

3. Sustainability Macro-Trends

The theme of sustainability is composed of many major topics and issues. Currently, the trends of Net Zero, Circular Economy and Zero Waste are particularly high profile, especially in the EU, and are likely to remain so for the coming decade. Social and Workforce sustainability is also a key trend, with increasing social focus on diversity, equity and inclusion, alongside rising standards on human rights due diligence, especially in extended supply chains.

3.1. Net Zero

Net Zero refers to an aim for humankind's greenhouse gas emissions to be effectively brought to zero by 2050. It is expected that achieving Net Zero by 2050 could avoid global temperature rises of greater than 1.5°C above pre-industrial temperatures, in line with the aims of the Paris Agreement of 2015, avoiding the most severe impacts of climate change.

Net Zero does not mean that all greenhouse gas emissions will be stopped, but rather that they will be very significantly cut and human emissions will be balanced by carbon 'sinks' that capture and lock up carbon for the long term.

The timing and profiling of Net Zero is important, because it is not just the annual emissions which drive climate change but rather the cumulative emissions over decades and centuries. This means that increased emissions over the next few years will mean cuts will need to be made more intensively in later years. Conversely, reaching peak emissions sooner may allow the eventual date of Net Zero to move back slightly, while still avoiding warming over 1.5°C.

The important aspects of Net Zero are:

- **2040-2050 Target Date:** A global balance of emissions and carbon capture, so emissions “net off” to zero after emissions reductions and carbon offsets are compared to the remaining emissions footprint. This must be achieved by latest 2050, and so many companies and countries are setting more ambitious target dates, such as 2040.
- **Science Based Targets:** Companies are being encouraged to set Net Zero “science-based targets”, which set a standard for the reduction of a company's entire value chain emissions, including those produced by their own processes (Scope 1), purchased electricity and heat (Scope 2), and generated by suppliers, partners and end-users (Scope 3). Most companies will require deep decarbonisation of 90% to reach Net Zero per the Science Based Targets Initiative (SBTi) standard.
- **Setting both near- and long-term targets:** Companies aiming for Net Zero are required to set both near- and long-term science-based targets. This means making rapid emissions cuts now (within the next 5-10 years), thereby roughly halving emissions by 2030. In this way, the targets aim to ensure the right trajectory to meet Net Zero by 2050, when organisations should produce close to zero emissions and will neutralise any residual emissions.
- **Net Zero Claims:** A company is only considered to have reached Net Zero when it has achieved its long-term science-based target. Most companies are required to reduce emissions by least 90% by 2050 and must use carbon removals to neutralise any remaining emissions. These

removals must meet specific requirements, such as true additionality (ensuring that the offset project actually results in reduced emissions) and guarding against spillover effects that would mean emissions are simply displaced elsewhere in the economy.

- **Offsetting Guidelines (beyond value chain mitigation):** The Science Based Targets Initiative (www.sciencebasedtargets.org) recommends that companies to go further by making investments outside their science-based targets to help mitigate climate change. However, these investments should be in addition to deep emission cuts, not instead of them. Companies should follow the mitigation hierarchy, committing to reduce their value chain emissions and cannot substitute offsetting for actual carbon reduction at source. High quality incremental contributions beyond a company's value chain are not mandatory but are encouraged. One example could be the installation of electric vehicle charging points, which are then available to users outside the rental company's direct fleet and contribute to reducing wider vehicle emissions in addition to a company's own direct emissions.

Overall, Net Zero is driven by a need for aligned emissions reduction and neutralisation targets that limit global temperature rises to 1.5°C above pre-industrial levels, which the IPCC report advises would avoid the most severe effects of climate change. For companies this involves committing to science-based carbon reduction targets aiming for deep decarbonisation of their operations and wider value chain by latest 2050, including interim short-term targets and reporting.

3.2. Circularity and Zero Waste

Zero Waste is a concept similar to Net Zero, but applies to waste instead of carbon emissions. Under Zero Waste, an organisation or production system is designed to generate no wastes or residues. Companies aiming for Zero Waste follow a set of principles that encourage redesigning material and resource life cycles so that all products and materials, whether demanded by a customer or not, are reused. This approach therefore requires waste prevention, rather than end-of-pipe waste management, to ensure that wastes do not arise in the first place (rather than finding uses for wastes already in existence). It is therefore a whole-system approach, aiming for fundamental changes in the way materials flow through, and are valued by, society. Zero Waste and circularity therefore go beyond reducing, reusing and recycling, by fundamentally restructuring production and distribution systems to reduce waste and the need for primary raw material inputs. It is an important consideration for rental companies, as some construction customers may have set, or will be in the process of setting, Zero Waste or circularity targets.

The rental industry inherently supports its customers in greater circularity by removing the need to purchase assets, removing their responsibility for repair, refurbishment and end of life treatment. In addition to assisting customers to meet their own Zero Waste goals, many rental companies are now considering requiring their suppliers to have Zero Waste goals themselves.

Developments such as the focus on construction in the EU's Circular Economy Action Plan¹ mean that rental companies will increasingly need to provide customers with equipment that supports a Zero Waste construction site. This could mean:

- Providing equipment that can manage excavation arisings, such as stone cleaning machinery and trommels, so that arisings meet specifications to be re-used either on site or elsewhere.

¹ https://environment.ec.europa.eu/strategy/circular-economy-action-plan_en

- Providing equipment that can treat or process waste, especially during demolition or refurbishments. For example, machines that can quickly clean and straighten rebar so it can be re-used in a secondary process.
- Ensuring that deliveries of equipment and consumables are made without any packaging that cannot be efficiently recycled.
- Providing equipment that can carry out excavation or demolition in a way that renders the arisings suitable for re-use. For example, equipment that can systematically target sections of a building during demolition, rather than reducing an entire building to unsorted rubble, may be beneficial.

3.3. Social and Workforce

Social issues have become an increasingly important part of the sustainability agenda, as was recognised by the inclusion of a substantial number of key metrics in the ERA's Sustainability KPI Framework² which cover topics such as Equality, Diversity and Inclusion (EDI), employee engagement and satisfaction, health and safety, training and fair working practices.

Some aspects within social sustainability are of particular importance to larger rental companies, who are compelled to report on certain metrics by national legislation (see the UK's Gender Pay Gap legislation for example, or proposals to introduce a 'senior index' report in France). However, these rules are not generally applicable to SMEs. Similarly, standards for gender diversity on boards of large listed companies may seem irrelevant to smaller rental companies.

However, the rental industry is extremely reliant on a dedicated, experienced workforce which can provide high levels of customer service and support at short notice, and so workforce considerations are highly relevant to rental companies of all sizes. The rental sector, as well as the wider construction sector, has faced labour shortages for many years and with the wider labour force increasingly seeking benefits from their work beyond a simple pay packet³, it is important for the rental industry to position itself as an attractive, sustainable and long-term employer. Issues such as equality, diversity and inclusion (EDI) are also becoming more important to a workforce composed of younger people, with research showing that 83% of Generation Z (now aged between late-teens and late-20's) consider EDI in their choice of employer⁴. Workers also now have higher expectations around benefits such as flexible and remote working, clear career progression and the quality of their working environment. Campaigns such as the ERA's 'Working in Rental'⁵ initiative can help promote the sector as an attractive place to work.

A well-trained, motivated and competent workforce is even more vital in an industry moving towards greater sustainability, and supporting construction customers with topics such as electrification. Similarly, as equipment becomes more technically complex and digitised, new skills are needed in workshop technicians and fitters, as well as customer-facing staff and fleet managers who may need to

² <https://erarental.org/wp-content/uploads/2023/06/ERA-Sustainability-KPIs-2.0-Guidance-Framework.pdf>

³ <https://www.gartner.com/en/articles/employees-seek-personal-value-and-purpose-at-work-be-prepared-to-deliver>

⁴ <https://hiring.monster.com/resources/blog/monsters-2020-state-of-the-candidate-infographic/>

⁵ <https://erarental.org/working-in-rental/>

understand digital construction sites or interpret telematics data in the so-called industry of 'Construction 4.0'⁶.

While social sustainability legislation has tended to focus on setting minimum standards for the welfare of workers (for example, health and safety or minimum wage legislation), it is starting to develop in the wider sustainability reporting and supply-chain due diligence sphere. Rental companies (including SMEs) should therefore be aware of the requirements likely to be introduced by legislation such as CSRD (profiled later in this report in the 'Legislation' section). CSRD will require substantial disclosures and management in its social sections on topics such as adequate wages, collective bargaining, social protection and work-life balance. While this legislation directly impacts large and companies listed on a public stock exchange, it is likely to be flowed down to smaller, unlisted companies where they work with customers who are in-scope.

⁶ <https://www.mdpi.com/2075-5309/11/1/17>