Proactive climate disclosure is imperative

How taking action helps unlock opportunities and mitigate risks

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The current state of climate disclosure

The Carbon Disclosure Project (CDP), the world's environmental disclosure platform, revealed:

1%

of global companies report on all key areas of sustainability (climate change, water security and deforestation)[1]

5%

of global emissions are covered by on-track targets[2]

As a result, regulators and investors are accelerating action to hold companies accountable. To stay ahead of an ever-evolving regulatory and compliance landscape, organisations must take proactive measures when addressing climate disclosure.

1. Climate Disclosure Project, reporting data for 2023
2. Climate Disclosure Project global emissions tracker, 2023

Moving from reactive to proactive

Proactive climate strategies will give companies an edge in staying ahead of regulatory requirements while helping them capitalise on a market eager for social and environmental investment. Companies need to react to changing regulatory requirements that may be inconsistent with customer needs.

For many, now is time to revisit climate strategies, investments and operational integrations to align with requirements. A reactive approach is likely to have significant financial implications. With changing disclosure requirements being published, we recommend the following proactive 'no regrets' actions:

- Setting or reviewing regional and global annual targets to 2030 and linking them to leadership compensation
- Maintaining a detailed, dynamic energy transition plan covering a breadth of policy setting scenarios to help reduce reaction time
- Deploying new performance processes to embed updated management and accounting practices to ensure everyone is on track with short-term micro-targets that are connected to annual and long-term goals
- Advancing data collection and digital tools to support monthly and/or quarterly tracking and progress updates for financial markets and regulators – far beyond an annual sustainability report

Establishing these best practices enables an integrated approach that aligns with and stays ahead of stakeholder expectations and expanding disclosure requirements.

Climate disclosure is shifting from 'nice-to-have' to 'need-to-have'

Climate disclosure is becoming mandatory for companies around the world and will require a step change in corporate reporting processes.

Global advisory bodies, like the International Financial Reporting Standards (IFRS) foundation, are developing their own climate disclosure guidelines such as the International Sustainable Standards Board (ISSB).[3] Continued jurisdictional uptake is expected to set a baseline for individual countries' sustainability accounting standards.[4]

Finance and accounting departments will need to integrate these new disclosure guidelines to meet regulatory accounting requirements.

Implementation timelines for climate disclosure guidelines

3. International Financial Reporting Standards foundation, 2022
4. International Financial Reporting Standards, 2023: ISSB inaugural global sustainability disclosure standards

Doing the bare minimum risks non-compliance in a strict reporting landscape

There is clear support for stricter sustainability requirements, with organisations proactively requesting them in regions like the EU, where over 60+ companies called on the European Commission to not reduce reporting standards.[5] Looking to the near future, climate disclosure requirements are becoming tougher in several ways.

5. Climate Disclosure Project, 2023: Companies agree to sustainability reporting standards
6. European Parliament, 2022

1. Climate Disclosure Requirements are expanding

The Corporate Sustainability Reporting Directive (CSRD) being adopted by the European Commission has broadened its scope from ~11 thousand companies to ~50 thousand listed and un-listed companies.[6]

"The new EU sustainability reporting requirements will apply to all large companies, whether listed on stock markets or not. Non-EU companies with substantial activity in the EU [...] will also have to comply."

"For Scope 3 emissions, the Exposure Draft proposes that an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions [...] if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them."

"Investors representing literally tens of trillions of dollars support climate-related disclosures because they recognise that climate risks can pose significant financial risks to companies, and investors need reliable information about climate risks to make informed investment decisions."

2. Scope 3 emissions are ~11x larger than direct company emissions[7]

A recent study revealed only one-third of companies report on Scope 3 emissions, the toughest emissions to measure and reduce.[8] As reporting requirements are expected to become more stringent and ambitious, every organisation will be impacted by the challenge of managing Scope 3 emissions. Currently, standards like the SBTi require only Scope 1 and Scope 2 emissions reporting, whereas Scope 3 reporting is only required of companies where these emissions make up over 40% of total emissions. However, ISSB, which is expected to become the new baseline for many mandatory reporting standards in the coming years, requires companies to report Scope 3 or account for why these emissions are omitted.[9, 10]

Implementation status and scope varies by jurisdiction:

Canada
No set date

CSA proposed draft rules for Scope 3 reporting with additional consultation following ISSB's standards.

European Union
In effect January 2024

All companies headquartered or operating in Europe to report on Scope 3 emissions.

Japan
In effect April 2025

Sustainability Standards Board of Japan (SSBJ) expected to adopt ISSB including Scope 3.

USA
In effect 2024

California has adopted Scope 3 disclosure requirements with New York, Illinois and other states considering similar rules.

Australia
In effect July 2024

Draft proposal open to comment to adopt ISSB standards including Scope 3 for large entities phasing in from July 2024.

7. Science Based Targets, 2023: Companies to deliver on COP agreement
8. S&P Global, 2023: Companies prepare to implement new climate standards, disclosure varies globally
9. Science Based Targets: SBTi criteria guidance
10. IFRS Sustainability Disclosure Standard

Sources: UK greenhouse gas emissions reporting: Scope 3 emissions
EU Corporate Sustainability Reporting
SEC: Climate-Related Disclosures/ESG Investing
Canadian Securities Administrators statement on proposed climate-related disclosure requirements
Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information
Japanese Financial Services Agency - International Conference on Sustainability Disclosure

3. Methane abatement is imperative for near-term decarbonisation

Methane disclosure is an emerging area all organisations need to be aware of particularly in the context of Scope 3. While methane is 28x more impactful to climate change than CO_2 and is responsible for about a third of global warming, it only stays in the atmosphere for ~12 years compared to centuries for CO_2.

The 'Global Methane Pledge', signed at COP26 in 2021, was significantly built upon at COP28 and now includes more aggressive reduction targets and enhanced transparency of methane disclosures for individual companies in major jurisdictions. COP28 also signed off on billions in funding to support oil and gas companies in their methane reduction efforts.[11]

11. World Resource Institute: Unpacking COP28

Methane measurement and abatement technologies

Improving methane monitoring is a key consideration for meeting methane disclosure requirements	
Enhanced monitoring	Enhanced controls, monitoring and detection of system and operations via digitisation

Additional abatement measures exist to reduce methane emissions	
Reciprocating compressor vent	Gas vented from compressor seals is collected and redirected into compressor engine air intake
Instrument air conversion	Pressurised gas is replaced with compressed air to power pneumatics devices
Leak detection and repair (LDAR)	Program to inspect components for leaks followed by repair and assurance program
Other emissions reduction	Further emissions reductions primarily driven by combustion reduction through electrification, carbon capture and efficiency measures

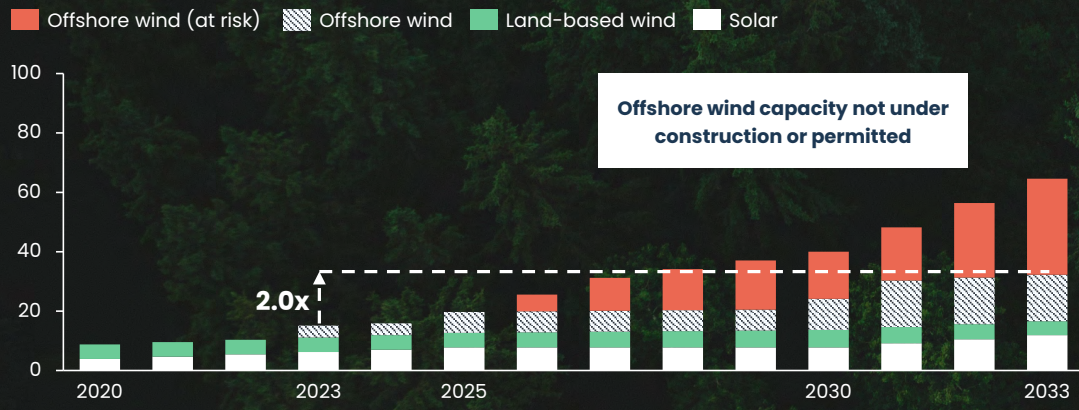
4. Buying Renewable Energy Certificates (RECs) to meet climate targets is becoming an outdated and costly strategy

The US Granular Certificate Trading Alliance is creating a platform to connect buyers and sellers of RECs with time and location verification for carbon-free energy generation.[12] This will help organisations qualify for the IRA 45V hydrogen tax credit which includes strict requirements on energy sourcing from the same time period (hourly matching) and geographical location as the hydrogen production itself.[13] The EU also has location-based Guarantees of Origin (GOs) for renewable energy production[14] and Australia is developing a similar GOs scheme that will expand to include Renewable Electricity GO certifications (REGOs) which will bring it in-line with the EU and US from 2030.[15]

But, supply and demand imbalances are leading to costlier RECs. In parts of the US, demand for RECs may grow by 3x in the next decade with only a 2x increase in renewable supply.

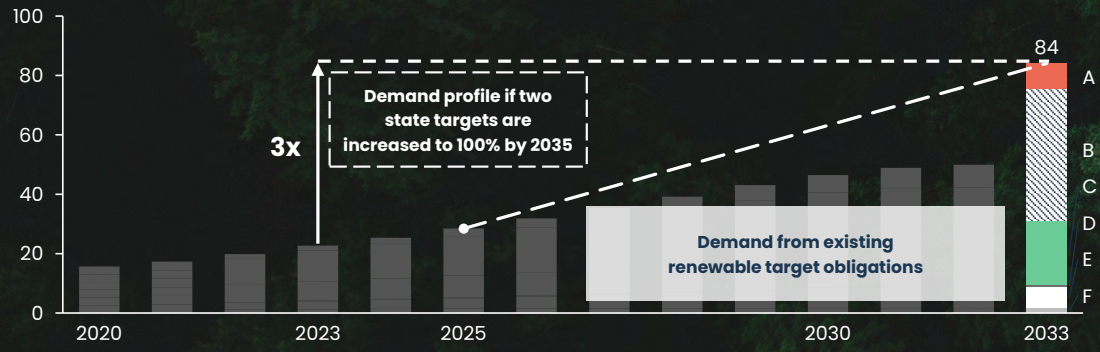
Renewable Supply: Forecast to increase but reliant on many 'at risk' offshore wind projects

Projected Regional Renewable Generation to 2033, TWh



Renewable Demand: Renewable Energy Credit (RECs) demand forecast to increase as states sign on to more aggressive targets on many 'at risk' offshore wind projects

Forecast of Regional REC Obligations across different US states (A-F), TWh



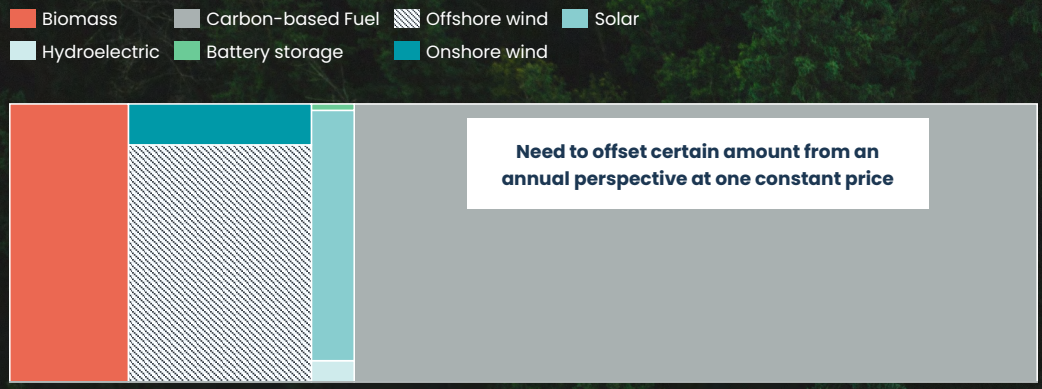
12. LevelTen Energy Press Release, 2023
13. US Department of the Treasury, 2023
14. European Union Commission, 2023
15. Australian Guarantee of Origin Scheme, 2023

5. Achieving emissions reductions by matching renewable supply with grid demand

More importantly, annually offsetting fossil fuel use with RECs does not effectively solve the problem of matching renewable energy supply with grid demand to drive GHG emissions reductions. To do this, participants will need to view renewable procurement hourly and address the challenge of meeting peak demand with renewable sources.

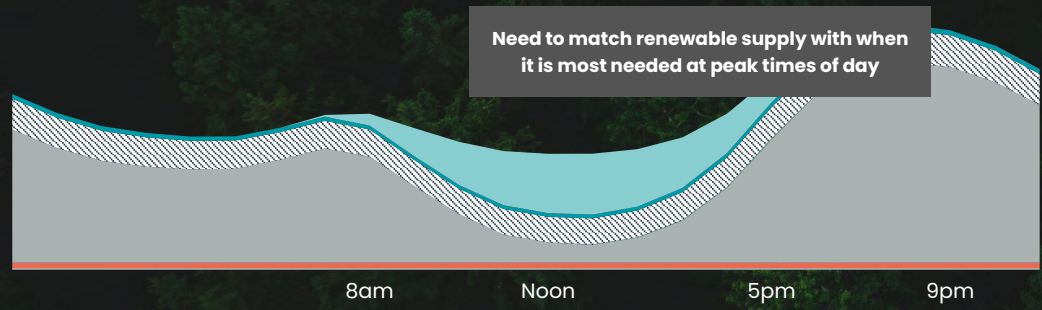
Current view is in an annual perspective for offsetting demand

Example: NE US State forecast 2030-2035 annual supply volume, GWh



However, in the future it will change to hourly matching to decrease GHG emissions and meet climate goals

Example: NE US State forecast 2030-2035 daily average supply by hour, MWh



Note: Data representative of single state in New England, United States
Source: Partners in Performance internal analysis and client data

Getting ahead of the game could avoid liabilities and reduce costs

The financial consequence of taking limited climate action include impending carbon taxes along with fines and legal action against non-compliant companies. Nations have already implemented carbon taxes (e.g. EU, UK, Japan, Canada) which are expected to increase and evolve in the coming years. For example, the EU's Carbon Border Adjustment Mechanism (CBAM) which enters into full force by 2026, imposes import fees on certain goods (cement, iron, steel, aluminium, fertilisers, electricity, hydrogen, etc.) based on carbon content[16]. Indirect consequences of inaction include eroded market trust, reputational harm, stock price impacts and loss of financing opportunities.

On the other hand, organisations with forward-thinking climate plans will be able to access cheaper financing as large financial institutions support more ambitious climate disclosure standards (sustainable bond issuances increased five-fold since 2018, exceeding $900B in 2023)[17]. They'll also be able to secure renewable energy before the market becomes overcrowded and lower their risk exposure by reducing carbon tax liabilities.

The stringent need for time-matched and geographically verified carbon-free energy sourcing means companies not participating in nascent markets, like hydrogen, could face significant unforeseen costs due to a limited renewable energy supply to meet their demand when and where they need it.

Companies with a proactive climate strategy in place will have an edge in navigating this ever-changing environment - not only to reduce risks but also to capture opportunities as they enter the market.

16. EU Carbon Borden Adjustment Mechanism
17. S&P Global, 2023

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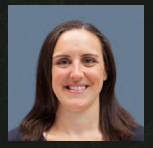

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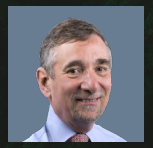

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The authors would like to thank Betty Ye, Sam Brouwer and Scott Troolin for their contribution and support in the development of this article.

Contact us

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