

The Corporate Lobbying Alignment Project

Discussion note no.1



Responding to transport sector corporate lobbying & climate change

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About this discussion note

This note is designed to educate investors on the scope, role, and negative impact of climate change lobbying in the transport sector, and to propose ideas for investor responses. Addressing corporate lobbying on climate-related themes will be of immediate interest for investors who have committed to support progress towards climate targets,¹ and for those investors who are building an investment thesis around the energy transition, but the systemic nature of climate risk means that it is relevant for all investors. It is intended as a work-in-progress, to be complemented by examples, and by the feedback we will receive from the investment community and other stakeholders. It is the first in a year-long series on different themes, sectors and geographies that will form part of a fuller report at the end of the project period.

About Preventable Surprises

Preventable Surprises is a ‘think-do’ tank focused on systemic ESG risks in the financial system. We work with positive mavericks within the investment industry to persuade the financial sector to better address systemic risks. Legislators, regulators, the media, NGOs and consumers each have a role to play in building a more transparent and sustainable market system, yet much of the power lies with corporations and their investors. Preventable Surprises focuses on institutional investors because, through the trillions of dollars in assets under their management, they have enabled corporate and market dysfunction.

About the Corporate Lobbying Alignment Project

The Corporate Lobbying Alignment Project (CLAP) is an applied research and engagement project launched in June 2020 working to make corporate political capture a central component of investors’ approach to ESG stewardship and integration. It will leverage information on the state of play for key sectors and share lessons learned from past investor engagements. Through research interviews and a series of events, the programme will engage the global investment community to help prioritise and inform areas for action.

Unlike the Kyoto Protocol, which had specific emission targets only for developed countries, the Paris Agreement calls on all states to adopt “economy-wide” emission reduction targets.² This economy-wide requirement means that the transport sector is covered by the agreement just like all other sectors. Investors have an essential role to play in ensuring these targets are met in a timely manner.

If you are an investor or other stakeholder in the institutional investment or policy system with insights into how corporate lobbying affects public policy related to climate action and other key public policy areas, we would like to hear from you. We will not share your name or any identifying information without your express permission. Get in touch today: research@preventablesurprises.com

¹ Recurring investor statements on climate change beginning with the 2010 Cancun declaration have created a consistent message, but action has been more challenging: <https://www.unepfi.org/publications/climate-change-publications/political-advocacy-publications/global-investor-statement-on-climate-change/>

² See Paris Agreement Article 4.(3): <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

Lobbying pays

The ability of corporate lobbying to subvert public policy aims and to amplify sector specific risks is well documented, for example by the OECD³ and the IMF.⁴ Unchecked corporate lobbying leads to policy capture which the OECD defines as a situation where “public decisions over policies are consistently or repeatedly directed away from the public interest towards a specific interest.”⁵ Corporate political capture exacerbates inequalities and undermines democratic values, economic growth and trust in government.

For more than a century, the US was the only jurisdiction to formally regulate lobbyists. Before the early 2000s, only three other countries had implemented lobbying regulation. These were Australia, Canada, and Germany.⁶ Since then, lobbying policy has been adopted across G20 member states. Given the relatively recent development of lobbying regulation, it is not surprising that investors do not yet have clear guidelines on engagement. More recently, investor action on the issue has resulted in a number of successful shareholder resolutions, most notably at Chevron.⁷ The climate lobbying resolution at Chevron asked the board to report on how the company’s “lobbying activities (direct and through trade associations) align with the goal of limiting average global warming to well below 2 degrees Celsius”, the target set in the Paris Climate Agreement. The resolution requested that the report address the risks presented by any misaligned lobbying and the company’s plans, if any, to mitigate these risks.⁸

To date, research to inform a more systematic and structured approach to the assessment of corporate lobbying has been led by InfluenceMap, a UK based non-profit and the US-based Center for Political Accountability.⁹ Their pioneering research collating and comparing lobbying spending and practices across companies has enabled a growing investor coalition to begin to engage on the issue of corporate lobbying. These groups and other NGOs are an important starting point towards a more systematic investment industry response to policy capture.¹⁰

What is lobbying in the transport sector? Assessing process, content & outcomes

Lobbyists in the transport sector can channel their messages through well-established think tanks to provide legitimacy, finance academic research and use various channels to provide industry presentations to all levels of government. The OECD identifies “smoke screens” as one of the most common methods of corporate influence. Smoke screens are coordinated attempts to divert discussion away from the initial issue at hand as well as funding research and organisations to advance private agendas. These practices easily circumvent public and regulatory scrutiny and continue to evolve.¹¹

3 OECD ‘Transparency and integrity in lobbying.’ <https://www.oecd.org/corruption/ethics/Lobbying-Brochure.pdf>; and OECD (2017) ‘Preventing Policy Capture Integrity in Public Decision Making.’ www.oecd.org/corruption/preventing-policy-capture-9789264065239-en.htm

4 IMF (2009) ‘A Fistful of Dollars: Lobbying and the Financial Crisis.’ <https://www.imf.org/external/pubs/ft/wp/2009/wp09287.pdf>; and more recently IMF 2019 Bank Lobbying.’ <https://www.imf.org/en/Publications/WP/Issues/2019/08/09/Bank-Lobbying-Regulatory-Capture-and-Beyond-45735>

5 <http://www.oecd.org/corruption/ethics/lobbying/>

6 ‘Regulation of Lobbying’ in Ferguson et al (2018) *Global corruption: law, theory and practice*: https://dspace.library.uvic.ca/bitstream/handle/1828/9253/Ch.%2010_April2018_web.pdf?sequence=11&isAllowed=y, at 904

7 Chevron shareholders pass one ESG proposal; Exxon votes down resolutions.’ <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/chevron-shareholders-pass-one-esg-proposal-exxon-votes-down-resolutions-58808569>

8 Chevron: ‘2020 proxy statement.’ <https://www.chevron.com/-/media/shared-media/documents/chevron-proxy-statement-2020.pdf>, at 78.

9 ‘Climate Lobbying.’ <https://influencemap.org/climate-lobbying>

10 Investors take next step to promote responsible climate change lobbying’ (15.12.2020): <https://www.chronossustainability.com/news/qnoayfg8v77nqfzd4ep45vul1n2yOj>

11 <http://www.oecd.org/corruption/ethics/lobbying/>

Examples of the use of smoke screens include the transport industry and their fossil fuel peers arguing in favour of gas, particularly renewable gas¹² and hydrogen as replacement fuels,¹³ instead of full electrification of all fleets by 2050. Directly blocking legislative action on the implementation of stricter emissions targets in all transport sector segments is another common approach at the state level in the US and in North America and Europe at the national and regional level.¹⁴ In the United States, the American Fuel and Petrochemical Manufacturers, a trade group for gasoline makers, has filed comments against EV charging plans in Kansas and Missouri,¹⁵ and has opposed Colorado's new zero-emission vehicle mandate as part of a "Freedom to Drive" coalition of auto dealers and oil groups.¹⁶ These examples are indicative of the range of practices in the sector across all jurisdictions. The variety of lobbying practices, from sponsoring friendly think tank research to creating fake grassroots groups ("astroturfing") makes assessing the full extent of lobbying difficult.

The transport sector: lobbying pays handsomely

This CLAP learning note considers corporate lobbying in the transport sector, and the function of lobbying as a persistent barrier to progress on emissions reductions and associated climate and environmental performance targets which companies have publicly committed to.¹⁷ We consider simple steps investors can take to respond to corporate lobbying and policy capture in the transport sector, with a focus on three key industries - autos, aviation, shipping - as well as discussing rail and the downstream fossil fuel sector.

The note builds on existing work by investors and NGOs focused on the transport sector's use of trade associations and opaque lobbying to block progress on climate action.¹⁸

12 CEO (2018) A dangerous distraction: 'renewable' gas keeps us on the fossil fuel path: https://corporateeurope.org/sites/default/files/attachments/pt2_renewable_gas_-_lobbying.pdf; 'The oil industry vs. the electric car' (16.09.2019): <https://www.politico.com/story/2019/09/16/oil-industry-electric-car-1729429>

13 Since 2017, the Hydrogen Council - an initial consortium of 18 companies in the automotive, oil and gas, industrial gas, and equipment industries - has advocated for natural gas-derived hydrogen as the focus for achieving transport sector decarbonisation targets. See: <https://hydrogencouncil.com/en/>

14 Most recently during the coronavirus recovery period. See 'EU car lobby's renewed attack on cars CO₂ targets - on the back of COVID-19' (25.03.2020): <https://www.transportenvironment.org/press/eu-car-lobby's-renewed-attack-cars-co2-targets-back-covid-19>. On the aviation sector's approach see: 'Corsia: The UN's plan to 'offset' growth in aviation emissions after 2020' (04.02.2029): <https://www.carbonbrief.org/corsia-un-plan-to-offset-growth-in-aviation-emissions-after-2020>

15 'AFPM Helps Protect Ratepayers from EV Surcharges:' <https://www.afpm.org/newsroom/news/afpm-helps-protect-ratepayers-ev-surcharges>

16 <http://freedomtodrive.org/community-supporters/>

17 '177 Companies Have Pledged to Reach Net-Zero Emissions by 2050:' <https://sdg.iisd.org/news/177-companies-have-pledged-to-reach-net-zero-emissions-by-2050/>

18 TPI (2019) 'One in three major transport firms now align with Paris pledges, but sector must rev up climate ambition to match 2020 fast track:' <https://www.transitionpathwayinitiative.org/tpi/publications/29?type=NewsArticle>. On disclosure of political spending, see: <https://politicalaccountability.net/index>

Recent research in the US context indicates that for every dollar spent on lobbying, the companies received \$220 in tax benefits.¹⁹ In the transport sector, lobbying for ongoing subsidies, including in the most recent bailout, as well as against emissions standards and to suppress investment in public transport also has a strong return profile.²⁰ In this context, investors must consider the systemic risks inherent in corporate political capture. Short-term returns on investment for corporate lobbying may be good, but the negative impacts on public finance, the climate and social stability create long-term risks which long horizon and especially universal investors cannot escape even if they want to minimise the seriousness of these issues.²¹

At the G20 level, the use of self-regulation as an approach to manage corporate lobbying and trade association interaction with the public policy process is not serving the public interest or the interests of long term investors,²² hence the need for investor action to bring about change. According to the Heinrich Böll Stiftung:

“...the comparison of business recommendations and G20 communiqués shows a large proportion of overlapping positions and common language. This indicates the high degree of direct or indirect influence that corporate actors exert on shaping the agenda and the discourse of the G20.”²³

Professional codes of conduct in almost all jurisdictions are created by lobbyists themselves. These promote ethical standards from within and are often developed and implemented on an ad hoc basis with no formal legal oversight. Because enforcement is limited, the OECD and Transparency International, among other international bodies, have concluded that professional codes are largely ineffective in regulating the conduct and impact of intensive corporate lobbying activities.²⁴

19 Meyer-Alexander et al (2012) ‘Measuring Rates of Return for Lobbying Expenditures: An Empirical Case Study of Tax Breaks for Multinational Corporations.’ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1375082. The analysis considered tax lobbying, comparing the taxes saved to the amount the firms spent lobbying for legislative reforms. This research shows the return on lobbying for those multinational corporations was 22,000 percent.

20 ‘Power of car industry lobby makes scandal inevitable.’ <https://corporateeurope.org/en/power-lobbies/2015/09/power-car-industry-lobby-makes-scandal-inevitable/>; Influence Map (2018) ‘How the US auto industry is dismantling the world’s most successful climate policy.’ <https://influencemap.org/report/How-the-US-auto-industry-is-dismantling-the-US-s-most-successful-climate-change-policy-5c079bd28ca4e219519afa0ae462db08>

21 Motesharrei et al (2014) ‘Human and nature dynamics (HANDY): Modeling inequality and use of resources in the collapse or sustainability of societies.’ <https://www.sciencedirect.com/science/article/pii/S0921800914000615>

22 Transparency International (23.02.2017) ‘G20 countries are breaking commitments to publish data that helps tackle corruption.’ <https://www.transparency.org/en/press/g20-countries-are-breaking-commitments-to-publish-data-that-helps-tackle-co>;

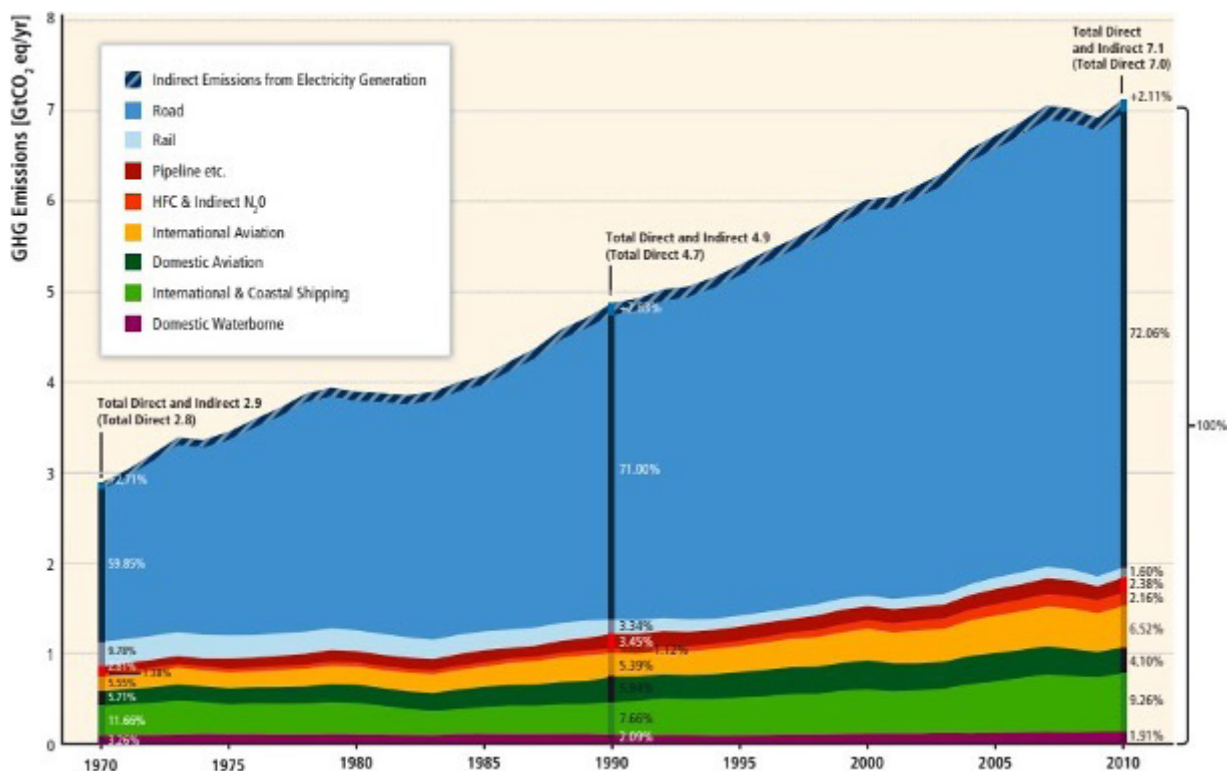
23 <https://www.boell.de/en/2017/03/22/corporate-influence-g20>

24 Transparency International UK (2015) ‘Lifting the lid on lobbying’: <https://www.transparency.org.uk/wp-content/plugins/download-attachments/includes/download.php?id=1472>. The report identifies 39 examples of lobbying loopholes that exist across the UK.

Why the transport sector is important

Transportation is responsible for almost one quarter of all direct CO₂ emissions from fuel combustion. Within the sector, road vehicles – cars, trucks, buses and other two- and three-wheeled vehicles – account for nearly three-quarters of transport CO₂ emissions. Transport emissions are highly concentrated, with around 10% of the global population accounting for 80% of total motorized passenger-kilometres, with much of the world’s population hardly travelling at all.²⁵ OECD countries dominate GHG transport emissions meaning that emissions reductions should be achievable with a relatively narrow country focus. Transport sector companies are among the world’s largest manufacturing companies and have impacts through the supply chain and into the downstream fossil fuel sector. Accelerating the phase out of fossil fuels in the transport system and investing heavily in zero emissions public transportation infrastructure has large economic, social, and health co-benefits.²⁶

FIGURE 1: Road vehicles account for almost three-quarters of total direct transport sector emissions. Significantly, IPCC emissions calculations do not include indirect (Scope 3) emissions from fuel production, vehicle manufacturing, infrastructure construction, or land use changes in assessing emissions attributable to the transport sector.



Source: https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_chapter8.pdf

Alongside the automotive sector, emissions from aviation and shipping continue to rise, indicating that these hard-to-abate industries need more focussed international action.²⁷ Most recent attention has been focused on the structure of coronavirus bailouts for all three industries, rather than the medium-term viability of high emissions transport. This is a reflection of the sector’s lobbying power. Company capital planning reflects a commitment to the status quo, with heavy investment in internal combustion engine systems across aviation,²⁸ shipping and auto sectors, in spite of public

²⁵ IPCC AR5 report, transport section: https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_chapter8.pdf, at p.606.

²⁶ The IPCC AR5 report provides details on potential co-benefits of a phase out of fossil fuels in the transport sector: https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_chapter8.pdf

²⁷ IEA ‘Transport Sector overview.’ <https://www.iea.org/topics/transport>. Over 53% of global primary oil consumption in 2010 was used to meet 94% of the total transport energy demand.

²⁸ ‘Aerospace industry: Highest October on record for aircraft orders’ (25.11.2019): <https://www.pesmedia.com/aerospace-industry-aircraft-orders-october-2019-deliveries/>

FIGURE 2: Relative concentration in the sector means that investors can focus engagement on a small number of large auto manufacturers to encourage alignment of lobbying activities with public policy targets on climate change.



Source: <https://www.businessinsider.com/biggest-car-companies-in-the-world-details-2018-2?r=US&IR=T>. Image © BusinessInsider

acknowledgement and some level of commitment to net zero emissions by industry associations.²⁹ Auto manufacturers are supported by a sophisticated fossil fuel sector lobbying machine.³⁰ In a business as usual scenario, the US Energy Information Administration expects solid fuel to dominate across the transport sector beyond mid- century. Investor engagement can accelerate fuel switching away from fossil fuel energy.³¹

Corporate lobbying and the transport sector recovery from coronavirus

Industry associations often lead lobbying efforts claiming to represent the interests of their entire sector, focused on weakening emissions regulations and accessing public funds on behalf of their members.³² The aviation and automotive sectors in particular have sought large financial support packages in Canada, the United States, the United Kingdom, and at the European Union level.³³ The shipping sector has been reducing costs since the Global Financial Crisis and these measures continue.³⁴ Despite this, there have been cases of disagreement within their individual company membership as to the best response to the disruption caused by the COVID-19. Investors can exploit these discrepancies to get more accurate information into the public domain. In Europe, for example, German automakers BMW, Daimler, and VW have contradicted industry association ACEA's suggestion that compliance with EU vehicle climate regulation may need to be relaxed.³⁵ This calls for investors to engage with individual companies to drive more transparency on political commitments between companies in each industry.

Sub-sector summaries

The summaries below are not exhaustive and seek to provide a snapshot of challenges presented by corporate lobbying. Opportunities for engagement and improvement of lobbying practices will be discussed with reference to case studies in regular online events hosted by the CLAP.

Road transport

Electric vehicles have been growing around the world, yet remain a fraction of the overall fleet. Over- supply of internal combustion engine vehicles remains core to the business model of the world's largest automotive manufacturers and informs their lobbying positions across all jurisdictions.³⁶ The global stock of electric passenger cars passed 5 million in 2018, an increase of 63% from the previous year. Around 45% of all electric cars on the road in 2018 were in China – a total of 2.3 million. By comparison, Europe accounted for 24% of the global EV fleet, and the United States 22%.³⁷ The slow progress on developing EV fleets in G7 countries is an indication of the power of the fossil fuel sector and their partners in the internal combustion engine vehicle manufacturing sector.

29 Oversupply in the automotive sector is part of the incumbent business model:

<https://www.bloomberg.com/news/articles/2020-04-13/fear-of-an-impending-car-price-collapse-grips-the-auto-industry>

30 'The oil industry vs. the electric car' (09.16.2019) <https://www.politico.com/story/2019/09/16/oil-industry-electric-car-1729429>

31 <https://www.eia.gov/outlooks/ieo/pdf/transportation.pdf>, at 127.

32 'EU car lobby calls for relaxation of CO₂ laws during pandemic:' <https://airqualitynews.com/2020/03/31/eu-car-lobby-calls-for-relaxation-on-co2-laws-during-pandemic/>

33 IMF 'Policy responses to Covid-19:' <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

34 According to the ITF, the industry relies on tax exemptions for ship fuel, the lack of inclusion of shipping in carbon pricing initiatives and generous exemptions of infrastructure charges by infrastructure managers – like canal and port authorities. Over the past decade, carriers mitigated excess capacity by lowering ship speeds, scrapping older vessels and cancelling orders for new ships, but have not pushed forward to decarbonisation. See See ITF 'Global Container Shipping and the Coronavirus Crisis' (29.04.2020): <https://www.itf-oecd.org/sites/default/files/global-container-shipping-covid-19.pdf>

35 Influence Map (2018) 'How the US auto industry is dismantling the world's most successful climate policy:' <https://influencemap.org/report/How-the-US-auto-industry-is-dismantling-the-US-s-most-successful-climate-change-policy-5c079bd28ca4e219519afa0ae462db08>

36 'Covid-19 impacts on the automotive sector:' <https://home.kpmg/xx/en/blogs/home/posts/2020/03/covid-19-impact-on-the-automotive-sector.html>

37 <https://www.iea.org/fuels-and-technologies/electric-vehicles>

At the individual company level, none of the 14 major global auto manufacturers indicated above have production plans that align with climate scenarios consistent with limiting warming to less than 2°C. According to recent research from 2 Degrees Investing Initiative, only two manufacturers, Daimler and Geely, have production plans that are partially aligned with such a scenario consistent.³⁸ The same analysis finds that over the five year timeframe assessed (2019–2024), the 14 manufacturers are on course to produce 43 million more ICE vehicles than are needed in a 2°C or less scenario, while underproducing both EV and hybrid vehicles.³⁹ Currently, companies are not producing enough electric vehicles to even support consumer demand.⁴⁰ As part of taking an industry-wide approach, investors could engage companies and industry lobby associations on the issue of over-supply and the sustainability of the current business model for resale and rental market in internal combustion engine vehicles through the post-Coronavirus recovery.⁴¹ The American Car Rental Association (ACRA), a lobby group representing the industry, does not have a position on climate change,⁴² and rental car companies are the largest purchasers of cars and trucks in the United States.⁴³ This important lobbying organisation and its corporate members could adopt fleet-wide standards to phase out internal combustion engine vehicles in their global rental fleets. This could have a significant positive impact on the growth of zero emissions vehicles in the primary and used auto market, and would encourage large auto manufacturers to accelerate the switch to electric vehicles.

Shared industry lobbying is part of the automotive industry's survival strategy - from tax subsidies to emissions standards and seat belts,⁴⁴ the industry is successful at managing regulatory outcomes.⁴⁵ An extensive history of using defeat devices to evade emissions standards⁴⁶ culminated in the VW emissions settlement with the EPA, and demands for massive ongoing subsidies as part of the coronavirus recovery package.⁴⁷ This is in spite of public admissions from key players that there is "no way around electrification."⁴⁸

Aviation

The aviation sector is responsible for around 2% of all global CO₂ emissions.⁴⁹ Like other parts of the transport system, airlines and aviation industry associations have engaged in climate dialogue and targeted lobbying for decades. The primary industry association, International Air Transport Association (IATA) has long resisted restrictions and reduction in air travel as a pathway to emissions reductions.⁵⁰ Instead, the association argues for a reduction in net emissions with a reliance on offsets.⁵¹ IATA's focus is on continued expansion in the sector. Between 2013 and 2018 the number of air travellers increased by 38 per cent, and IATA expects annual passenger numbers to double to 8.2 billion by 2037.⁵² This level of growth is incompatible with any emissions targets, and there is no viable alternative to fossil fuel for the industry. This means that industry lobbying against targets will likely intensify. The lack of adaptability in the business models of the large listed airlines indicates the risks posed by the current approach.

38 2dii (2020) 'Changing Gear Alignment of major auto manufacturers with the goals of the Paris Agreement:' <https://2degrees-investing.org/wp-content/uploads/2020/06/Changing-Gear.pdf>

39 Id.

40 <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/manufacturing/deloitte-uk-battery-electric-vehicles.pdf>

41 ICCT (2020) 'The end of the road? An overview of combustion engine car phase-out announcements across Europe:' <https://theicct.org/sites/default/files/publications/Combustion-engine-phase-out-briefing-may11.2020.pdf>

42 <https://www.acraorg.com/>

43 'Surprising Facts About the Rental Car Industry:' <https://www.fool.com/investing/general/2012/07/13/surprising-facts-about-the-rental-car-industry.aspx>

44 <http://www.towardszerofoundation.org/the-auto-industry-lobby-still-unsafe-at-any-speed/>

45 Influence Map (2018): <https://influencemap.org/report/How-the-US-auto-industry-is-dismantling-the-US-s-most-successful-climate-change-policy-5c079bd28ca4e219519afa0ae462db0>

46 International Council on Clean Transportation (2017) 'A historical review of the US emission compliance program and emission recall cases:' https://theicct.org/sites/default/files/publications/EPA-Compliance-and-Recall_ICCT_White-Paper_12042017_vF.pdf

47 'UK car industry pushes for scrappage scheme to help buy new petrol and diesel vehicles' (3.06.2020): <https://www.theguardian.com/business/2020/jun/03/uk-car-industry-pushes-for-scrappage-scheme-to-help-buy-new-petrol-and-diesel-vehiclesa>

48 'No way around electrification,' BMW says (8.11.2019): <https://www.euractiv.com/section/electric-cars/news/no-way-around-electrification-bmw-says/>

49 <https://www.atag.org/facts-figures.htm>

50 IATA 'Climate change:' <https://www.iata.org/en/programs/environment/climate-change/>

51 IATA 'Carbon offsetting for international aviation:' <https://www.iata.org/contentassets/fb745460050c48089597a3ef1b9fe7a8/paper-offsetting-for-aviation.pdf>

52 <https://www.iata.org/en/pressroom/pr/2018-10-24-02/>

Like the automotive and shipping sectors, aviation companies have aggressively lobbied against binding emissions reductions targets.⁵³ A US senate package recently agreed to provide \$58 billion in loans and grants to airlines, as well as \$17 billion for aircraft manufacturer Boeing. No environmental conditions were attached to these concessional loans.⁵⁴ Investor expectation statements⁵⁵ have not changed the industry's approach, and the coronavirus is seen as an important opportunity to push for the freezing of emissions reductions targets.⁵⁶ The industry's relatively weak position during the coronavirus period suggests an opportunity for forceful stewardship and investor engagement on the need for binding emissions reductions targets.

Shipping

Currently, shipping contributes about 2-3% of all global greenhouse (GHG) emissions—more than Germany's entire annual emissions. This makes shipping the 6th largest emitter worldwide. The sector is also a significant source of air pollution,⁵⁷ with approximately 15% of premature mortality associated with air pollution from transportation attributed to shipping. According to the World Bank, air pollution from shipping causes roughly 60,000 premature deaths annually—primarily in China, Japan, and India, especially in coastal and urban areas near major ports. The global shipping industry association, the International Maritime Organization (IMO)⁵⁸ controls standards and is an agent of its largest corporate members. Business interests dominate at the IMO, steering it towards weak greenhouse gas emissions rules.⁵⁹ Yet, the IMO is able to act, as illustrated by the push to implement a low-sulphur fuel standard.⁶⁰

The IMO's Energy Efficiency Design Index (EEDI), approved in July 2011, is the first global design standard aimed at abating climate change from shipping.⁶¹ In spite of emissions abatement practices such as 'slow steaming' being well documented,⁶² the shipping industry continues to resist these measures and is a beneficiary of subsidies.⁶³ Investor engagement on emissions targets for the industry and the wind-down of fossil fuel subsidies that benefit the shipping sector has so far been limited. Liquid natural gas (LNG) is considered a potential alternative to conventional heavy fuel oil (HFO) and marine gas oil (MGO) partly due to its perceived environmental benefits,⁶⁴ and industry goes as far as to suggest that it can drive decarbonisation with fuel switching.⁶⁵

53 'No Time for Requirements': Aviation Industry Lobbying Against Green Strings in Coronavirus Bailouts' (03.04.2020): <https://www.desmog.co.uk/2020/04/03/no-time-requirements-aviation-industry-lobbying-against-coronavirus-bailout-green-strings>

54 U.S. Senate approves big rescue for struggling aviation sector' (25.03.2020): <https://www.reuters.com/article/us-health-coronavirus-usa-bill/u-s-senate-approves-big-rescue-for-struggling-aviation-sector-idUSKBN21C24T>

55 UN-PRI 'Investor Expectations Statement on Climate Change for Airlines and Aerospace Companies:' <https://collaborate.unpri.org/group/2131/stream>

56 'Airlines lobby to rewrite carbon deal in light of coronavirus' (08.04.2020): <https://www.theguardian.com/business/2020/apr/08/airlines-lobby-to-rewrite-carbon-deal-due-to-coronavirus>

57 'Zero-emission shipping: What's in it for developing countries?' (24.02.2020): <https://blogs.worldbank.org/transport/zero-emission-shipping-whats-it-developing-countries?cid=ECR TT worldbank EN EXT%3Fcid%3DSHR BlogSiteShare EN EXT>

58 Influence Map (2017) 'Corporate Capture of the IMO:' <https://influencemap.org/report/Corporate-capture-of-the-IMO-902bf81c05a0591c551f965020623fda>

59 'UN shipping climate talks 'captured' by industry lobbyists' (23.10.2017): <https://www.climatechangenews.com/2017/10/23/un-shipping-climate-talks-captured-industry>

60 'Shipping is the new frontier in the climate change fight' (14.03.2020): <https://www.ft.com/content/0bb7156a-465a-11e9-b168-96a37d002cd3>. From January 2020, the IMO required all global ships either to slash the sulphur content of their fuel from 3.5 per cent to 0.5 per cent, or deploy "scrubbers" to clean it onboard or use different energy sources. See details on the IMO's 2020 global sulphur limit here: <http://www.imo.org/en/MediaCentre/HotTopics/GHG/Documents/2020%20sulphur%20limit%20FAQ%202019.pdf>

61 'Shipping and climate change:' <https://www.transportenvironment.org/what-we-do/shipping-and-environment/shipping-and-climate-change>

62 EDF (2019) 'Sailing on Solar:' <https://europe.edf.org/news/2019/02/05/shipping-can-reduce-climate-pollution-and-draw-investment-developing-countries>

63 ITF (2019) 'Maritime subsidies - do they provide value for money?:' <https://www.itf-oecd.org/sites/default/files/docs/maritime-subsidies-value-for-money.pdf>

64 'Shipping and climate change:' <https://www.transportenvironment.org/what-we-do/shipping-and-environment/shipping-and-climate-change>

65 'Natural gas-powered vehicles and ships – the facts:' <https://www.transportenvironment.org/publications/natural-gas-powered-vehicles-and-ships-%E2%80%93-facts>

Rail

Rail is among the most energy efficient modes of transport for freight and passengers. The sector carries 8% of the world's passengers and 7% of global freight transport, and represents only 2% of total transport energy demand.⁶⁶ The modal shift from ICE vehicles to electrified rail transport will be essential to achieving zero emissions targets in the transport sector. Globally, three-quarters of passenger rail transport activity takes place on electric trains, an increase from 60% in 2000, and the rail sector is the only mode of transport that is widely electrified today. According to the IEA, around 0.3% of global CO₂ emissions from fossil fuels come from rail, compared to around 2% for global aviation. The regions with the highest share of electric train activity are Europe, Japan and Russia, while North and South America still rely heavily on diesel.⁶⁷ Passenger rail is significantly more electrified than freight in almost all regions, and regions with higher reliance on urban rail and high-speed rail are those with the largest share of passenger-kilometres served by electricity.⁶⁸

The destruction of urban rail systems in North America speaks to the influential role of the automotive sector in restraining the buildout of zero emissions passenger and freight rail systems in many parts of the world.⁶⁹ Work at the Rail Industry Decarbonisation Taskforce⁷⁰ and similar groups in other G20 jurisdictions to decarbonise the rail and broader transport system do not yet appear to impact on transport decision-making and associated budgeting decisions by G7 governments. Public Investor support for investment into electric passenger and freight rail system expansion could help transform the transport sector emissions profile in advanced economies, and create momentum in developing markets to do the same.⁷¹

66 IEA (2020) 'The future of rail:' <https://www.iea.org/reports/the-future-of-rail>

67 The US does not currently have a federal plan to phase out diesel or other solid fuels in the transport sector, but there are state-level initiatives. See 'Countries are announcing plans to phase out petrol and diesel cars. Is yours on the list?' (26.09.2017): <https://www.weforum.org/agenda/2017/09/countries-are-announcing-plans-to-phase-out-petrol-and-diesel-cars-is-yours-on-the-list/>. EPA standards are incremental and will not drive leadership. See: US EPA 'Diesel Fuel Standards and Rulemakings:' <https://www.epa.gov/diesel-fuel-standards/diesel-fuel-standards-and-rulemakings>

68 IEA (2020)

69 <https://www.vox.com/2015/5/7/8562007/streetcar-history-demise>; 'A Better Way To Travel: Why Isn't the U.S. Investing In High-Speed Trains?' <https://harvardpolitics.com/united-states/better-way-travel-isnt-u-s-investing-high-speed-trains/>

70 UK Rail Industry Decarbonisation Taskforce - final report for the Minister for Rail - July 2019: <https://www.rssb.co.uk/en/Research-and-Technology/Sustainability/Decarbonisation/Decarbonisation-our-final-report-to-the-Rail-Minister>

71 IEA (2020).

Integrated lobbying by the transport & downstream fossil fuel sector

The transition to net zero emissions across the transport sector is part of larger emissions reductions required to achieve net zero targets committed to in the Paris Agreement. Yet there is still no zero emissions vehicle mandate in any G20 country.⁷² The proposed use of natural gas for transport⁷³ is as bad for the climate as using petrol, diesel or conventional marine fuels,⁷⁴ yet this is a core message in fossil fuel companies' lobbying on transport sector emissions reductions targets. Jurisdictions like Canada are heavily pushing the natural gas-derived hydrogen fuel narrative rather than supporting pathways to full decarbonisation of the transport sector.⁷⁵ ExxonMobil and their peers have long-term technology solutions that avoid completely phasing out fossil fuels, such as carbon capture and storage (CSS) technologies, hydrogen and biofuels as alternatives to phasing out fossil fuels.

Shared lobbying efforts to freeze fuel duty and ensure subsidies remain for internal combustion engine vehicles across the G20 have been effective so far.⁷⁶ Investor engagement with the fossil fuel sector has not yet shifted their business strategy in any appreciable way. This suggests a great opportunity for action through the 2020s. As of 2019, investment in low-carbon businesses represented less than 1% of oil and gas companies' capital expenditure. Indeed, more money is invested in astroturfing and public relations around carbon capture and storage.⁷⁷ According to the IEA, 99.2% of capital spending was directed towards fossil fuel development, down from 99.6%, in 2018.⁷⁸ This continued focus on expanding fossil fuel production suggests that investors must move the downstream fossil fuel sector away from aggressive lobbying to prevent the decarbonisation of the transport sector.

The first step for investors: enhance meaningful disclosure

In order to better assess the alignment of corporate lobbying practices and trade association conduct with publicly stated emissions reductions trajectories, more information is required. Steps that climate aware investors should take include the following:

1. Investors working with initiatives including the Transition Pathways Initiative and Climate Action 100+ can publish their engagement records with companies on the issue of lobbying to enable learning across the wider Principles for Responsible Investment (PRI) membership group and beyond.⁷⁹ Investors need to understand the information they can demand from companies on their lobbying record. More transparent sharing of existing information would be an important starting point to achieve this.

72 'Europe embarks on a journey to zero-emission transport' <https://www.transportenvironment.org/press/europe-embarks-journey-zero-emission-transport>

73 The Oxford Institute for Energy Studies (2014) <https://oxfordenergy.org/wpcms/wp-content/uploads/2014/03/NG-84.pdf>; and an update from 2019. The research at the Oxford is sponsored by fossil fuel companies; <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2019/04/A-review-of-prospects-for-natural-gas-as-a-fuel-in-road-transport-Insight-50.pdf>

74 'Natural gas-powered vehicles and ships – the facts:' <https://www.transportenvironment.org/publications/natural-gas-powered-vehicles-and-ships-%E2%80%93-facts>

75 'Hydrogen can make Canada an energy superpower again:' <https://www.cesarnet.ca/blog/hydrogen-can-make-canada-energy-superpower-again>. According to the authors: "in Alberta, British-Columbia and Saskatchewan, hydrogen can be produced for about half the wholesale cost of diesel by upgrading natural gas or other fossil fuels while capturing the by-product of CO² and permanently sequestering it underground." Canada had previously succeeded in compromising the EU's fuel quality standards. <https://www.politico.eu/article/commission-satisfies-canadian-lobby-with-watered-down-fuel-legislation/>

76 UK fuel duty, for example, The UK's drivers will shortly celebrate a decade of frozen fuel taxes with consecutive budgets maintaining duty rates at 57.95p/l since 2010 rather than raising the tax in line with inflation. See: <https://www.transportenvironment.org/publications/why-britain%E2%80%99s-fuel-tax-giveaway-costing-earth>. More recently, see 'Email shows oil industry lobbying strategy for bailout' (26.06.2020): <https://foe.org/news/email-shows-oil-industry-lobbying-strategy-for-bailout/>

77 <https://zeroemissionsplatform.eu/>

78 <https://www.iea.org/reports/the-oil-and-gas-industry-in-energy-transitions>

79 UN-PRI 'Investor expectations on corporate lobbying:' https://www.unpri.org/Uploads/i/k/t/Investor-Expectations-on-Corporate-Climate-Lobbying_en-GB.pdf

2. Investors should request companies disclose the processes in place to review and proactively manage membership of industry associations and other third-party organisations where lobbying positions do not align with the company's stated climate policies and positions.
3. Investors should request companies to indicate how their lobbying requests align with public commitments on climate action, and to indicate the list of third party organisations - including trade associations and NGOs - and individuals who are engaged on climate lobbying on their behalf.⁸⁰

Opportunities for forceful stewardship: what climate aware investors should be doing

1. Investors should prepare to bring shareholder resolutions on corporate climate lobbying alignment in a systematic way to support systematic disclosure across the transport sector. These could be similar to the resolution filed at Delta Airlines in 2019.⁸¹
2. Investors should ask for a zero emissions roadmap for the transport sector to be published at the G20, via the Business Twenty (B20) corporate lobby group.⁸²
3. Investors should engage their own in-house legislative affairs teams to develop a deeper understanding of corporate lobbying practices and how to push investee companies to limit negative lobbying on climate change and associated systemic risks.

The world's largest fund managers have all issued increasingly confident public statements about their views on climate change. They all understand the legislative and regulatory process since investment managers are the world's most accomplished lobbyists.⁸³ Stewardship on corporate lobbying can draw on this internal expertise. ESG teams should bring in members of their financial firms' legislative affairs team who understand the process of lobbying to demand enhanced disclosure from investee companies on this topic. If the three largest asset management firms - BlackRock, State Street, and Vanguard simply explained their positions on corporate political lobbying and use of trade associations to undermine climate policy, this would be a powerful first step in changing market conduct.

⁸⁰ Additional questions appear in the UN-PRI's <https://www.unpri.org/download?ac=4707>

⁸¹ https://engagements.ceres.org/ceres_engagementdetailpage?recID=a011H00000Cipr4QAB. The resolution asked the company to provide a report on how its lobbying activities, both direct and through trade associations, align with the goal of limiting average global warming to well below 2 degrees Celsius (the Paris Climate Agreement's goal).

The resolutions also asks that the report address the risks presented by any misaligned lobbying and the company's plans, if any, to mitigate these risks.

⁸² The B20 is the official business community engagement forum for the Group of Twenty (G20). The B20 is run in partnership with the global accountancy trade body, IFAC: <https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/g20-and-b20-saudi-arabia>. <https://www.b20saudi-arabia.org.sa/b20-partners/>. B20 'Knowledge Partners' are Accenture, PWC, McKinsey, Boston Consulting Group (BCG) and law firm Mayer Brown.

⁸³ <https://www.finance-watch.org/uf/the-financial-lobby-machine/>

Demonstrating forceful stewardship with detailed information requests

There are a number of steps investors can take to make their engagement with transport sector companies and their respective industry associations more explicit. In addition to the steps outlined above, investors can request:⁸⁴

1. Companies and their respective industry associations⁸⁵ publish long-term commitments to achieve zero-carbon vehicle fleets covering all product technologies by 2040 or sooner;
2. Crucially, companies produce short-term objectives that clearly translate long-term climate targets and commitments into operationally meaningful metrics for different product technologies (e.g. 2–5- year targets);
3. Companies disclose how investments and forward-looking regional production plans support the achievement of these targets and objectives; this disclosure should come from companies and from the respective industry associations with reference to Science Based Targets;⁸⁶ and
4. Companies publish remuneration plans that incentivise executives to accelerate action on the company's climate strategy. Industry associations should endorse Paris-aligned remuneration formulas and publish guidance for their members on this topic.⁸⁷

⁸⁴ Adapted from 2Dii (2020). These actions would build on various investor statements. At present, proliferating statements of principle are not enough. Investor action is required.

⁸⁵ Industry association already set targets for their respective industries, independently of their members own targets: <https://www.iata.org/en/policy/environment/climate-change/>

⁸⁶ https://www.transportenvironment.org/sites/te/files/publications/2050_strategy_cars_FINAL.pdf

⁸⁷ According to CDP, half of Europe's largest firms now link executive pay to climate change: <https://www.cdp.net/en/articles/companies/half-of-europes-largest-firms-now-link-executive-pay-to-climate-change>

Appendix 1: Transport sector lobbying groups

Alongside the industry specific lobby groups below, industry associations play an essential role in coordinating messaging and lobbying across jurisdictions. Investors must understand their investee companies' relationship with industry associations and ensure coherent climate lobbying alignment between companies and industry groups.

European Round Table of Industrialists (ERT)

BusinessEurope

Trans-Atlantic Business Council (TABC)

American Legislative Exchange Council (ALEC)

American Petroleum Institute⁸⁸

Aviation

International Air Transport Association (IATA)

General Aviation Manufacturers' Association Airlines for America (A4A)

Airports Council International

The National Business Aircraft Association

Automotive

Alliance of Automobile Manufacturers

European Automobile Manufacturers Association (ACEA)

Association of Global Automakers

National Automobile Dealers Association (NADA)

Original Equipment Suppliers Association (OESA)

Shipping

International Chamber of Shipping⁸⁹

Cruise Lines International Association (CLIA)

International Parcel Tankers Association (IPTA)

Oil Companies International Marine Forum (OCIMF)

Society of International Gas Tanker and Terminal Operators (SIGTTO)

World Shipping Council (WSC)

Rail

International Rail Transport Committee

UIC⁹⁰

Downstream fossil fuel

International Petroleum Industry Environmental Conservation Association (IPIECA)

Downstream Fuel Association (DFA)

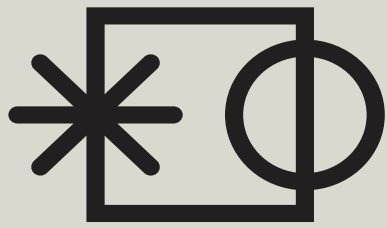
UK Petroleum Industry Association (UKPIA)

Canadian Association of Petroleum Producers (CAPP)

⁸⁸ <https://www.api.org/oil-and-natural-gas/environment/climate-change>

⁸⁹ The ICS is the largest industry association that coordinates most activity in the sector. See: [https://www.ics-shipping.org/docs/default-source/about-ics/the-international-chamber-of-shipping-ics-representing-the-global-shipping-industry.pdf?sfvrsn=18#:~:text=Cruise%20Lines%20International%20Association%20\(CLIA,of%20International%20OG%20as%20Tanker%20and](https://www.ics-shipping.org/docs/default-source/about-ics/the-international-chamber-of-shipping-ics-representing-the-global-shipping-industry.pdf?sfvrsn=18#:~:text=Cruise%20Lines%20International%20Association%20(CLIA,of%20International%20OG%20as%20Tanker%20and)

⁹⁰ <https://uic.org/sustainable-development/energy-and-co2-emissions/railway-climate-responsibility-pledge#:~:text=UIC%20is%20committed%20to%20reducing,relative%20to%20a%201990%20baseline.>



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