



**CFO LEADERSHIP
NETWORK**

TOWARDS NET ZERO – THE ROLE OF CARBON ACCOUNTING

Practical example: Deutsche Post DHL Group



THE PRINCE OF WALES'S
CHARITABLE FUND

**Deutsche Post DHL
Group**





WHAT

Deutsche Post DHL Group (DPDHL) is the world's largest logistics company. The Group connects people and markets and is an enabler of global trade. DPDHL offers parcel and international express services, freight transport, and supply chain management services, as well as e-commerce logistics solutions. The Group employs approximately 570,000 people in over 220 countries.

Everything we do at DPDHL serves one purpose: connecting people and improving lives. Fulfilling our purpose requires us to make every dimension of our business sustainable – from clean operations that protect the climate to social programmes that create lasting impact for the people and communities we operate in. In 2022, our sustainability targets will be linked to 30% of the corporate board's annual bonus. This supports our strategic goals of being environmentally responsible, a great company to work for, and a highly trusted partner in business and within society.

In 2008, we set out to increase carbon efficiency by 30% over the next 12 years. Our success with that target came alongside the consensus that we must keep global warming in line with the Paris Climate Agreement to avoid the catastrophic impacts of climate change. To achieve this, our greenhouse gas (GHG) emissions must drop to net zero by 2050. Therefore, we are working towards a science-based target and will invest €7 billion in climate-neutral logistics by 2030. We have set operational targets to be achieved by that year; for example, 60% of our delivery vehicles being electrified, and more than 30% of fuel requirements in aviation and line haul being covered by sustainable fuels.

To achieve our targets, we measure, track and control our GHG emissions through carbon accounting. This enables us to optimize carbon in the same way as financial costs.



WHY

The transportation sector is responsible for 16.2% of global GHG emissions.¹ It is clear that we cannot compensate for that impact with offsetting – the sector as a whole has to decarbonize.

DPDHL's emissions are comparable to those of Denmark. By achieving net zero emissions, we will be making a contribution that is significant on a global scale. By bringing innovations like our electric vehicles to market, we spearheaded a shift in the entire industry. As the world's largest logistics company with global operations and over half a million employees, we have a unique opportunity to contribute to the sustainability of our planet and society. It is our responsibility to lead the way and guide the logistics industry into a sustainable future.

Business demands are also coming into play to encourage companies towards net zero pathways. As the world becomes more aware of the need for swift climate action, more and more of our customers are starting to focus on decarbonizing their supply chains and are keen to work with us to optimize their processes. To be the provider of choice, we must offer green alternatives to traditional logistics.

¹ Source: Climate Watch, WRI (2020)



HOW

CARBON ACCOUNTING

The backbone of our journey towards net zero is what we call ‘carbon accounting’: the measurement, tracking and controlling of GHG emissions. The idea is to treat carbon like a cost, by optimizing it in the same way as we would for financial costs, by breaking down and analysing our ‘spending’ using finance methodologies.

Our carbon accounting team arose directly from our finance department for pragmatic reasons. The department had the analytical mind-set, the necessary skills and the infrastructure to collect data across a global business like ours. The team developed a carbon accounting model that is powerful enough to give us a clear footprint of the entire organization. They track and monitor progress, prepare reporting and discuss with our management. They are in close collaboration with our dedicated ‘clean operations’ team within the corporate strategy department, who are responsible for developing the measures by which we reduce our emissions. This includes

technological goals and day-to-day business decisions – for example, providing tools and information to dispatchers so they can optimize the delivery route or see at a glance which of our partners operate the most efficient aircraft. Because our business spans the globe with a comprehensive range of logistics solutions, multiple controlling solutions are needed; from simple reference tables to automated optimization systems.

Having high-quality data, which is as precise and granular as possible, is vital to measure the impact of GHG reduction strategies. We use the data in our carbon accounting model to analyse the effectiveness of our carbon reduction measures. We can account for other factors that might alter our emissions and compare spending against actual decrease to see where we are having the most impact and what strategies provide the best value for money.

ACCURATE MODELLING

Our carbon accounting model has evolved over time and is highly complex. Our emissions data is gathered from a wide range of operational systems. Drawing together these data sources was an exercise that took a number of years. Currently, over 80 data sources feed into our carbon accounting model.

Gathering the necessary information can be challenging. In some cases, fuel data is available or can be derived from invoices. While many of our partners are keen to share their fuel consumption data and work together to drive down emissions, this data comes in many forms and on different platforms. At the same time, for some subcontractors, fuel and energy consumption is sensitive information that they do not share. In those cases, we use assumptions based on common standards like the Global Logistics Emissions Council (GLEC) Framework. Wherever possible, we check and test our assumptions – for example, when modelling the emissions of



a partner's aircraft, we would use the same calculations to model some of our own flights with similar aircraft and see if the model gives us numbers close to the actual measured fuel consumption.

When implementing and assessing the effectiveness of carbon reduction methods, assumptions can be misleading. As an example, aerodynamics kits may significantly reduce fuel consumption – but only if they are configured well. So we can't just assume a reduction after deploying those kits. We therefore rely on the hard facts – fuel consumption data – to ensure we capture the actual improvements made.

EXTERNAL ASSURANCE

In the process of building up our model, our methods and assumptions were discussed thoroughly within the business to confirm that they were realistic and accurate. As the model evolves, all changes are similarly discussed and documented. As we consider our GHG emissions target as relevant

for investors, we also report on it in the Group's annual report. We seek assurance of the GHG data which is the same level of assurance as we seek for our financial data. This includes the external auditors performing assurance procedures over our new modelling methods and assumptions. We also carry out a yearly risk assessment to constantly improve our GHG accounting processes.

ENGAGEMENT AND REPORTING

From the beginning, we have engaged with our divisional finance teams to support us in sourcing emissions data and understanding the intricacies of the business. Alongside our counterparts within the divisions, we have established a wide-ranging network of environmental, social and governance (ESG) experts that help us to look beyond the financials. Each business division commits to GHG emission targets in a joint planning process. The divisions then break down their targets individually to their countries or branches, giving them autonomy to work

towards their goal. The divisions report back on their progress on a monthly basis.

Within our monthly management report, carbon data is presented alongside financial data. In doing so we aim to enable users and decision makers to track carbon performance as easily as financial and operational performance, all as part of the same reporting system. This helps ensure that carbon emissions are taken into account and used for decision making.

Carbon data is also used in investor relations presentations. We compile a more detailed version as a statistics book for analysts and provide public disclosures to agencies such as the CDP.



NEXT STEPS

While we will always work to improve our carbon accounting model, it is accurate enough to provide comprehensive, valuable data for decision making. We have our teams, our system and our strategy in place. Now it's time to deliver results. Over the next few years, we will drive down our GHG emissions, further deploying technological and process innovations, to achieve our net zero goal.



TOP TIPS

TREAT CARBON LIKE COST

Use the finance mindset to address your GHG emissions. Capture your carbon data and manage and optimize it the same way you would with costs. Look for what's driving the emissions and work to bring them down.

SHARE BEST PRACTICES

Wherever you identify material GHG efficiency saving potential, promote and implement them across the organization as best practice.

ENCOURAGE CREATIVITY

When you realize that your customers' or suppliers' requirements result in high carbon costs, engage with them and collaborate to find creative green solutions.

START NOW

Awareness of environmental issues has risen dramatically over the last decade. Customers value corporate responsibility and actively look for sustainable alternatives. There has never been a better time to start driving your emissions down.

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