

Proposal Four: GHG emission targets at C.H. Robinson

The risk-return profile of firms exposed to climate risks, like C.H. Robinson, may change substantially as they are increasingly affected by 1) **climate policy**, 2) **reputational and competitive risks**, 3) **new technologies**, and 4) **physical impacts of climate change**.¹

GHG emissions are particularly material for C.H. Robinson due to the massive carbon footprint associated with freight, and because the company's primary core competency and marketing strategy is centered on claims of reliably transporting customers goods more efficiently. Of course, greater efficiency in shipping should lead to reduced GHG emissions, and C.H. Robinson offers to help customers reduce emissions but fails to set goals themselves, undercutting their credibility. Further, their ability to continue to reliably transport goods could be increasingly jeopardized due to disruptions in weather and to infrastructure and the workforce driven by climate change.

- **Climate policy**

- Although President Trump has announced his intention to withdraw the US from the Paris Agreement, that won't become effective until 2020 (the day after the 2020 presidential election). Until then, the US is likely obligated to maintain at the very least its reporting commitments under the agreement.²
- What's more, a significant number of states, regions, international governments, and trade associations are advancing various policies and programs seeking to control GHG emissions through policies such as efficiency standards, state-wide renewable energy targets, and carbon pricing.
- As MSCI notes in their analysis of the company,³ and C.H. Robinson itself notes in their 10-K, the company remains exposed to emissions-related costs through their contractors. Contractors are likely to forward any carbon tax or other compliance costs on to C.H. Robinson, who may or may not be able to pass those costs along.
- Although there may be uncertainty in short-term US climate policy, strengthening regulations and market instruments in Europe and Asia offer greater certainty about longer-term trends.
- The company is highly exposed to risk from fuel cost, so any climate policies that directly or indirectly lead to increases in fuel price could adversely affect CHRW.
- Governments aren't the only ones setting climate policies that impact CHRW. Other companies are setting their own climate policies as well, with 63% of Fortune 100 companies having targets that will lead to emissions reductions.⁴ As these companies increasingly look into their supply chains for further reductions

¹ <https://www.fsb-tcfid.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf>

² <https://mobile.nytimes.com/2017/06/01/climate/american-cities-climate-standards.html>

³ <https://esgmanager.msci.com/esgmanager/>

⁴ <https://www.ceres.org/sites/default/files/reports/2017-04/Power%20Forward%203.0%20-%20April%202017%20-%20Final.pdf>

opportunities, they may be drawn to companies with more mature service offerings (in the transportation/logistics emissions management space) and who demonstrate credibility by effectively managing their own emissions.

- **Competitive and reputational risks: peers, industry, and raters**

- C.H. Robinson notes in their 10-K that even without any new legislation or regulation, increased public concern about the climate and emissions from their industry could damage reputations and shift consumer demand toward more efficient competitors or locally sourced products and away from C.H. Robinson's services.
- Compared to C.H. Robinson, competitors are making steady strides in this arena. For example, *Expeditors International of Washington* (EXPD) is a similar third-party logistics services provider.
 - EXPD was rated by MSCI as industry leader for carbon emissions, and received a higher CDP score (C vs. D for CHRW).
 - Like C.H. Robinson, EXPD participates in the SmartWay program. They also measure their customers' emissions for any/all freight moved on their contractor's vessels, reviewing the results with customers quarterly and offering improvement recommendations.
 - EXPD engages their employees and identifies office-specific improvement opportunities through branch green teams.
 - EXPD reports that climate change risk management is integrated into enterprise-wide risk management efforts.
 - **Unlike C.H. Robinson, EXPD has already set a GHG emissions target, and has announced plans to set a science-based target in the next 1-2 years.**
- C.H. Robinson consistently **scores at the bottom of its peer group** among ESG raters.
 - MSCI scored C.H. Robinson in the **bottom quartile** of its global industry peers for carbon emissions. It likewise scored in the bottom quartile for corporate governance.
 - CDP rated C.H. Robinson as **"D"** (the second lowest score), indicating that they made some climate-related disclosures, but did not meet criteria around how they evaluate environmental impacts to and from the business, nor did the company provide evidence of good environmental management.
 - Sustainalytics gave CHRW an overall ESG score of 47 ("average performer"), ranking them in the **16th percentile** (108 out of 129). They note that the company's ESG **disclosures are weak** and not in accord with GRI standards, signaling inadequate accountability to investors and the public. In terms of carbon emissions, Sustainalytics says that **the company manages this material issue poorly**. Compared to the peer group average, CHRW **significantly underperforms** in the areas of GHG reduction program (25/100 vs. 65/100 for peer group) and carbon intensity (20/100 vs. 36/100).

- **Industry associations** have already set targets.
 - The *International Air Transport Association*, which has C.H. Robinson as a member, committed to a 50% reduction in emissions by 2050 (with carbon neutral growth from 2020).⁵
 - The *International Maritime Organization* (of which the US is a member of) has a mandatory ship energy efficiency management plan, along with a 50% reduction target per tonne/km by 2050 (along with interim goals).⁶
 - The *International Federation of Freight Forwarders Associations* (FIATA), of which C.H. Robinson is a member, in 2012 endorsed the IMO as a standard setter (see IMO target above), as well as the IPCC.⁷
 - Science-based emission targets are quickly becoming the new normal: over 405 global companies (many of which are Fortune 500 companies) have set a science-based target, and over 105 of them have been formally approved by the Science-based Targets Initiative.⁸
- **New technologies**
- As C.H. Robinson notes in their 10-K, competition in their industry is intense and broad-based.
 - Truckload and less-than-truckload shipping have respectively been their #1 and #2 sources of net revenue for the past five consecutive years.
 - This space is seeing increasing innovation and rapid development of new technologies, for instance battery electric semi-trucks, such as are now in the works at Peterbilt⁹ and Tesla,¹⁰ and hydrogen electric semi's – for example, Anheuser-Busch just purchased 800 of these, made by Nikola Motors.¹¹ Other companies, including Daimler,¹² Volkswagen,¹³ and Cummins,¹⁴ are likewise significantly invested (to the tune of billions of dollars) in the electric truck space.
 - As these technologies advance and costs decline, customers may well decide to switch to these lower-emitting alternatives in order to meet their own emissions targets.
 - C.H. Robinson could start positioning themselves well today to meet this shifting demand by setting their own emission targets that would likely proactively lead them in this direction.

⁵ <http://www.iata.org/policy/environment/Pages/climate-change.aspx>

⁶ <http://www.imo.org/en/MediaCentre/PressBriefings/Pages/06GHGinitialstrategy.aspx>

⁷ https://fiata.com/uploads/media/FIATA_Position_Paper_-_CO2_and_other_Emissions_in_Freight_Transport_and_Logistics_01.pdf

⁸ <http://sciencebasedtargets.org/companies-taking-action/>

⁹ <https://electrek.co/2018/05/02/peterbilt-truck-maker-all-electric-class-8-tesla-semi/>

¹⁰ <https://www.tesla.com/semi>

¹¹ <http://www.latimes.com/business/autos/la-fi-hy-nikola-tesla-trucks-20180502-story.html>

¹² <https://electrek.co/2017/12/14/daimler-fuso-ecanter-all-electric-trucks-europe/>

¹³ <https://www.reuters.com/article/us-autos-trucks-volkswagen-electric/vw-to-develop-electric-trucks-in-1-7-billion-technology-drive-idUSKBN1CG1VF>

¹⁴ <https://electrek.co/2017/08/29/cummins-beats-tesla-unveil-all-electric-truck/>

- C.H. Robinson acknowledges a number of these climate-related risks in their 10-K, yet has no documented processes for assessing or managing risks and opportunities presented by climate change.¹⁵
- These risks are real, and as the company itself asserts, potentially material to their business, yet **there is little evidence that these risks are being managed.**
- They don't assess their total emissions, but – in the absence of evidence – feel confident concluding that they don't produce significant emissions.¹⁶
- **Setting an emissions target would be strong evidence that these risks are being considered and would be an effective way to promote and protect long-term shareholder value in the face of rising policy, competitive, technology, and physical risks from climate change.**

- **Physical impacts**
 - Changes to the global climate system have the potential to adversely impact all three of C.H. Robinson's primary segments (N. American Surface Transport, Global Forwarding, and Robinson Fresh).
 - As weather events become more extreme and unpredictable, transportation infrastructure is increasingly at risk, which means that ground, sea, and air shipments are, in turn, increasingly at risk of being delayed, having to be re-routed, or even being damaged or lost. This could lead to increases in operating costs, increases in insurance costs, make the company's reputation vulnerable, and result in customers switching to competitors.
 - Their Robinson Fresh line sources fresh fruits and vegetables from around the world. Agriculture is vulnerable to changes in climate and weather patterns, and there is plenty of data to show that, for example, despite technological improvements to increase corn yields, extreme weather events have caused significant yield reductions.^{17,18} The company acknowledges this as a risk in their 10-K, and notes that operating results could be materially and adversely affected, and their customers could switch to their competitors temporarily or permanently.
 - And let's not forget about their own operations and workforce. Increases in extreme temperatures (at both ends of the spectrum), along with risks of flooding and electricity outages could impact their offices and warehouses. Their 15,000 strong global workforce is not immune to the public health risks from climate change, including from overheating, increasing water scarcity, and the increasing reach of a number of significant diseases.¹⁹

¹⁵ As disclosed in their most recent CDP filing.

¹⁶ As described in their opposition statement to this proposal.

¹⁷ <https://nca2014.globalchange.gov/report/sectors/agriculture>

¹⁸ https://19january2017snapshot.epa.gov/climate-impacts/climate-impacts-agriculture-and-food-supply_.html

¹⁹ <https://health2016.globalchange.gov/>

Response to the opposition statement

- The company's opposition statement demonstrates their limited oversight and management of potentially material climate-related risks. This could result in adverse impacts to the company and **put long-term shareholder value at increasing risk**.
- First, they make no mention at all of their **significant global warehouse and office footprint**, other than to say that they turn out the lights and use LED bulbs in their corporate headquarters. (They also source an unspecified amount of renewable energy for their Minnesota headquarters, which they imply in their sustainability report is due to the state's goal for electric utilities to provide 25% renewables by 2025).
 - Their global footprint is substantial, with around 350 offices and warehouses as well as two data centers.^{20,21} Their offices range from 1,000 – 208,000 ft², with 15 locations being larger than 20,000 ft². Their warehouses total about 1.5 million ft² spread across 40 cities worldwide, and some may require temperature controls. This all adds up to what is doubtless a substantial level of energy consumption and associated emissions.
 - While the company doesn't measure their emissions, MSCI does offer an estimate of their Scope 1 and 2 emissions (direct emissions from fuel combustion and from their purchased electricity). MSCI estimates C.H. Robinson to have emitted **637,830 metric tons CO₂e** in 2016 (most recent year available).
 - Compare this against Expeditors's self-reported Scope 1 and 2 emissions that year of just short of **43,000 metric tons**. Expeditors's Scope 3 emissions appear to be over 7.2 million metric tons and we assume C.H. Robinson's are much larger because their revenue is a little more than twice that of Expeditors.²²
 - For perspective, MSCI's estimate would make **C.H. Robinson a larger emitter than some small countries**, for instance, Bermuda, the Cayman Islands, Gibraltar, the Gambia, and Belize.²³
- Second, their assertion that not owning the transportation assets means they don't directly control the GHG emissions is misleading.
 - These emissions fall in what's known as Scope 3, downstream emissions. These emissions are indeed more challenging to manage. However, C.H. Robinson is pointing to Scope 3 emissions to explain why they can't manage *any* emissions (i.e. Scope 1 or 2).
 - Scope 1 and 2 emissions *are* under their direct control.

²⁰ <https://www.chrobinson.com/en-us/contact-us/find-a-branch-office/world/>

²¹ <https://www.chrobinson.com/en/en-US/-/media/ChRobinson/Documents/About-Us/chrobinson-2017-corporate-social-responsibility-report-final.pdf>

²² https://www.expeditors.com/media/1646/expeditors_sustainabilityreport.pdf (p. 6): In this report, it appears they may have incorrectly labelled the units as ton-miles, rather than metric tons CO₂e, which the note directly to the right of the chart explains they calculated.

²³ https://data.worldbank.org/indicator/EN.ATM.CO2E.KT?year_high_desc=false

- Further, **there certainly are ways in which C.H. Robinson could work with contractors to reduce these emissions.** For example, a program to educate and encourage contractors around boosting efficiencies and optimizing loads, routes, and operating practices, combined with a policy on preferential procurement based on emissions has the potential to produce results.
- C.H. Robinson highlights how they enable their customers to improve their environmental sustainability, but they leave out critical information.
 - They don't disclose the extent and use of these services. During a January 2017 conversation, the company noted that their sustainability scorecards were provided to 400 customers. That's **400 out of a total of 120,000 customers** in 2017.
- C.H. Robinson should be recognized for their work on reducing empty miles and participating in EPA's **SmartWay** program.
 - However, 97% of their contracted motor carriers were not SmartWay program participants. With truckload and less-than-truckload transport being the two largest drivers of net revenue, this represents substantial untapped opportunity.
 - While C.H. Robinson notes that 43% of their "brokered" shipments are made by SmartWay partners, this fact combined with the one above results in an unclear picture of total use of SmartWay partners.
 - Finally, the program is voluntary and the only really concrete commitment that we can find partners make is annual disclosure to the EPA.

Conclusion

The transportation sector has been the largest emitter of GHGs [in the US] since 2016.²⁴ C.H. Robinson acknowledges these emissions create business risks.

Yet, despite a handful of programs and practices from the company related to the environment and climate change, there is little evidence that these amount to much more than window dressing. **The company is exposed to significant and material risks from climate change, particularly over the longer-term, but unlike peers, the company is not taking steps to ensure that they remain competitive and resilient as the world transitions to a lower-carbon economy.**

Although the company is more nimble than others in the industry who own their transportation assets, the company is not laying the necessary foundations to ensure long-term shareholder value.

²⁴ <https://www.bcse.org/sustainableenergyfactbook/>

The process of setting an emissions target could help build internal capacity and management systems, and a target itself could serve as a signpost to help orient all parts of the business towards proper management of the various risks and opportunities presented by changes to the planet's climate systems. C.H. Robinson's lack of GHG reduction goals undermines their claimed leadership in efficient transport, as well as their programs to help customers manage GHG emissions.