3 It is important to understand the different targets set by the devolved governments as this may impact upon a company's own planning and timelines.

2 The legal framework

- 2.1 Understanding the regulatory landscape around greenhouse gas (GHG) emissions is vital for the logistics sector. This section covers the rules and regulations that govern the industry.
- 2.2 To maintain public transparency, investor confidence, and meet increasing sustainability expectations, logistics companies are advised to remain abreast of various reporting requirements.
- 2.3 Spanning the US, the EU and the UK, the rules affect operations across borders.
- 2.4 Beyond complying with the rules, firms should also develop strategies to reduce their carbon footprints, thereby affirming their commitment to sustainability.

3 The financial framework

- 3.1 Businesses may need to follow specific financial reporting requirements. This section shows you how.
- 3.2 Task Force on Climate-related Financial Disclosures (TCFD) and International Sustainability Standards Board (ISSB) standards are reshaping financial and carbon reporting, driving better management of climate-related risks.
- 3.3 Mandatory for large UK-registered firms, TCFD reporting could lead to fines for non-compliance.
- 3.4 In addition to avoiding penalties, proper disclosure enhances your company's transparency, reputation and resilience to climate-related impacts.
- 3.5 ISSB goes further, requiring companies to report Scope 1, 2 and 3 emissions.
- 3.6 Companies are advised to stay abreast of these standards, to ensure they align their reporting practices accordingly.
- 3.7 Compliance allows your business to demonstrate its commitment to mitigating environmental impact and may give you a competitive edge while meeting rising demands from stakeholders for climate-related risk transparency.

4 Environmental social governance (ESG)

- 4.1 Understanding and implementing ESG practices is crucial for logistics companies. This section covers how to ensure sustainable operations and meet stakeholder expectations.

- 4.2 Aligning operations with ESG principles and UN Sustainable Development Goals (SDGs) aids in managing environmental risks, fostering social responsibility, and ensuring good governance.
- 4.3 Emphasising transparency through regular reporting as per the Companies Act 2006, UK Corporate Governance Code 2018, FCA ESG Rules, and the Climate Change Act 2008 not only complies with regulations but enhances stakeholder trust.
- 4.4 Effective ESG practices can lead to cost savings, operational efficiencies and an improved reputation, making them integral to a company's long-term strategy.
- 4.5 Logistics companies are increasingly incorporating ESG principles, consider different ESG frameworks and regularly report on their progress to stakeholders.

5 UK public procurement rules

- 5.1 This section highlights how the changing landscape of public procurement rules requires logistics companies to integrate sustainability into their operations.
- 5.2 Large companies bidding for public sector contracts are now required to present a comprehensive net zero plan.
- 5.3 For SMEs generally and even small companies, whilst net zero requirements are not currently mandatory, both public and private sector clients are increasingly requiring carbon accounting and delivery plans from their suppliers. As logistics underpins all sectors of the economy and represents a significant proportion of all sector scope 3 emissions, we recommend SMEs start preparing their net zero strategies.
- 5.4 Understanding and abiding by the relevant legislation and guidance has become critical.
- 5.5 These new rules underscore the escalating significance of environmental responsibility in business strategy.
- 5.6 Logistics firms are recommended to now adapt and action plans to meet this growing demand.
- 5.7 Establishing a concrete net zero plan and aligning operations with sustainability values will be fundamental steps in securing public sector contracts.

6 Carbon markets and economic instruments

- 6.1 This section covers carbon markets, which work on the 'polluter pays' principle.
- 6.2 Understanding the mechanisms of carbon markets, the associated mandates and obligations and the specific instruments such as carbon pricing, emissions trading schemes, and 'contracts for difference' is vital for companies in the current climate change era.
- 6.3 This chapter aims to provide a comprehensive overview of these mechanisms, focusing on their impact on logistics companies, particularly those operating within the UK.

7 Scopes 1, 2 and 3

- 7.1 This section helps logistics companies to understand and utilise the GHG Protocol's classification of emissions into Scopes 1, 2 and 3.
- 7.2 This will enable more precise tracking and management of carbon emissions.
- 7.3 Engaging with the Science Based Targets (SBTi) allows for establishing ambitious, yet achievable decarbonisation goals.
- 7.4 It is recommended to:

- Accurately identify and quantify emissions across all three scopes, specifically focusing on elements of logistics like transportation and storage.
- Utilise SBTi's resources to align decarbonisation strategies with global climate science.
- Ensure effective communication and implementation of these strategies within your company. Ultimately, this leads to efficiency improvements, cost savings, and an enhanced reputation in the sector due to environmental responsibility.
- Whilst Scope 3 reporting is currently optional it is expected to become mandatory in the UK over the coming years.

8 Developments in transport modes

- 8.1 This section covers developments in decarbonising logistics across road, rail, water and air.
- 8.2 In 2022 transport accounted for 34.0% of all territorial carbon dioxide emissions.
- 8.3 On the journey to net zero by 2050, significant government targets have been set that impact upon logistics, including no new road vehicles with tailpipe emissions to be sold beyond 2040 and no diesel trains on the rail network by 2040.
- 8.4 Technology solutions to reduce emissions are being explored and trialled across all transport modes. Road and rail are seen as easier to decarbonise compared with international shipping and aviation, given the size and use of the vessels and planes.
- 8.5 Low carbon fuels (LCFs) can be used as a replacement fossil fuel and provide significant GHG emissions savings across all transport modes.

9 Innovation

- 9.1 The transition towards low and zero emission technologies and fuels in logistics is vital for environmental sustainability. This section details the government-funded fiscal incentives and innovation funding which helps support this shift.
- 9.2 Fiscal incentives funded by the government include plug-in and charging grants, and incentives for modal shift.
- 9.3 Across all transport modes, there are innovation funding pots which are aimed at helping develop and trial different technology solutions. These are normally open competitions that bidders can enter, based on set criteria.
- 9.4 Logistics UK's policy asks and recommendations.
- 9.5 This section covers Logistics UK's work to seek clarity from government on the pathways to achieving net zero emissions on behalf of its members.
- 9.6 Logistics UK has been engaging with government and stakeholders to highlight that while the logistics sector is committed to playing its part to help the UK achieve net zero by 2050, businesses across all modes need support with higher costs.
- 9.7 LCFs provide a viable option for immediate reductions in emissions without significant vehicle modifications.
- 9.8 Both public charging infrastructure and installations at depots will be critical to support the widespread adoption of battery electric commercial vehicles.
- 9.9 Logistics UK has been urging proportionate measures in cities and regions to improve air quality and reduce emissions, while still enabling an efficient logistics system.

10 Logistics UK's support for members

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T: 01892 526171*
F: 01892 534989
www.logistics.org.uk



Logistics UK is a trading name of Freight Transport Association Limited
Registered office: Hermes House, St John's Road, Tunbridge Wells, Kent TN4 9UZ
Registered in England Number 391957

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