Consultation on greenhouse gas emissions reporting draft regulations for quoted companies

17th October 2012

Aldersgate Group

The Aldersgate Group is an alliance of leaders from business, politics and society that drives action for a sustainable economy. Its mission is to trigger the change in policy required to address environmental challenges effectively and secure the maximum economic benefit in terms of sustainable growth, jobs and competitiveness.

Introduction

The Aldersgate Group welcomes the Government's commitment to implement mandatory reporting of greenhouse gas (GHG) emissions by listed companies.

The vast majority of businesses support introduction of this scheme and a large number already report their GHG emissions[1]. This is an area where corporate executives have been demanding more regulation from Government to provide greater clarity and transparency. Two-thirds of those who responded to the Government's 2011 consultation on whether to make GHG reporting mandatory, were in favour.[2] Furthermore, over three quarters of UK adults expect that businesses should be required to report their emissions, as demonstrated by a Populus poll that the Aldersgate Group published in May 2012[3].

The introduction of mandatory GHG reporting will help to ensure greater accountability and transparency, create a level playing field and enable investors and consumers to make meaningful comparisons between businesses and sectors. It will further encourage business, which is responsible for nearly a third of total UK GHG emissions, to manage and reduce its carbon footprint, leading to reduced energy costs, increased transparency and a greater understanding of material climate risks and opportunities.

The Aldersgate Group was the leading voice for enabling powers in the Climate Change Act 2008 for mandatory carbon reporting. The Group's parliamentarian members tabled the relevant amendments and over 100 MPs supported the Aldersgate Group's campaign, including the Deputy Prime Minister Nick Clegg, Edward Davey (DECC Secretary of State) and Greg Barker (DECC Minister). In May 2012 a letter from the Aldersgate Group to the Deputy Prime Minister, calling for the swift introduction of mandatory carbon reporting, was supported by over fifty businesses and organisations.

The Government's subsequent decision in June 2012 to implement this requirement for all quoted companies is one that the Aldersgate Group has warmly welcomed. This announcement should pave the way to extend the requirements to all large companies in due course.

---

[1] Carbon Disclosure Project's latest report shows that 69% of the FTSE 350 report their GHG. Carbon Disclosure Project (2012) *The Future of Reporting*.

[2] Information released in response to a Freedom of Information request by WWF: http://www.wwf.org.uk/what_we_do/press_centre/?unewsid=5843

[3] Aldersgate Group / Populus (April 2012) *Business Carbon Emissions Omnibus Summary*. Download here: http://www.aldersgategroup.org.uk/asset/download/693/1204%20Populus%20Pole%20on%20Reporting.pdf

Consultation Response

Regulations 1 & 2: citation, commencement, expiry and interpretation
"Should the new regulations come into effect for reporting years ending after 6th April 2013, or be timed to come into effect at the same time as BIS regulations (due to be published later in 2012), likely to be for reporting years ending after 1st October 2013."
The Department of Business Innovation & Skills (BIS) has consulted on the corporate reporting framework and draft regulations are anticipated later in 2012, to take effect for reporting years ending after October 2013. Although the BIS agenda has relevance to GHG reporting, we do not believe that implementation of GHG reporting should be delayed to coincide unless the new BIS regulations directly affect GHG reporting requirements. The delay is unnecessary and the existing start date of April 2013 provides a natural fit, as many companies' financial year-end falls in April.

Businesses should be required to report their GHG emissions for the same period as that covered by their Annual Report, which will provide important context for the emissions data.

Regulation 3: disclosure of emissions
This regulation covers "activities undertaken by the company", which should be better defined. Activities that generate a company's turnover and profits will not necessarily be the same activities that generate emissions for which the company is accountable. For example, outsourcing, franchises, joint ventures, intellectual property rights and other contractual business partnerships will all generate GHG emissions for which other organisations are partly or wholly responsible.

The regulation also states that the GHG emissions from "the combustion of fuel in any premises, machinery or equipment", in addition to "the use of any transport, machinery or equipment operated, owned or controlled by the company" must be included in the directors' report. The term, "control" should be clarified here as when used in conjunction with "ownership", it risks causing confusion and double counting.

To address both issues, the scope of GHG reporting must be consistent with the scope of a company's Annual Report and must be attributable to the turnover and/or profit which has been logged in the Annual Report and Accounts. This will allow transparency for most areas, but the Government should address areas where potential complexity remains, for example in the landlord-tenant relationship.

Existing international reporting schemes (WRI, WBCSD) have developed approaches to help define organisational boundaries in the most appropriate way, to avoid double counting. The Government should not attempt to re-invent or re-write these internationally developed and accepted standards.

Regulation 4: methodology
The Aldersgate Group supports the requirement of companies to explain the methodology used to calculate their emissions. However, the draft regulations will not specify which methodology should be used or suggest a carbon intensity metric. This will hamper the ability to compare businesses and sectors. We recommend that the

Government should specify a methodology for calculating emissions in the regulations and provide a carbon intensity metric, at sector level, sending this out for consultation as soon as is practical.

Defra should consider how the data published will be verified and audited and whether guidance should be included on this area. We recommend that the regulations require companies to disclose their level of verification in their GHG report. This would fall short of making verification mandatory, but would provide a measure of transparency for investors regarding the quality assurance of the data.

Regulation 5: interaction with other reporting obligations
The government drive to reduce reporting requirements that place unnecessary burdens on business is welcome, providing the environmental outcome is protected or improved. It is therefore positive that businesses can use data gathered under existing reporting schemes.

However, the variety of reporting mechanisms will impede the ability of third parties to make direct comparisons between different companies and sectors, which would be a key benefit of reporting. We recommend that a standardised approach to measurement and reporting of data, consistent with international methods, be developed to enable investors and shareholders to review performance of organisations.

We recommend the Government consider how these guidelines will be expanded to incorporate Scope 3 emissions, alongside the existing reporting requirement for Scopes 1 and 2. Furthermore there should be guidance on how other environmental key performance indicators will be included in the future, including future carbon liabilities, the impact of climate risk, or other environmental constraints such as resource scarcity, all of which may affect a company's ability to create long-term value. Availability of this data will allow companies and investor to make a full assessment of how climate change is expected to affect their business. Without this being addressed, there is a risk that the regulation will not reach its full potential.

Data gathered under the CRC Energy Efficiency Scheme (CRC) must be supplemented under this scheme, as it only covers emissions associated with UK buildings.

Further work remains to be done in simplifying the existing carbon regulatory landscape, under which there are effectively two taxes on the energy used in business: the CRC and CCL. The Aldersgate Group supports the objectives of the CRC, a mandatory scheme aimed at improving energy efficiency and cutting carbon emissions in large public and private sector organisations, which are collectively responsible for around 10% of the UK's carbon footprint. However the removal of the revenue recycling mechanism has severely weakened the financial incentives for organisations to invest in energy efficiency and has damaged the reputation of the scheme. It has effectively transformed the CRC into a tax, with revenues directed towards HM Treasury.

The original recycling mechanism gave high levels of reward for the highest performers. The revised scheme now only gives the same marginal return as the Climate Change Levy (CCL) and as a result, the CRC has become a much weaker financial driver for investment in energy efficiency. Energy mitigation strategies have been replaced with compliance strategies. Furthermore, the validity of the performance league table has also been damaged and as a result, combined with a large number of discrepancies, is increasingly regarded as an ineffective reputational driver.

One possible solution is for companies to be required to report energy they use that is generated from renewable sources, as low carbon. Currently the CCL recognises the distinction between low carbon and grid average energy, but the CRC requires companies to pay the tax based on overall energy usage, regardless of the carbon intensity of that energy. Companies which buy low carbon electricity pay a premium for making the "green" choice, but are taxed as if they had used grid average energy. This is a missed opportunity to incentivise purchase of low carbon energy by businesses.

Review period

The current regulations suggest a review period of five years, with a view to extending the regulation to all large companies. The Aldersgate Group believes that the review period should be brought forward to three years, to coincide with any improvements that are required.

Greater reductions in GHG will be achieved if the mandatory carbon reporting requirement is extended to larger companies as soon as possible, as demonstrated by the Aldersgate Group's independent analysis of Defra's impact assessment[4].

[4] Aldersgate Group, Christian Aid, The Co-operative, WWF (July 2011) *The costs and benefits of mandatory greenhouse gas reporting. An independent analysis of the Defra Impact Assessment.* Download from here:
http://www.aldersgategroup.org.uk/asset/download/380/1107%20Costs%20and%20Benefits%20of%20Mandatory%20CO2%20Reporting.pdf