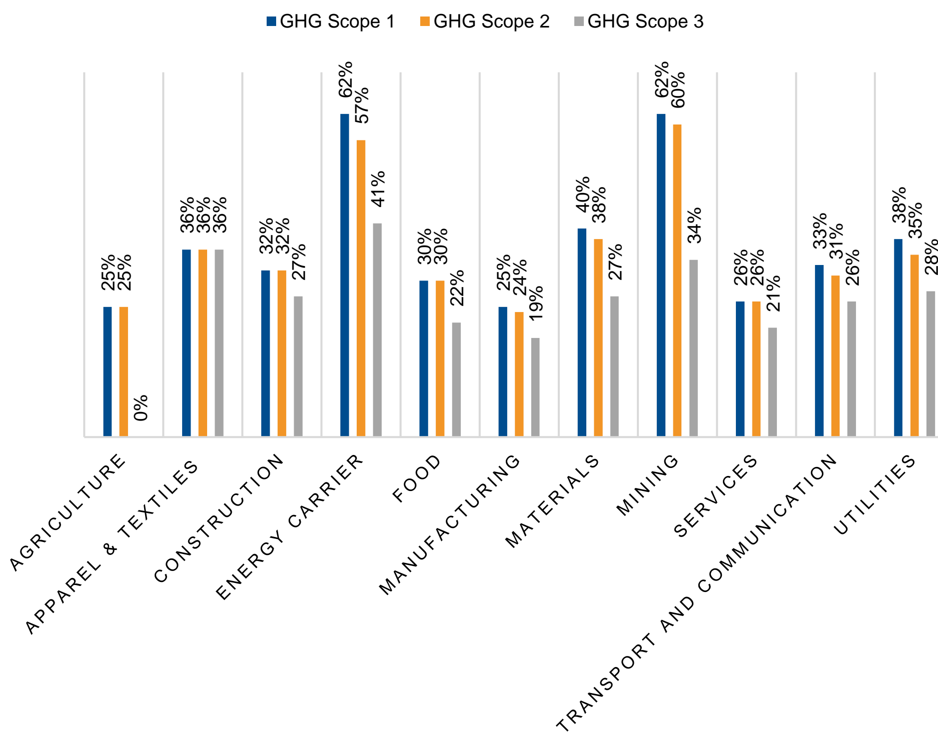
Greenhouse-gas emissions: corporate disclosure falls short of ESG reporting standards

Investors still lack much of the data required for a comprehensive grasp of how sustainable the world's biggest companies are judged by their greenhouse-gas emissions, let alone by other less well defined social, governance and environmental factors.

Scope ESG has analysed the reporting of so-called scope-3 reporting of greenhouse-gas emissions by the world's 2,000 largest companies by market capitalisation as it pertains to the entire value chain of their activities: from purchased goods and services in the supply chain to business travel or end-of-life treatment of sold products and investments.

Scope found that more than three quarters of the companies studied disclose no information at all. More than two thirds report no or incomplete information even for the less onerous scope-1 and scope-2 standards set by the GHG Protocol. They relate, respectively, to direct GHG emissions and emissions from purchased electricity.

Figure 1: Climate disclosure: reporting of GHG emissions (scope-1, -2, -3 definitions) by world's 2,000 largest companies by market cap' (% of companies)



Source: Bloomberg, Scope ESG

The gap between the reality of corporate disclosure and regulatory requirements regarding GHG data complicates the task for investors who are being asked to disclose the main adverse impacts of their investments as governments set tougher GHG emission targets and tighten reporting standards, particularly in Europe.

Corporate disclosure on GHG emission varies hugely from sector to sector. Sectors which have long felt pressure to fully report sustainability-linked data because of the heavy environmental, social and governance impact they have are the most transparent when it comes to climate-related disclosure.

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Energy, mining sector GHG disclosure relatively common

Energy carriers, apparel and mining companies have by far the best disclosure of scope-3 data, at 41%, 36% and 34% respectively.

In contrast, manufacturing, food and services are sectors where only 19%, 21% and 22% of companies disclose scope-3 GHG emissions data.

Growing transparency falls short on value-chain emissions

More specifically, while we do see a trend toward greater transparency, the catch is that there seems to be more progress on scope-1 disclosure compared with scope-3. Yet in terms of the transition toward carbon-neutral corporate activity, it is the scope-3 disclosure which is the most important given that is through scope-3 that we can compare the carbon intensity of a company's operations in their entirety. The lack of data and uniform reporting standards remain stumbling blocks.

Utilities disclose less scope-3 data than scope-1

For example, 38% of utilities companies disclose scope-1 data but only 28% disclose scope-3 information. Among materials companies, such as cement producers, 40% disclose scope-1 data but only 27% disclose scope-3 figures.

This shows how, for even one of the most popular and best-defined indicators of climate-linked impacts, it is challenging for companies to report data at all, let alone to do so consistently.

Reporting challenge likely even bigger for SMEs

In addition, Scope's study of GHG-emissions reporting covers only the largest companies, not small and medium-sized enterprises.

Investors need alternative measures of ESG impacts until the relevant data is easier to collect and requirements for reporting them are more robust.

To learn more about Scope ESG and its methodological approach, particularly regarding scope-3 GHG impacts, please see: Scope offers a new perspective on sustainable finance and corporate ESG impact (scoperatings.com)

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