Mandatory carbon reporting

A litmus test for the 'greenest government ever'

SUMMARY

- The government must urgently confirm its intention to introduce mandatory carbon reporting for major companies, or it risks missing the deadlines in the Climate Change Act 2008.
- Mandatory reporting is essential to enable businesses to reduce their emissions and investors to manage their exposure to climate risk. As such it is supported by many leading businesses and investors.
- New evidence shows that voluntary guidance is failing to drive up the level and consistency of reporting. Regulation is urgently needed to fill this gap.

Background

Under the Climate Change Act 2008, the government must introduce regulations requiring companies to report their greenhouse gas emissions by April 2012 - or justify to parliament why they have not done so.[1] This follows the introduction of voluntary guidance on emissions reporting in 2009.[2]

The Act creates a strong presumption in favour of mandatory reporting, which was supported at the time by all major parties. However, in response to a recent parliamentary question, Defra minister James Paice refused to confirm whether the government intends to introduce regulations.[3]

A report on the costs and benefits of mandatory reporting must be laid before Parliament on or before 1 December this year.[4] Government must take this opportunity to announce a positive decision, or they risk missing the 2012 deadline.

This means that the efficacy of the Climate Change Act is entering a crucial phase.

Would these regulations affect small businesses?
No. The Climate Change Act provides that company emissions reporting would sit within the directors report. Small businesses are exempt from the requirement to prepare this report,[5] and so would not be affected by regulations. Moreover, any regulations would likely replicate the scope of existing provisions on environmental and social reporting, which apply only to quoted companies.[6]

The Case for Reporting

You can't manage what you can't measure.
Private sector emissions reductions are essential if we are to meet the ambitious national targets laid down in the Climate Change Act. In a world of rising energy prices and increasing environmental regulation, they also make business sense. Measuring and reporting emissions is the first step towards reducing them.

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Investors need information to price carbon in.
In a recent survey by FairPensions, 89% of participating fund managers rated climate change as an 'important' or 'very important' investment issue. But more than half said that poor quality data from companies was a key barrier to integrating climate risks into their investment decisions. Indeed, an overwhelming 86% of participating fund managers would welcome regulatory requirements on investee companies to report their emissions.[7]

The Case for Regulation

Markets need consistent, comparable information.
There is currently a huge proliferation of emissions reporting standards – from the Carbon Disclosure Project (CDP) to the Global Reporting Initiative. This duplicates effort for businesses who do report, whilst making it impossible for investors to compare companies' performance. Defra's own guidance, if not made mandatory, simply adds to the cacophony. Regulatory requirements would provide a single, common standard, adding clarity and simplicity for businesses and enabling the efficient flow of information to the markets.

The voluntary approach isn't working.
A recent Deloitte survey of 100 listed firms found that just 9% were reporting in line with Defra guidance. Only 37% included carbon data of any description in their annual report, and there were wide discrepancies within this group on the quality and extent of information reported.[8] Data from the CDP's 2010 survey of the FTSE 350 indicates that 31% failed to respond at all, and almost half failed to disclose any emissions data in their annual reports.[9] The CDP itself supports the introduction of mandatory carbon reporting.

Regulation has strong business support.
The CBI has published a report expressing support for mandatory carbon reporting.[10] In July 2010, the Aldersgate Group released an open letter to coalition ministers under the headline 'Big business demands mandatory carbon reporting.'[11] Business signatories included Aviva, Axa, BT, Microsoft, National Grid, Pepsico, Siemens, Scottish & Southern Energy and Reed Elsevier. Backing away from regulations now, after many companies have begun preparing for them, would only create uncertainty and confusion for business.

Shouldn't voluntary guidance be given more time to bed in?
Voluntary initiatives such as the Carbon Disclosure Project have been in place for a decade. The number of companies reporting voluntarily now appears to have stalled, after rising between 2005 and 2008.[12] The urgency of the climate problem demands much swifter progress – and early data gives little reason to assume that Defra's guidance will catalyse such improvement. Regulating now is therefore entirely in the spirit of the government's better regulation agenda, recently characterised by BIS Minister Mark Prisk as *"One which permits intervention only when it is really necessary. One that considers all the alternatives to regulation. And one that sees statutory regulation as the last resort, not the first option."*

Recommendation

We urge the government to demonstrate its commitment to tackling climate change by announcing a decision to introduce mandatory carbon reporting as soon as possible.

ABOUT FAIRPENSIONS

FairPensions is a registered charity which works to promote Responsible Investment (RI) by pension schemes and fund managers, and to ensure that the ultimate beneficiaries are well served by institutional investors and other professional agents in the investment world.

In the case of pension funds, RI most often entails engagement with investee companies i.e. shareholder activism through dialogue, reinforced by the potential exercise of shareholder powers. We advocate a strategy of active ownership to manage environmental, social and corporate governance (ESG) risks with the potential to affect the long-term value of investment portfolios.

FairPensions is a member organisation, supported by a number of leading UK charities including Oxfam, Amnesty International and WWF, as well as organisations representing the beneficial owners of pension schemes, such as the National Federation of Occupational Pensioners, UNITE and Unison.

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1. Section 85, Climate Change Act 2008
2. Section 83, Climate Change Act 2008
3. HC Deb 27 October 2010, c319W
4. Section 84, Climate Change Act 2008
5. Section 415A, Companies Act 2006
6. Section 417, Companies Act 2006
7. FairPensions, ‘Preparing for the Storm’, October 2009.
8. Deloitte, ‘A survey of carbon reporting practices among UK listed companies’, November 2010. http://bit.ly/ckP7f0
9. Carbon Disclosure Project, 2010, ‘FTSE 350 Report’. https://www.cdproject.net/CDPResults/CDP-2010-FTSE350.pdf
10. CBI, 2009, ‘All together now: A common business approach for greenhouse gas emissions reporting’. http://bit.ly/9gJZyn
11. Available online at http://www.aldersgategroup.org.uk/news_controller/view_document/68
12. See footnote 7, page 7

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