

ESG in the transport & logistics sector

A BDO Belgium Sector Perspective

The terms *sustainable development* and *sustainability policy* are becoming increasingly common. The combination of Environmental, Social, and Governance (ESG) aspects form an important core concept. Internationally, these three pillars are better known as ESG 'measurement' criteria, which assess the sustainability aspects of an organisation in all its forms.

1. From an environmental perspective, the transport sector faces significant challenges related to **emissions** and **climate change**.
2. Social topics of importance in the transport sector include the **health** and **wellbeing** of drivers, **labour conditions**, and **automation**.
3. Several governance topics that are relevant to most transport organisations: **value chain responsibility** and **transparency** by changing (European) legislation.

This report explores all these topics along with some best practices. We guide you through the principles to determine **which sustainability topics are truly priorities** for your organisation and how best to approach them. We also show you how BDO can support your organisation in initiating or continuing the sustainability journey.

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I. The Sustainability Context

THE CONCEPTS OF SUSTAINABILITY, ESG, AND SDGs

Sustainable development refers to “the kind of development that meets the needs of the present without jeopardising the ability of future generations to meet their own needs” as stated by the United Nations’ Brundtland Commission on Environment and Development.

There is a growing global awareness of the importance of sustainability, leading the United Nations to launch the 17 Sustainable Development Goals (SDGs). These goals provide a **framework to address pressing global challenges** and create a sustainable future for everyone. The SDGs have become a **guiding principle** for sustainable practices.

To rewire our economy in the context of sustainability, the University of Cambridge identified that the **three major economic players** - the government, the financial sector, and the private market - must each take their own **responsibilities** to achieve these goals. The transport sector is also crucial in this regard. Organisations in the transport sector need to prioritise sustainability in their strategies, policies, and programs to ensure a better future for everyone.

“ESG,” which stands for **Environmental, Social, and Governance**, is an important framework used to **assess the sustainability and responsibility practices** of companies. The ESG framework provides investors, companies, and other stakeholders with a **structured approach** to measure their impact. Understanding and integrating ESG factors are crucial to creating long-term value and contributing to a more sustainable world.

THE (EUROPEAN) GREEN DEAL

With the launch of the **European Green Deal**, the first important step has been taken towards sustainability in various sectors. The overarching objective is to **make Europe carbon-neutral by 2050**. By 2030, CO₂ emissions should already be reduced by 55% compared to 1990.

This Green Deal includes the ‘**Fit for 55**’ package, which introduces European legislation to align our society with the agreed climate targets. This package includes several measures aimed at **greening the transportation sector**. In addition to e.g. emission reduction measures, companies above a certain size will also be required to report on their sustainability performance under the **Corporate Sustainable Reporting Directive (CSRD)**. This European legislation pushes the entire market towards greening and transparency, which will also be felt in the Belgian transport sector.



II. Drivers of change

The transport and logistics sector is experiencing a growing demand for sustainable transformation, driven by several key factors. Access to finance for sustainable initiatives, pressure from stakeholders including customers, investors, and employees, and the recognition of both the risks and opportunities associated with sustainability are key drivers for this shift.

Additionally, regulation and legislation, particularly related to emissions and waste reduction, are increasingly demanding more sustainable practices from transport and logistics companies. It is very valuable for companies to investigate how they can leverage these drivers to create more sustainable, resilient, and prosperous operations while meeting the expectations of stakeholders and staying compliant with regulations.



PRESSURE FROM STAKEHOLDERS

Transport and logistics companies face **increasing pressure from stakeholders** to improve their ESG performance. Large clients are now asking about the sustainability practices of their suppliers, and this has become **a crucial factor in winning contracts**. Company boards are also recognising the importance of ESG and are driving their companies towards more sustainable practices. Moreover, **attracting and retaining talent** has become more challenging for companies that do not prioritize sustainability. Younger generations, in particular, want to work for companies that align with their values and contribute positively to society. That's why companies in the transport and logistics sector need to prioritise sustainability to attract and retain top talent.



ACCESS TO FINANCE

Access to finance is a crucial driver of this ESG transition, with investors, **lenders, and other financial institutions evaluating companies** based on their ESG practices. ESG evaluation of new investments, such as buildings and transportation equipment, has become a crucial factor in accessing finance. By incorporating sustainable practices into their operations, companies can gain access to financing opportunities such as **sustainability-linked loans and green bonds**. Moreover, ESG performance is increasingly considered a factor in investment decisions, as investors recognise that good ESG performance can be indicative of lower risk and higher returns. In addition, ESG requirements are becoming a **critical factor in winning public tenders**, with governments and public entities looking for suppliers that prioritise sustainability.



THREATS & OPPORTUNITIES

Transport and logistics companies are increasingly focused on managing the risks and seizing the opportunities presented by ESG factors. Climate change is bringing physical risks such as the impact of droughts and floods on inland waterways, leading to disruption of supply chains and increased costs. Reputation is also a crucial factor for transport and logistics companies as stakeholders increasingly expect sustainability to be integrated into operations. Failure to do so can lead to reputational damage and loss of customers, while companies that prioritise sustainability can benefit from a positive image and increased market share.

In addition to risk management, ESG factors offer opportunities for companies to gain a competitive advantage. Sustainable practices can lead to cost savings, enhance brand reputation and provide access to new markets and customers.



REGULATION & LEGISLATION

The Corporate Sustainability Reporting Directive (CSRD) & the EU Taxonomy require companies to report on their sustainability performance, giving stakeholders greater **transparency and accountability**. Certain transport & logistics companies will be affected directly as they will need to report on emissions reductions, resource use and other ESG metrics. However, they could also be affected indirectly as in-scope companies will be required to report on their value chain, including transport & logistics performance. The 'Fit for 55' package introduces among others, carbon taxes to encourage companies to adopt more sustainable practices (e.g., use of electric vehicles) and a new Emission Trading System (ETS 2) which will amongst others reduce emissions from fuels in road transport. Finally, under the announced Corporate Sustainability Due Diligence Directive (CSDDD), certain companies will be required to **identify, act and report on adverse ESG impacts** in their supply chains, which can again affect transport & logistics companies both directly and indirectly.



III. Trends and challenges

As the global community increasingly recognises the need to address environmental, social, and governance (ESG) concerns, companies in the transport and logistics sector are facing new trends and challenges. Climate change, circular economy, energy transition, ethical workplace practices, and good governance are becoming critical issues that require attention and action. From this perspective, we will explore these ESG trends and challenges in more detail and provide insights on how transport and logistics companies can align with ESG objectives, adapt their business models, and create a more sustainable and prosperous future.



ENVIRONMENTAL TRENDS AND CHALLENGES



PHYSICAL RISKS DUE TO CLIMATE CHANGE

Transport companies are at risk due to the physical effects of climate change, which could result in financial losses. These effects include **rising sea levels**, **increased frequency and severity of extreme weather events**, and damage to infrastructure. For example, extreme weather events such as hurricanes, floods, or wildfires can cause supply chain disruptions, delays, and damages to transport infrastructure, including ports, airports, roads, and rail networks.

These physical risks can lead to **high costs**, such as repairing damaged infrastructure or replacing vehicles. Transport companies should take these risks into account and **develop strategies to mitigate** them. This can include implementing climate-resilient infrastructure, developing contingency plans and improving supply chain management. By taking action to mitigate physical risks, transport companies can improve their resilience and protect their financial performance.



MODAL SHIFT

The transportation of goods by road is becoming increasingly challenging due to the **rise in traffic density**. To address this issue, a Modal Shift is a potential solution that involves **shifting transportation** from road to rail, ship or inland waterways, which can reduce the number of road kilometres and increase load factors.

By shifting from modes of transport, **a reduction of CO₂ emissions** can be achieved. However, inland waterways and rail have lower flexibility compared to road transport and higher breakdown risks. Additionally, it can be challenging to compare the prices of rail and road transport due to the importance of return freight and the higher fixed cost of rail transport.



GREEN FUEL

Green fuels are becoming increasingly important for businesses looking to improve their operations and reduce their environmental impact. In the transport and logistics sector, green vehicles like **hybrid and natural gas vehicles** are particularly important as they offer better fuel efficiency and produce fewer emissions. While **electric and hydrogen vehicles** are also promising, they can be more complex and costly to implement. Biofuels, natural gas, and hybrid vehicles currently play a relatively small role in meeting road transport needs. Green hydrogen gas is a particularly promising fuel for heavy transport over long distances, but it remains expensive and less efficient to transport.



CAPACITY OPTIMISATION

The transport and logistics sector's environmental, social, and governance performance greatly depends on effective capacity utilisation. Companies can achieve this by consolidating their packages, also known as '**carpool freight**', to reduce the distance travelled and save on fuel consumption. Empty journeys, where trucks move without any goods, lead to zero per cent load factor and are a significant cause of inefficiency in capacity utilisation. To prevent empty journeys, truck fairs and other initiatives can be implemented, resulting in significant cost savings, reduced emissions, and better social outcomes.

Congestion in traffic networks can cause negative environmental and social impacts, such as increased emissions, delays, and safety risks. To address this, **improving infrastructure, implementing congestion charges**, and promoting **sustainable modes of transport** can reduce congestion and encourage the use of low-emission vehicles.



SHARING ECONOMY

The sharing economy has enabled 'logistics sharing', allowing companies and individuals to **monetise** their **excess capacity** through technology. This approach has **several benefits**, including reducing emissions and operating costs, increasing business efficiency, and promoting more efficient use of resources, resulting in environmental benefits. However, sharing sensitive data and fairly allocating costs and profits can be a challenge. Operational cooperation is an essential aspect of successfully implementing logistics sharing in the sharing economy.

Ecosystem partnerships involve a community of independent organisations sharing capabilities to generate value for all participants. When such partnerships extend beyond efficiency and service delivery to address shared goals, they can become industrial ecosystems, working together to tackle challenges such as climate change and innovation.



EU 'FIT FOR 55' PACKAGE

Governments are increasingly implementing green practices, such as environmental taxes and penalties, to encourage companies to reduce their carbon emissions. The EU's 'Fit for 55' policy aims to **reduce net greenhouse gas emissions by at least 55%** by 2030. To do so, it uses a combination of policy tools, including:

- ▶ boosting the **Emission Trading System** for all transport sectors (road, aviation, & maritime)
- ▶ stricter **emissions standards** for new cars and vans
- ▶ boosting **alternative refuelling** infrastructure (e.g. charging stations for electric vehicles)
- ▶ Stricter rules to **promote sustainable fuels** (e.g. sustainable aviation fuels – SAF)



INTERNET OF THINGS

IoT, or the Internet of Things, refers to the **interconnectivity of devices** through the internet, allowing them to collect and exchange data without human intervention. In the transport and logistics sector, IoT enables vehicles, warehouse systems, and inventory items to communicate and exchange information, providing real-time data on location, inventory levels, and delivery status. This information can then be used to **optimise routes, reduce delivery times, and increase efficiency**, ultimately improving the customer experience and reducing costs.

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LAST MILE DELIVERY

Last mile delivery is the crucial final stage of delivery that affects customer satisfaction, but it can be challenging due to fragmented destinations and sustainability concerns. To address these challenges, companies can **prioritise sustainable transport modes**, low-emission vehicles, and **route optimisation** while also ensuring fair labour practices. Sustainable urban logistics is gaining importance, and companies can invest in hubs and Urban Consolidation Centers to improve track & trace management and responsiveness.



PHYSICAL INTERNET

A transport network similar to the internet could revolutionise shipments of goods, creating a fully autonomous system where goods are moved efficiently using a network of routes and different modes of transport. Digitisation of all information and standardization of loads will be crucial to its development. Standardised packaging can lead to cost savings by improving fill rates, and digital visualisations can make the packaging process less time-consuming. The physical internet will also benefit customers by decentralising the storage of goods, resulting in faster delivery times and more efficient and sustainable transport using multiple modes.



GREEN PACKAGING

Transport and logistics companies can achieve ecological and economic gains by using sustainable and efficient packaging. Designing packaging tailored to product dimensions eliminates unnecessary air transport, and using a special packaging machine accurately sizes packages, leading to smaller packages and fewer emissions. Modular boxes of varying sizes can improve fill rates and achieve cost savings. Biodegradable materials like paper and cardboard reduce waste and increase recyclability. Encouraging customers to return packaging materials for reuse or recycling promotes sustainability. These best practices reduce environmental impact, save costs, and promote sustainability.

SOCIAL TRENDS AND CHALLENGES

AUTONOMOUS X

Autonomous logistics is when **unmanned and self-driving systems** move goods, information, or people with little human involvement. It helps **tackle the shortage of human resources** in logistics. Autonomous sailing, driving, robots, and drones cut costs and improve safety. Special cameras and sensors enable autonomous vehicles to closely monitor their surroundings. **Autonomous Mobile Robots (AMRs)** can plan their routes dynamically, avoid obstacles, and operate independently of fixed paths or beacons.

WAR FOR TALENT

To retain talent, logistics companies must offer **attractive work environments** and strong ESG performance. As the industry shifts towards automation and robotisation, companies can **reduce the physical labour shortage** by implementing robots and other automation solutions. Additional measures to address the driver shortage include a salary package with additional legal benefits, improving working conditions, offering flexible schedules (mobility package), and investing in training and education programs. For planners, improving working conditions, offering competitive salaries, and providing training and opportunities for career advancement can help attract and retain talent.

TRAFFIC SAFETY

To ensure safety in the transport and logistics sector, companies must equip their vehicles with **advanced safety systems**. These include ultrasonic detection, speed limiters, ABS, and electronic stabilisation systems. However, companies must understand that installing safety systems alone is not enough to meet their safety obligations. They must also implement training programs for their drivers and adopt a culture of safety throughout their operations. By prioritising safety, companies can protect their employees, reduce the risk of accidents, and promote a positive image for their brand.

GOVERNANCE TRENDS AND CHALLENGES

VALUE CHAIN RESPONSIBILITY

The **Corporate Sustainability Due Diligence Directive (CSDDD)** is a proposed EU regulation that aims to ensure that companies operating in the EU conduct due diligence about their impact on the environment and human rights. The directive would require companies to identify and address risks in their supply chains, including those related to the environment and climate change.

For transport and logistics companies, this means that they will have to **conduct due diligence** to ensure that their activities **do not contribute to environmental damage or human rights violations**. This could include assessing the environmental impact of their operations, such as their carbon emissions, and taking steps to reduce them. It could also involve assessing the working conditions of employees and contractors, and ensuring that they are not subject to exploitation or abuse.

THE SUSTAINABLE FINANCE ACTION PLAN

The **Corporate Sustainability Reporting Directive (CSRD)** will require many companies to report on their sustainability impact, increasing **transparency**. The European Single Reporting Format (ESRF) aims to standardise sustainability reporting, making it easier for companies to report and for stakeholders to compare data. The EU taxonomy provides a framework for investors to make sustainable investments by defining sustainable economic activities. This can encourage companies to adopt more sustainable logistics practices, contributing to the EU's climate goals.



IV. Priority topics for the transport sector

Organisations cannot focus on all possible sustainability topics. However, they can focus their efforts by determining their most material issues. There are two ways to assess your most material topics. If you do both, as required by the CSRD, we talk about double materiality. It all depends on who is making the impact on whom:

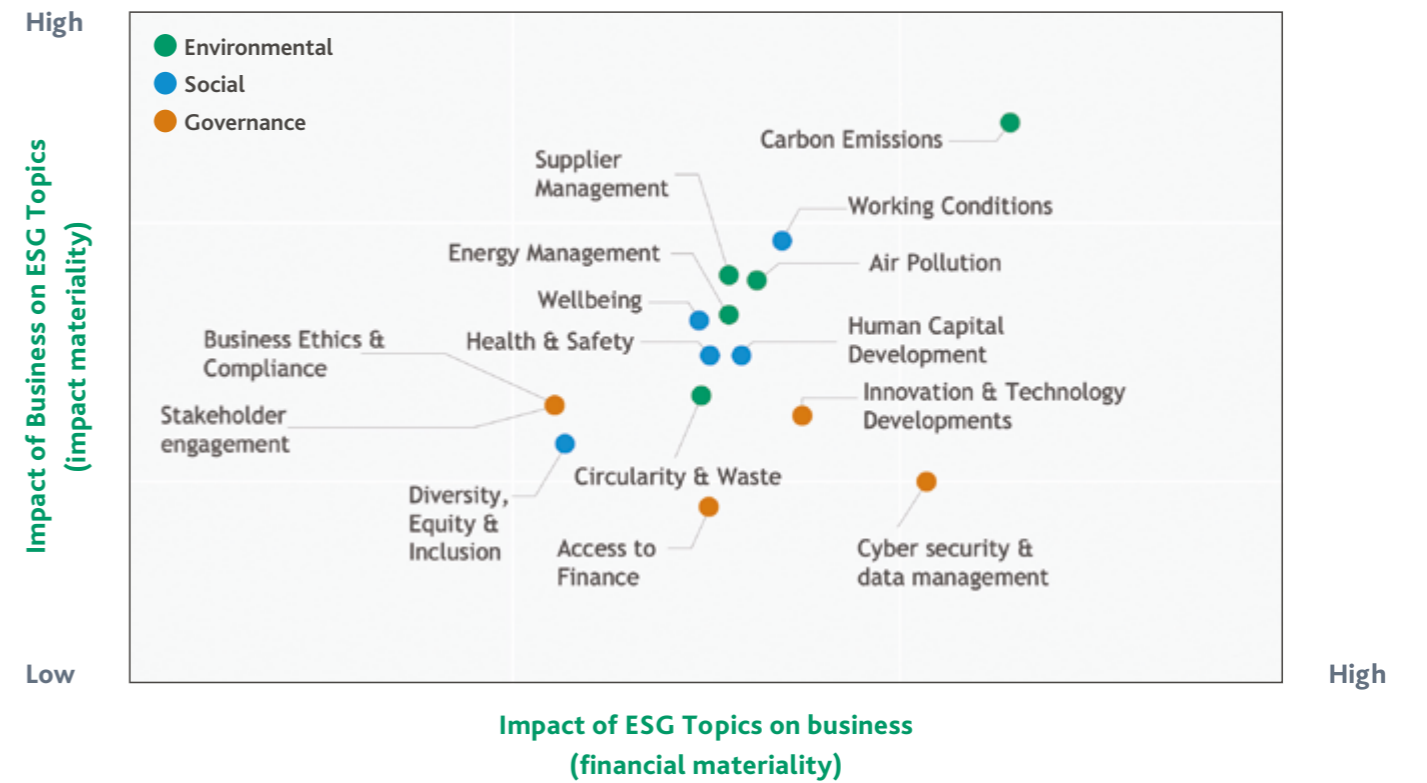
- ▶ **Impact materiality:** the most important positive or negative impacts of an organisation on sustainability
- ▶ **Financial materiality:** the most important sustainability risks or opportunities for an organisation



THE MATERIALITY MATRIX

The materiality matrix is a common way of visualising the outcome of your materiality assessment. Below you can find a concrete example of a materiality matrix for the transport and logistics sector.

A materiality matrix can reveal how a company prioritises ESG issues. This can be used to select the material topics, i.e. the topics you decide to do something about. Attention, a topic can be material even if it only scores high from either an impact or financial materiality perspective. E.g. a company can decide to work on climate because it has a high carbon footprint (high impact materiality), even if there are no climate risks (low financial materiality).



V. Best practices

In response to the drivers towards sustainable transformation in the transport and logistics sector, companies are exploring and implementing various best practices to improve their environmental, social, and governance (ESG) performance. These practices cover a wide range of areas, from energy and emissions reduction to waste management, circular economy, social responsibility, and ethical governance. In this section, we will explore some best practices that transport and logistics companies can adopt to address ESG challenges and opportunities.



ENVIRONMENTAL

- ▶ **Optimisation of transport:** Efficient route planning, bundling of shipments, avoiding empty return journeys, and promoting eco-driving.
- ▶ **Modal shift:** Encouraging a shift to environmentally friendly modes of transport such as rail transport, to reduce the amount of road transport.
- ▶ **Circular business model:** Optimal reuse of materials and trailers, application of predictive maintenance for more efficient maintenance.



SOCIAL

- ▶ **Wellbeing:** Improving the working conditions of employees, providing health facilities, confidential advisers, paid parental leave and other benefits to support a good work-life balance.
- ▶ **Diversity and Inclusion (DE&I):** Raising awareness of inclusion, awareness programmes such as bias training regarding recruitment, communication principles and inclusive HR processes.
- ▶ **Health and safety:** Setting up and maintaining a safety culture, offering a good health insurance, incident management and safety training for employees.



GOVERNANCE

- ▶ **Transparency:** Providing sustainability reporting and sufficient information to give stakeholders an insight into your sustainability performance and ambitions.
- ▶ **Cooperation:** Promoting cooperation with stakeholders throughout the value chain, organising sustainability events, using sustainability criteria in the selection process, cooperation with knowledge institutes regarding innovation.
- ▶ **Innovation:** Promoting innovative solutions and technologies to improve the transport and logistics processes, increase efficiency and reduce environmental impacts. For example, the use of smart logistics systems, the development of new sustainable fuels and the use of advanced data analysis for better planning and optimisation.

VI. The Sustainability Journey

The following section is intended to offer guidance and inspiration to transport and logistics companies seeking to start or boost their sustainability journey, to integrate ESG into daily operations and decision-making. The various stages do not necessarily need to be followed in a linear order. It is important to note that sustainability is an ongoing, iterative process.

“The best time to plant a tree was 20 years ago. The next best time is today.” Chinese proverb



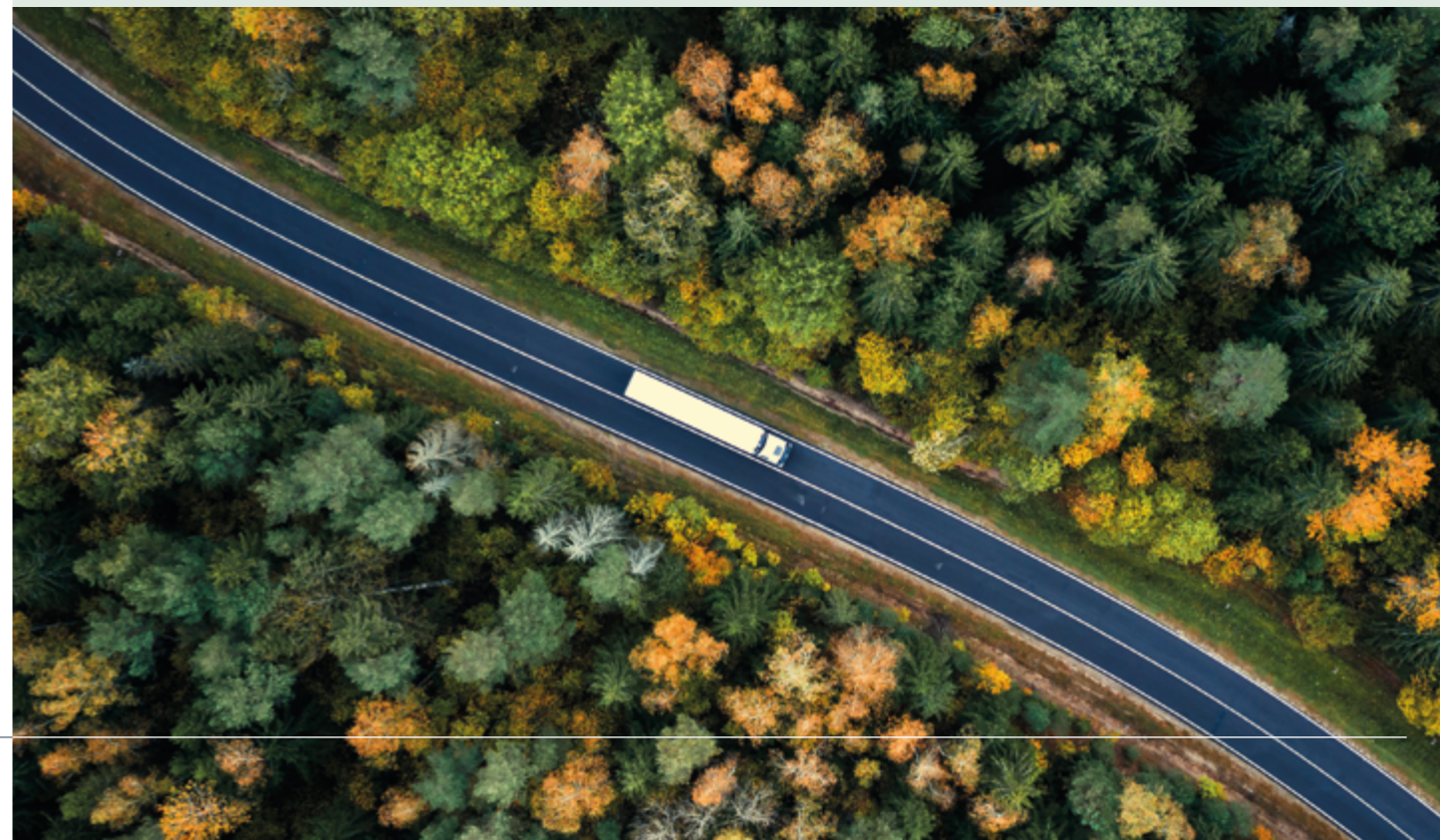
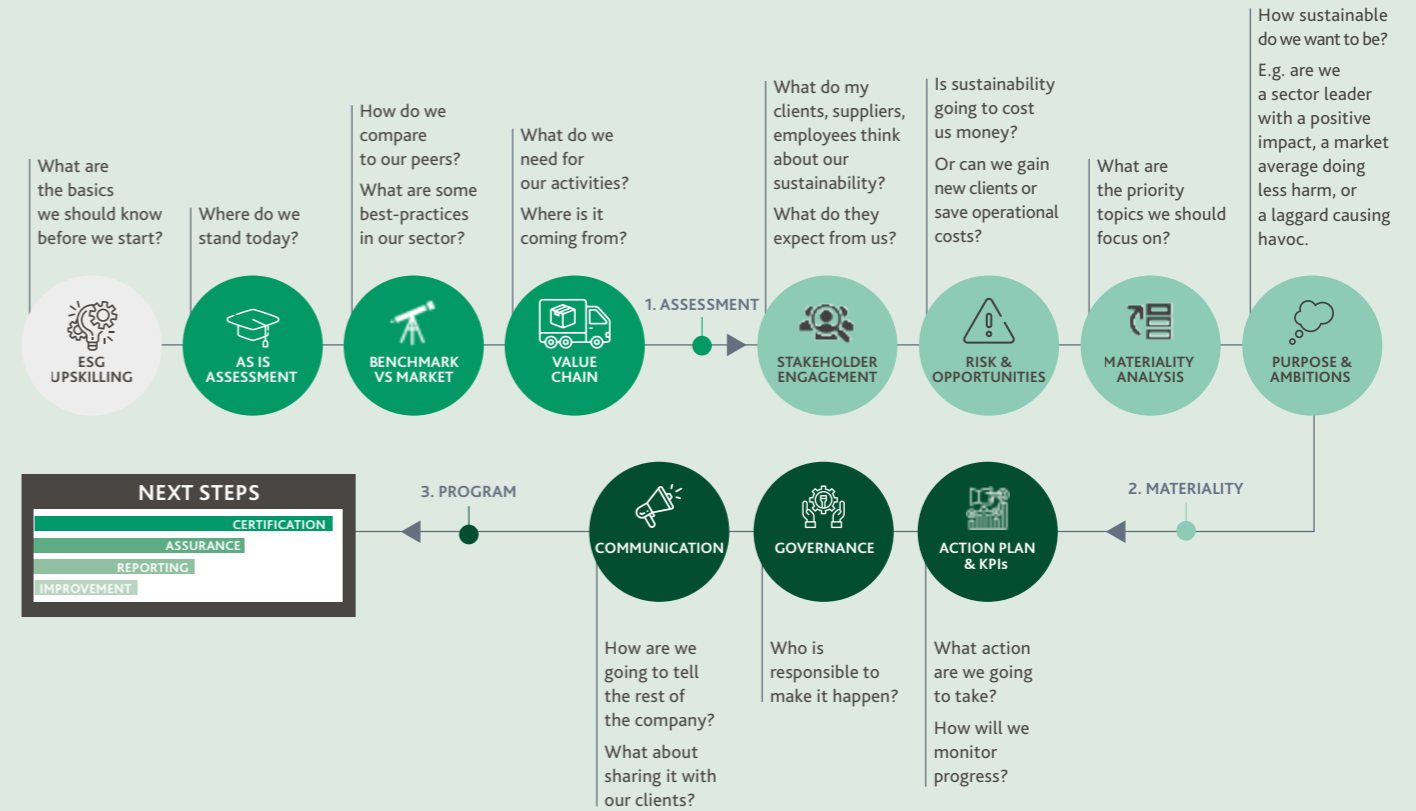
Companies can kickstart their sustainability journey by building awareness and expertise on the impact of sustainability on their business and upskilling their teams. Moving from ad hoc initiatives to embedding ESG in daily operations requires a well-defined strategy with a clear ESG focus. This strategy must be based on a materiality analysis resulting in a sustainability program with a governance structure and KPIs.

Measuring and disclosing ESG data is essential to gain insights into performance and progress, providing transparency and assuring stakeholders against greenwashing. Companies can also consider third-party certifications to validate their sustainability efforts.

Embracing sustainability in the transport and logistics sector presents opportunities to optimise operations, reduce costs, enhance reputation, and ultimately increase customer loyalty. The sustainability journey is a continuous improvement cycle, and companies should continually strive to improve their sustainability practices to meet evolving stakeholder expectations and regulatory requirements.

EMBEDDING ESG IN YOUR STRATEGY

A lot of companies are already performing different ESG-related initiatives like installing solar panels, electrification of their fleet, setting up training – and wellbeing programmes, striving for a safety culture etc. Moving from these ad hoc initiatives toward integrating ESG in the strategy, is the next step to make sure ESG is embedded in the day-to-day decision-making and processes of the company.

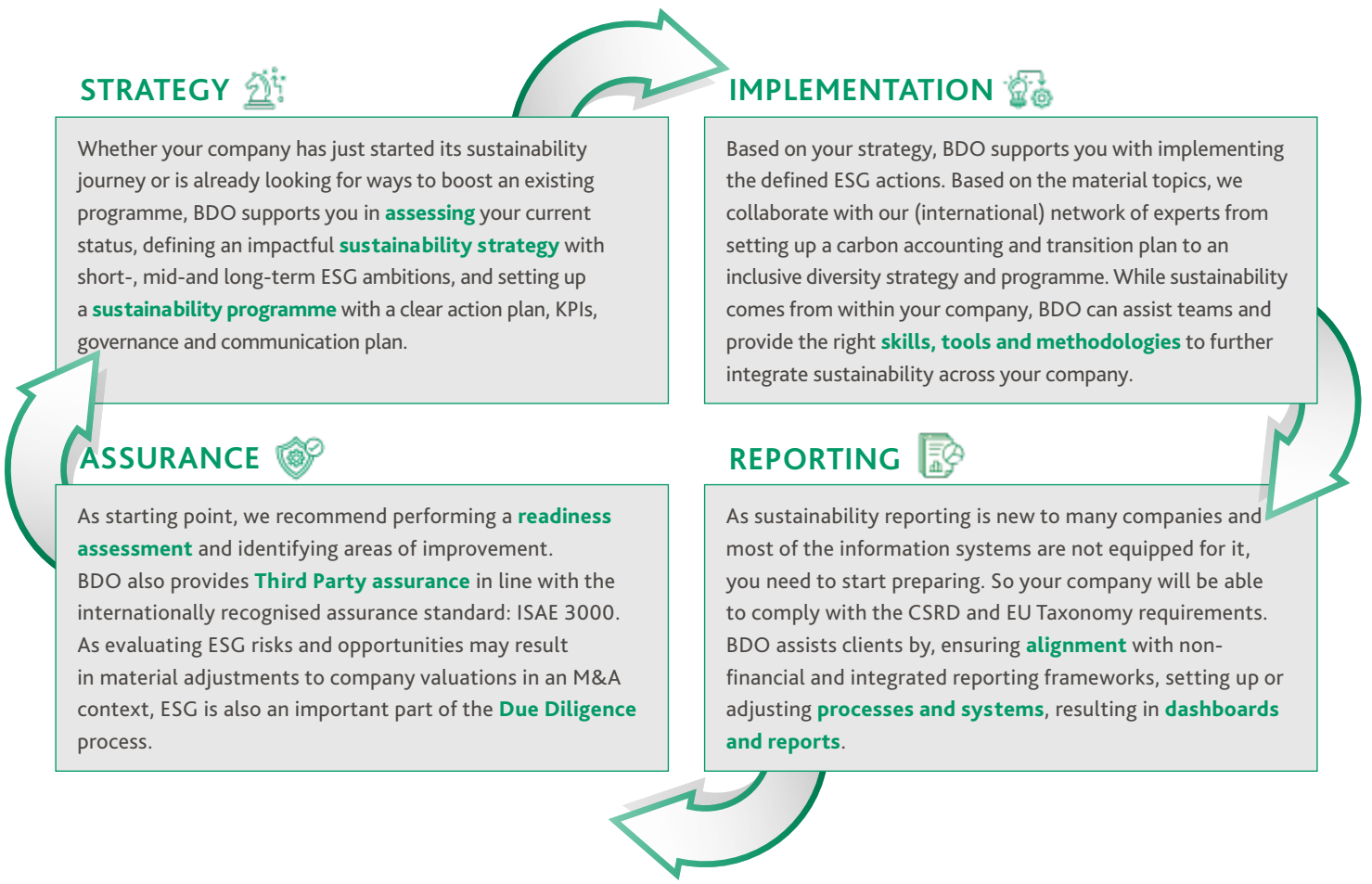


VII. How can BDO help?

Our Sustainability Centre of Excellence team is here to support and guide you through your ESG journey. We aim to simplify the sustainability journey towards credible sustainable business practices through a pragmatic, impactful approach. During this process, we ensure that your team is upskilled, and engagement is set up with your most important stakeholders. Based on our sustainability and industry expertise, the support will be tailored to your needs.

ESG ACADEMY

As creating awareness and expertise regarding sustainability is key in the transition, BDO supports you by organising sustainability **compass workshops**, giving you and your team insights and advice on the next steps. The ESG Academy can also support your ESG lead/team, as a **sounding board** giving the necessary tools & guidance to integrate sustainability effectively and efficiently.



STRATEGY

Whether your company has just started its sustainability journey or is already looking for ways to boost an existing programme, BDO supports you in **assessing** your current status, defining an impactful **sustainability strategy** with short-, mid-and long-term ESG ambitions, and setting up a **sustainability programme** with a clear action plan, KPIs, governance and communication plan.

IMPLEMENTATION

Based on your strategy, BDO supports you with implementing the defined ESG actions. Based on the material topics, we collaborate with our (international) network of experts from setting up a carbon accounting and transition plan to an inclusive diversity strategy and programme. While sustainability comes from within your company, BDO can assist teams and provide the right **skills, tools and methodologies** to further integrate sustainability across your company.

ASSURANCE

As starting point, we recommend performing a **readiness assessment** and identifying areas of improvement. BDO also provides **Third Party assurance** in line with the internationally recognised assurance standard: ISAE 3000. As evaluating ESG risks and opportunities may result in material adjustments to company valuations in an M&A context, ESG is also an important part of the **Due Diligence** process.

REPORTING

As sustainability reporting is new to many companies and most of the information systems are not equipped for it, you need to start preparing. So your company will be able to comply with the CSRD and EU Taxonomy requirements. BDO assists clients by, ensuring **alignment** with non-financial and integrated reporting frameworks, setting up or adjusting **processes and systems**, resulting in **dashboards and reports**.

DON'T HESITATE TO CONTACT US

If you want to discuss the sustainability journey for your company or you have other sustainability-related questions, don't hesitate to contact our Sustainability Team.



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