Emissions Management & Reporting

Six good reasons to change for the better

Better emissions measurement: how it pays off

Emissions measurement and reporting is changing. Simple, top-down methodologies will no longer suffice. In the face of a multitude of emerging threats and opportunities, a much more accurate approach is needed, right across the value chain. We have distilled these into six compelling reasons to get your business on the right emissions pathway.

The practice of measuring GHG (greenhouse gas emissions) in the natural resources sector is rapidly becoming more rigorous, with rule-of-thumb estimates being replaced by more granular, accurate, bottom-up calculations, particularly where Scope 2 and 3 are concerned. No longer the sole preserve of sustainability experts, we are increasingly seeing CFOs and accounting functions taking charge of running the numbers.

There is a hard commercial logic behind this growth in ambition and sophistication, including a changing regulatory context, increasing stakeholder scrutiny, and a range of new commercial opportunities and potential use cases for better emissions data.

However, this voyage to a brave new world is not all plain sailing. The various reporting standards and guidelines vary in their applicability to different commodity value chains and activities, and there remains much scope for interpretation. This ambiguity presents additional challenges and risks to companies developing their own emissions measurement and reporting policies and methodologies. Furthermore, data quality and availability still leave a lot to be desired, making Scope 2 and 3 calculations particularly difficult.

Indeed, so great can seem the challenges of accurate emissions reporting that some are putting off the exercise altogether, which is possibly the worst of all strategies. Nobody is going to do this for you, and in the meantime, the risks grow, and competitive advantage moves on. It is by now clear that top-down estimates, such as those based on spend data and generic emissions factors, are not fit-for-purpose in a world of net zero commitments. Such approaches are just too inaccurate and unresponsive to enable the people tasked with delivering the reductions, or to satisfy the demands of the investors, lenders, customers and regulators.

The old adage that nothing worth doing is easy doesn't always hold true, but it certainly does here. The business-case for better emissions measurement is increasingly clear, with benefits ranging from risk mitigation such as regulatory futureproofing, improved corporate governance and clearer stakeholder accountability, to commercial gains such as efficiency improvements, access to cheaper finance, product differentiation, and greater innovation.

Through our work with leading commodity producers and traders, we have identified six reasons to proactively manage your emissions management framework.

SIX GOOD REASONS

ONE | Enable active management of emissions in daily operations

It's impossible to manage something effectively without measuring it properly. It is this recognition that has brought operations and finance departments to recognise that emissions measurement and reporting is critical to the survival of their business, and that it must be treated with a seriousness and precision more akin to cost-accounting that traditional sustainability KPIs.

In an operational context, reducing emissions often delivers both cost and revenue benefits. To take an example from the Oil & Gas sector, practices such as flaring are both heinously wasteful and environmentally damaging: a waste of a sellable commodity, and a huge source of emissions.

That's why, when we work with producers and operators, we recast emissions measurement where it should have been all along – as a business-as-usual, fully integrated, production-management input. Nothing needs to fundamentally change in an operator's approach – emissions should be just another factor to considered and costed.

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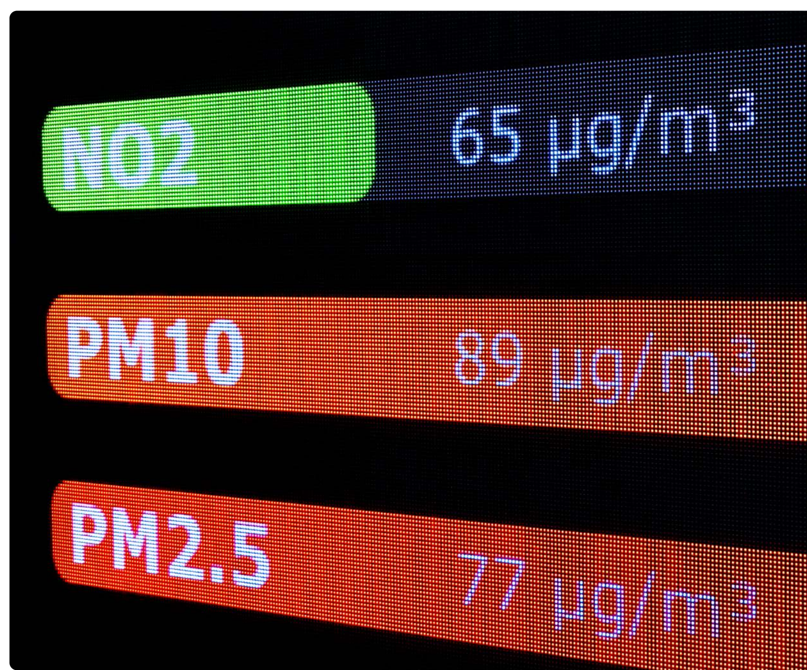
TWO | Optimise emissions up and down the value chain

As organisations get better at measuring emissions not only from their own activities, but also up- and downstream of their business, they are more likely to identify new seams of hidden value – such as a greater security of supply, or opportunities to offer new products and services.

A granular approach to emissions measurement that allows you to correctly attribute a carbon footprint throughout the value chain – from production of raw materials, through refining, logistics, all the way to end-use – provides strategic insights that inform where additional business-value resides.

Operationalising this timely and accurate value-chain emissions data enables key decision makers to spot opportunities and capture value in the short, medium and long term.



THREE | Become a premium partner

Your product may be a commodity, but your firm should not be. Demonstrating to your suppliers a proactive, rigorous and transparent approach to emissions measurement is now part-and-parcel of the good governance and accountability that are the prerequisites of any preferred supplier list.

In addition to signalling dependability and responsibility, a supplier that can accurately report on its emissions can develop low-carbon products and decarbonisation services that can be sold at a premium. To do so requires highly asset- and product-specific emissions data and traceability, from 'cradle to gate'. In highly commoditised markets, this is a genuine differentiator.

FOUR | Future-proof regulatory compliance

There is a growing regulatory imperative to understand the carbon emissions profile of your entire value chain. While most of the focus has historically been on Scope 1 emissions, new legal and fiscal rules will make better Scope 2 and 3 data a necessity.

The EU, UK, US and others are all increasing their requirements around emissions measurement and reporting, putting in place regulations and taxation that will expand the breadth and depth of data being asked of producers and traders.

For example, the EU's Carbon Border Adjustment Mechanism takes effect in 2026, which will ensure that some raw materials imported into the EU will face an effective tax on their carbon footprint.

A trader bringing steel into Europe will need to have a much better understanding of its provenance, and the emissions generated at the steel mill, or face punitive taxation on arrival in the EU.

FIVE | Access to more finance, on better terms

The market for sustainable finance has grown from a standing start a few years ago to a major driver of institutional investment decisions. For instance, the market for 'green bonds' reached $1 trillion in 2021.

This has multiple drivers. A growing investor preference for 'ESG' funds has created a large supply of equity and debt capital available for companies that can demonstrate their green credentials. More definitively, the EU's recently adopted Sustainable Finance Disclosure Regulation, combined with a binary taxonomy around environmental sustainability, is putting pressures on asset managers, both within the EU and beyond, to think hard about the carbon emissions across their portfolios.

As a result, our financial services clients are frequently asking for expert insight into the inner workings of the energy transition plans of natural resources producers and traders, so they can better assess their claims and credentials. As they become increasingly sophisticated in their understanding of published emissions data, they are asking increasingly difficult questions.

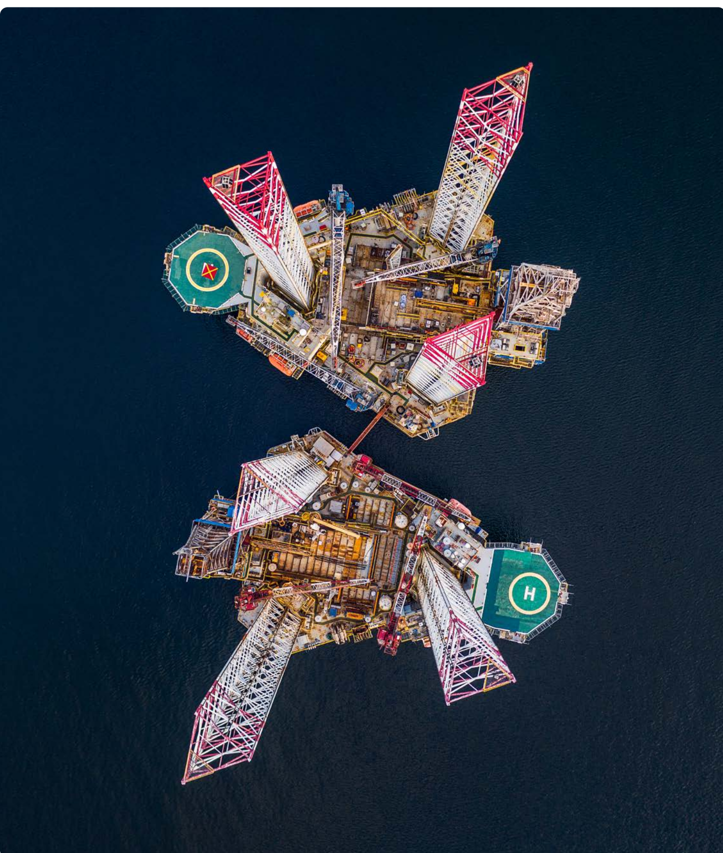
In short, any commodities business that can satisfy such demands will be able to access lower costs of capital and greater access to finance.

> Growing investor preference for 'ESG' funds has created a large supply of equity and debt capital for green practices

SIX | Recruiting and retaining talent

The impetus for carbon emissions reporting has historically come from outside pressures, resulting in top-down commitments to shareholders and other stakeholders. However, many of our clients are now experiencing increasing demand for greater transparency, accountability and action from their own employees.

Providing that transparency, and demonstrating a genuine commitment to change, can have a significant impact internally and well as externally. Creating a culture of climate change accountability attracts and retains talented individuals who want to be part of the solution.



It's time to act

The natural resources and commodities sector has the opportunity to transform emissions measurement and reporting from a reluctant response to external pressure to a value-enhancer that delivers an equity premium.

Those who still choose to sit on their hands must do so in the knowledge that a proactive and granular approach to emissions measurement is an inevitability, and hence they are leaving value on the table today, and will be playing catch up tomorrow.

By contrast, those that act early and before they 'have to', are well placed to benefit from the many competitive advantages being created by the financial, investment and regulatory community.

It's not easy, but it's worth the effort, and it's essential to start now.

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