



Mr Giancarlo Guenzi  
General Manager  
Atlantia SpA  
Via A. Bergamini 50  
00159 Roma Italy

30 November 2019

Dear Giancarlo,

## **Carbon Emissions Disclosure**

TCI Fund Management Limited manages over \$30 billion across a range of asset classes. Since inception of the business over 15 years ago, cumulative investment returns have substantially outperformed equity index benchmarks.

TCI is a shareholder in Atlantia with a 1.5% physical holding.

### **Investment approach and engagement**

As part of our investment process we assess a range of ESG factors, particularly climate change risk.

TCI believes that climate change-related risks, in particular a company's greenhouse gas (GHG) emissions, will have a material effect on a company's long-term profitability, sustainability and investor returns. These risks include regulation, taxation, competitive disadvantage, brand impairment, financing, physical asset impairment and litigation.

We actively engage on ESG to help us understand, quantify and influence a company's exposure to climate change-related risks and the way it is managing those risks.

### **Emissions disclosure**

We require companies in which we invest to make appropriate and timely public disclosure of carbon and other GHG emissions. Such disclosure should include targets for emissions intensity reduction and absolute level reduction.

TCI fully supports compulsory disclosure on a standardised basis and the use of the Task Force on Climate-related Financial Disclosure (TCFD) reporting framework ([www.tcfhub.org](http://www.tcfhub.org)).

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**TCI Fund Management Limited is a private limited company incorporated and existing under the laws of England and Wales with registered number 08898250**

**Authorised and regulated by the Financial Conduct Authority**

In our view, reporting to CDP ([www.CDP.net](http://www.CDP.net)) is the best way to implement TCFD. **We expect all our portfolio companies to make full annual public disclosure to CDP.**

### **Low-Carbon Transition Plans**

We expect companies in which we invest to have a credible, publicly-disclosed plan to reduce GHG emissions. This plan should include measurable science-based targets that align with the Paris Agreement, which requires full de-carbonisation of economies (net zero emissions) by 2050.

Actions that should be included in a low-carbon transition plan are TO:

1. Change business processes to reduce the company's carbon footprint;
2. Introduce efficient energy management into buildings and factories;
3. Source low carbon energy through direct generation or power purchase agreements;
4. De-carbonise transport fleets, e.g. through electric vehicles;
5. Offset emissions from corporate travel, e.g. through afforestation;
6. De-carbonise supply chains and helping customers lower their carbon intensity;
7. Advocate for regulations which drive the de-carbonisation of their industry to ensure its sustainability.

### **Voting**

1. **We will typically vote against all directors of companies which do not publicly disclose their emissions and do not have a credible plan for their reduction.**
2. **We will also vote against auditors where the Annual Report and Accounts fail to report material climate risks.**

### **Divestment**

We will also evaluate divestment where a portfolio company refuses to disclose its emissions and does not have a credible plan for their reduction.

### **Atlantia disclosure to CDP**

We are pleased to see that Atlantia has provided disclosure to CDP for 2018 and 2019 and we have carefully analysed these submissions.

**However, for 2018, CDP awarded Atlantia an overall C grade. In our view, this is an unsatisfactory score.** Atlantia should be achieving an A grade rating, which represents best practice environmental stewardship and disclosure, and as demonstrated by peer companies Ferrovial rated A in 2018 and Vinci A-. (Please see the Appendix for guidance on how to become A grade).

Whilst Atlantia has taken several steps aiming at improving its carbon footprint (daily trains between Rome airport and the city centre, reduction in the landing and take-off cycle emissions, etc.), there are still many actions that can be implemented.

## **Atlantia shortcomings and TCI requirements**

There are several significant shortcomings in Atlantia's climate-related initiatives and disclosures and initiatives:

1. It is encouraging that all the airports in Italy and France have reached the maximum certified level (Carbon Neutrality) by Airport Carbon Accreditation, and have committed to net zero carbon emissions by 2050. However, short and medium term targets are essential. The use of climate scenario analysis based on the approach advocated by CDP and the Science-based target Initiative (SBTI) would provide a more rigorous framework for target setting across all business segments. We therefore, recommend working closely with SBTi to monitor and certify the achievement of emission reduction targets;
2. Atlantia should implement best practices for the sourcing and management of energy across all buildings, processes, and transportation and achieve 100% renewable sources for purchased and consumed electricity by 2030; Atlantia should also join the RE100 initiative which commits participating companies to procure 100% of their electricity consumption from renewable sources;
3. Changes to the EU emissions trading scheme (ETS) in 2021 will impact the transport sector, with implications for profitability across the supply chain. Atlantia should continue to disclose to its shareholders and CDP the actual and expected financial cost of carbon pricing schemes on the company, and how you intend to manage these costs;
4. We encourage the disclosure of company specific examples of how your organisation's process for identifying, assessing, and managing physical and transitional risks and opportunities have been applied;
5. Senior management (in addition to the Energy and Sustainability managers) should be incentivised to deliver emissions reduction targets on a timely basis with a meaningful percentage of incentive compensation tied to these targets;
6. The 2019 submission suggests there is scope to expand the engagement with your value chain on climate-related issues. Proper engagement with your supply chain via CDP's Supply Chain Initiative is necessary for Scope 3 emissions disclosure and for managing the emissions of your full supply chain.

Our recent discussion with Massimo Sonogo, Director of Corporate Development and the IR team was very helpful for us to understand Atlantia's current de-carbonisation initiatives:

- The forthcoming meeting with CDP should help your supply chain and scope 3 emissions analysis. CDP can also help incorporate SBTi targets into the setting of emissions reduction targets;
- New scope 1 and 2 targets are under consideration, with the aim of disclosing in early 2020;
- Further collaboration with your supply chain to reduce scope 3 emissions in airport and highways infrastructure.

## **Advocating for necessary regulatory changes to de-carbonise aviation**

De-carbonising aviation is a massive challenge and Atlantia has an important role to play in advocating with regulators and politicians. Your initiatives and targets for Rome and Nice airports are positive examples that should be replicated at all airports. For example, airport carbon neutrality, use of electric vehicles for ground handling (30% of vehicles at Rome airport are EVs and this is expected to increase), and use of renewable energy.

Alongside current technological developments in aircraft engine efficiency and airframe design, the development and adoption of low-carbon fuels is particularly important. Atlantia should be advocating for internationally coordinated regulation and/or carbon pricing through the introduction of:

- A carbon tax on aviation fuel which grows progressively and predictably;
- A “green fuel” mandate that specifies a gradually increasing percentage (to 100% by 2050) of aviation fuel that must be sourced from zero carbon sustainable sources;
- Strict standards and regulatory safeguards to ensure low carbon fuels are truly sustainable;
- Specific aviation sector incentives to ensure greater use of low carbon fuels, in preference to other sectors of the economy where de-carbonisation can be achieved by other means (e.g. autos moving directly to electric vehicles).

Currently, the penalties, taxes and mandates are insufficient to encourage airlines and fuel companies to seriously invest in the production of, and purchase of, alternative fuels. However, it is only a matter of time before tougher regulation is imposed to force the use of alternative fuels.

**It will require all aviation stakeholders to work together and coordinate such initiatives. We recognise that this may create conflicts of interest, however, the alternative is for regulation to be imposed on the industry, including potential bans on old aircraft in certain regions.** Currently, nine EU countries are lobbying the European Commission to introduce a carbon tax on air travel.

Atlantia must also advocate for greater efficiency of air traffic management (ATM), which in turn will reduce emissions:

- Improving runway throughput via the ATM research programme SESAR;
- Reducing runway occupancy time (ROT) via the SESAR Enhanced Runway Throughput project;
- Reduce aircraft holding times and aircraft separation prior to landing using the Eurocontrol’s LORD tool (a recent simulation at Zurich airport showed a 14% increase in runway throughput);
- Mandatory introduction of electric taxiing (being researched by Airbus and Safran).

ATM data and associated emissions should be disclosed.

**Advocating for necessary regulatory changes to de-carbonise road transport**

Atlantia also has a leadership role to play in advocating with regulators and politicians to de-carbonise road transport through:

- **Increasing the efficiency of the transport system** by making the most of digital technologies and further encouraging the shift to lower emission transport modes;
- **Speeding up the deployment of low-emission alternative energy for transport**, such as advanced biofuels, electricity, hydrogen and renewable synthetic fuels and removing obstacles to the electrification of transport;
- **Moving towards zero-emission vehicles.** While further improvements to the internal combustion engine are expected, acceleration of the transition towards low- and zero-emission vehicles will be needed.

Specifically, the following technologies should be adopted for Atlantia’s road transport infrastructure:

- Electric charging stations at all service stations;
- Induction charging systems, once the technology delivers an efficient option;
- Digital traffic management systems.

We appreciate the time and effort the company is making to de-carbonise the business, although there is still much work to be done. We found the discussion with your team very helpful and we look forward to continuing the dialogue.

Yours sincerely,



Chris Hohn



Philip Green



Jonathan Amouyal

## Appendix - How to become an A grade company in the CDP Climate Change Program

An “A grade” is the highest overall CDP score achievable and demonstrates a company’s:

- Strong industry leadership on environmental actions and stewardship;
- Thorough understanding of the risks and opportunities related to climate change;
- Alignment with TCFD disclosure recommendations.

CDP uses its scoring methodologies to incentivise companies to measure and manage environmental impacts through participation in CDP’s climate change, water, forests and supply chain programs. Scoring provides a roadmap for companies to achieve best practice.

Companies are assessed and scored across four consecutive levels, as the company moves towards strong environmental stewardship. Minimum scores must be achieved in order to move to the next level. Inclusion on CDP’s A grade list requires a high leadership score.

The levels are:

1. Disclosure – every question is scored for quality and depth of disclosure, e.g. emissions, targets, environmental impact, strategy, governance, engagement;
2. Awareness – depth of analysis and understanding on how environmental issues affect the business;
3. Management – Evidence of actions taken to address environmental issues;
4. Leadership – Actions represent best practice as formulated by organizations working with CDP to advance environmental stewardship (e.g. Science Based Target initiative, CEO water mandate, CERES, WWF).

### Help and guidance

CDP documents available to companies on the CDP website:

1. Scoring Introduction 2019
2. Climate Change 2019: General Scoring methodology Category Weightings

Specific guidance can be obtained from the **CDP Reporter Services Group**, for example, on how to improve the quality of disclosure and the actions required to demonstrate improvement.