SUSTAINABILITY REPORTING

An Overview of Considerations for Companies at Any Stage

CarbonBetter

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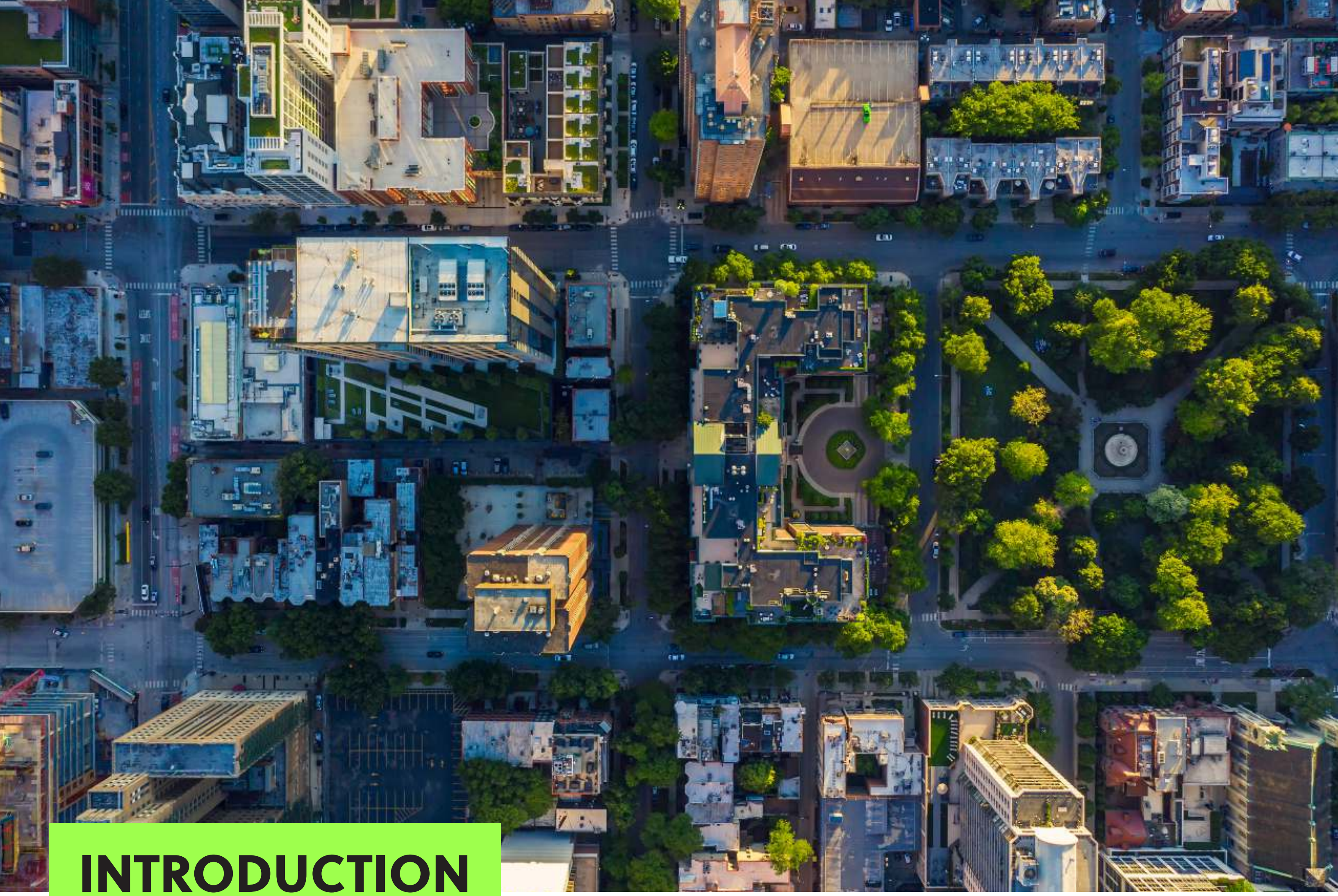

INTRODUCTION

The United Nations (UN) defines sustainability as "meeting the needs of the present without compromising the ability of future generations to meet their own needs."[1] In 2021, the United States (US) rejoined the Paris Agreement, setting its Nationally Determined Contributions (NDCs) to reduce net greenhouse gas (GHG) emissions by 50% by 2030. To deliver this reduction, the US formed its Long-Term Strategy plan that outlines how it will reach net-zero emissions no later than 2050.[2] The mobilization of stakeholders to achieve net-zero goals will benefit all communities across the US by modernizing the American economy in ways that will benefit public health, spur sustainable growth, and improve quality of life. However, achieving this future requires immediate and sustained investments to curb the climate crisis. Moving forward, business executives will play a crucial role in this global transformation by committing to sustainable operations management and sustainability reporting.

What Is a Sustainability Report?

A sustainability report documents and tracks a company's measured and estimated environmental impacts. It helps provide greater transparency about the company's contribution and progress towards sustainable development to its stakeholders. Quantifying a baseline of carbon emissions allows companies to assess a timeline and project annual targets for achieving their sustainability goals and avoid furthering climate change. Depending on the jurisdiction where companies operate, laws and regulations—such as mandatory sustainability disclosures—can hold large companies accountable for measuring their carbon emissions and taking the necessary steps to mitigate their environmental footprint.

Sustainability reporting serves as a valuable tool to achieve corporate commitments and better manage climate-related business risks. All businesses, including smaller businesses, have the option to report their contributions to long-term sustainability goals voluntarily. Reporting ensures that organizations consider their impacts on the environment as well as enabling them to address the related risks and opportunities they face. To reach net-zero goals by 2050—or sooner, if feasible—businesses must begin quantifying their carbon footprints and setting target decarbonization goals.

Key Elements of Sustainability Reporting

The contents of sustainability reports can vary depending on the reporting framework used and the type of information the business wants to disclose. However, reports generally include the energy and resources the business consumes, including carbon emissions, and the water and waste it discharges. To improve transparency and accounting, carbon emissions sources are categorized into three types:

SCOPE 1: Accounts for direct GHG emissions that occur from sources owned or controlled by the company. For example, emissions from combustion in owned or controlled boilers, furnaces, or vehicles.

SCOPE 2: Accounts for indirect GHG emissions from the generation of purchased electricity consumed by the company. Scope 2 emissions physically occur at the facility where the electricity is generated.

SCOPE 3: Accounts for emissions that are a consequence of activities of the company but occur at sources not owned or controlled by the company. Some examples of activities are the extraction and production of purchased materials, the transportation of purchased fuels, and the end use of sold products and services.

What's good for the planet is good for business.

Sustainability Reporting vs. Environmental, Social, and Governance (ESG) Reporting

ESG reporting is the disclosure of environmental, social, and governance activities. In the past decade, ESG standards have entered mainstream finance practices, pressuring businesses to consider their environmental responsibilities in addition to considering their social responsibility including diversity, equity, and inclusion initiatives and their corporate governance and compensation structure. People often use ESG and sustainability reporting terms interchangeably, but in the context of this paper sustainability solely refers to the environmental criteria of ESG and sustainability reports related to climate change.

MANDATORY SUSTAINABILITY DISCLOSURE

International Regulatory Disclosure Requirements

Governments around the world have made commitments towards reducing carbon emissions and achieving net-zero goals. Regulatory sustainability disclosures help inform global environmental policy decisions and track progress towards lower-carbon economies. Survey findings reveal that 80% of N100 companies worldwide now report on sustainability, with 65% disclosing carbon reduction within their reports.[3]

Sustainability reporting is becoming the norm as the effects of climate change are becoming more apparent. The European Union (EU) recently passed the Corporate Sustainability Reporting Directive (CSRD) that extends the scope of the Non-Financial Reporting Directive (NFRD) to all large companies listed on regulated markets, making it one of the broadest mandatory disclosure policies. When in effect in 2024, the CSRD will also be one of the first policies that defines a common reporting framework for non-financial data.[5] As the 2030 NDC-target date nears, governments across the globe are taking action to implement regulatory disclosure requirements, which also influence US policies on sustainability reporting.

Global Sustainability Reporting Statutes

Country / Region	Mandatory Policy	Scope	Requirements	Reporting Period	Reporting Facilities
EU	NFRD [2018][4] + CSRD [applicable 2024][5]	Large public interest companies with more than 500 employees	Climate-related risks, dependencies, and opportunities. i.e., GHG emissions, natural capital dependencies, and efforts on climate change mitigation	Annual due 31 December	~11,700 *(expanding to 49,000 with the CSRD)*
UK	Streamlined Energy and Carbon Reporting [2020][6]	UK-quoted companies and large unquoted companies that consume 40,000+ MWh over the reporting period (~22,500 MT CO_2e)	Annual quantity of GHG emissions, purchased energy consumption, measures taken to increase energy efficiency	Annual due 31 March	~11,900
China	Measures for the Administration of Legal Disclosure of Enterprise Environmental Information [2022][7]	Major dischargers of pollutants, high energy consumers, bond issuers subject to environmental penalties	Carbon emissions, environmental & pollution management, environmental violations	Annual due 15 March	Not published

US Regulatory Disclosure Requirements

The Greenhouse Gas Reporting Program (GHGRP) went into effect in 2009 and is considered the most extensive reporting mandate within the US. It assesses large emitters that exceed annual greenhouse gas emissions of 25,000 MT CO_2e. In 2020, the US Environmental Protection Agency (EPA) collected data across applicable industry sectors that accounted for about 3 billion metric tons (MT) of carbon dioxide equivalent (CO_2e), covering half of total US emissions.[8]

Many small businesses are not required to report their emissions to the EPA, which limits the reporting of data that is valuable to meeting climate change goals. A few states have taken their own initiative to implement sustainability reporting regulations that expand beyond the EPA's threshold. Although challenges have risen for leveraging this information due to inconsistent frameworks and requirements across jurisdictions.

US Sustainability Reporting Statutes

Country / Region	Mandatory Policy	Scope	Requirements	Reporting Period	Reporting Facilities
US	GHGRP [2009][8]	Facilities that exceed 25,000 MT CO_2e annually	GHG emissions, combustion and industrial processes emissions, GHG monitoring plan	Annual, due 31 March	~8,000
CA	California Global Warming Solutions Act [2006][9]	Facilities that exceed 10,000 MT CO_2e annually	GHG emissions must be quantified and certified for submittal to the California Air Resources Board	Annual, due 10 August	~800
WA	Chapter 173-441 - Washington Administrative Code [2013][10]	Facilities that emit and suppliers of fuel that provide products equivalent of at least 10,000 MT of CO_2e annually	GHG emissions and calculation methods in accordance to the EPA	Semi-annual, due 31 October & 31 March	~190
OR	Oregon Greenhouse Gas Reporting Protocol [2010][11]	Operators with GHG emissions that meet or exceed 2,500 MT CO_2e during a year, fossil fuel suppliers, electric utilities, and landfills	Third-party verified, total GHG emissions report, calculation methods	Annual, due 31 March	~400

Forthcoming Potential Climate-Related Disclosures

In an attempt to standardize sustainability reporting, the US Securities and Exchange Commission (SEC) proposed a rule in March 2022 that would mandate disclosures about any public company's governance, risk management, and strategy with respect to climate-related risks. Requirements include the disclosure of certain climate-related financial statement metrics and information about climate-related targets and transition plans. The regulation will also require a report on GHG emissions that covers areas of Scope 1 and 2 as well as 3 if the company's value chain is material. The SEC's stated goal is to provide "consistent, comparable, and reliable—and therefore decision-useful—information to investors."[12] If passed, the mandate would apply to filings in 2024. Given the recent trends regarding climate policies, businesses should expect mandates will emerge and position themselves accordingly with proactive sustainability reports.

VOLUNTARY SUSTAINABILITY DISCLOSURE

While sustainability and carbon emissions reporting may not yet be required for the majority of businesses within the US, pressures from investors and consumers have pushed some companies to proactively address climate change risk through voluntary reporting. The public is becoming better informed and wants to support businesses that make conscientious efforts towards improving the environment.

In 2020, US ESG funds doubled from the prior year, capturing $51.1 billion of net-new money from investors, with an emphasis on environmental investments.[13] However, the sector is undermined by investor concerns about possible insubstantial sustainability claims and sustainability efforts yielding few benefits. As a result, investors—as well as consumers—are pushing for quantitative insights into a business's sustainability practices, in addition to proposals on how they are planning to decrease their emissions. Voluntary sustainability reporting demonstrates a company's initiative to engage with their stakeholders while considering the environmental impacts of their business.

For the largest public companies, voluntary reporting proves to be a valuable tool for managing risks and their public images. The Governance and Accountability Institute reported that 70% of the Russell 1000 and 92% of the S&P 500 published sustainability reports in 2020.[14] The demand for sustainability reporting will continue to grow as it becomes the standard for businesses of all sizes, including public and private companies. Regardless of mandatory statutes, sustainability reporting is considered a best practice that businesses can leverage to appeal to stakeholders and identify internal areas of improvement, in addition to other benefits.

70% of the Russell 1000 and 92% of the S&P 500 published sustainability reports in 2020.

Benefits of Sustainability Reporting

- *Increased Shareholder Value*

Addressing climate-related risks is essential to a company's long-term financial performance. Sustainability reports help investors engage with companies more effectively and allocate capital towards companies they trust. Sustainability reporting also enables companies to be more transparent about risks and opportunities they face while revealing insights into the business's operations. Following the disclosure of climate risks, a disclosing firm's stock price may increase by an average of 1.21%,[15] thereby emphasizing the value of transparency in the market. Investors seek substantial disclosures that are material to financial performance to assess long-term factors of a business's sustainability.

- *Reduced Operating Costs*

A thorough sustainability report can improve investment returns through efficient allocation of capital towards more sustainable opportunities that will benefit the company in the long term.

Sustainability reporting provides valuable information about a company's operating expenses—encompassing energy, water, and raw material consumption. An initial sustainability report provides a baseline quantification of resource usage across a company's operational footprint, which allows companies to identify areas of inefficiency and set consumption targets. Quantified data can be leveraged to manage areas of high consumption, track changes from the previous year, and optimize business operations.

Studies show that higher resource efficiency is strongly correlated with higher financial performance and lower systematic risk.[16] Businesses that quantify and manage their resource efficiency can significantly save on operating expenses. For example, Hewlett-Packard reduced their electricity usage by 8% at one company site which saved over $150,000 in a single year.[18] Managing demand for resources has become a key business concern as natural resources are being rapidly depleted, leading to scarcities and increasing prices. In the past decade, US electricity prices increased by 14%[17] while variable water waste rates have risen by 39%.[19]

- *Supply Chain Resiliency*

Reporting on indirect emissions produced by a company's supply chain provides a comprehensive analysis of its value chain as well as demonstrates a company's commitment to sustainability to shareholders. Supply chains often have the most environmental impacts in a company's operations, with 70% of international trade involving global value chains.[20] However, due to the complexity of larger supply chains, businesses often overlook their Scope 3 emissions. Analyzing the environmental footprint of a company's products and services along their life cycles provides a more in-depth assessment of managing carbon emissions. They also help identify potential risks and create more resilient supply chains. For example, raw materials from the agricultural sector are susceptible to climate change risks—such as extreme weather and water stress—which can result in volatile prices and operational costs.

Reporting on the entirety of a company's value chain allows businesses to identify efficiency leakages and reduce costs. Also, ineffective supply chain management can raise the risk of reputational and operational degradation. Working towards a more sustainable supply chain opens opportunities for innovation, market differentiation, and even competitive advantage.

- *Increased Market Share*

More consumers want to ensure their consumption habits and the businesses they support are not negatively impacting the environment. Consumers and investors are moving to divest from GHG-intensive industries and companies. Approximately 76% of consumers say they will discontinue relations with companies that treat the environment poorly.[21] Since 2015, sustainability-marketed products have grown 2.7 times faster than conventionally marketed products.[22] However, the lack of transparency has caused a disconnect between consumer and business perceptions of sound environmental investments. Consumers are cautious of insubstantial business claims of sustainability—they want to see measurable impacts through reporting and corporate initiation. In a recent survey, more than 50% of responding businesses indicated they were able to enhance their company's reputation and build public trust by issuing sustainability reports.[23]

A More Sustainable Industry

Being a pioneer in sustainability reporting will attract more investors and consumers but also lead the way for other businesses to follow suit. When the top S&P 500 companies lead by example by publishing sustainability reports, they set expectations for the rest of their industry. As a result, in 2020, the number of disclosing companies in the smaller half of the Russell 1000 increased by 25% from the previous year, representing a total of 49% publishing reports.[14] Every company reporting on their sustainability impacts further influences other businesses to become more conscientious of their environmental footprint.

Like with consumers and investors, employees also seek out companies that uphold their values on climate policies. In a 2021 Deloitte survey, 30% of respondents said they would consider switching jobs to work at a more sustainable company.[24] Within the current market, workplace power has shifted—employees can and do reject company cultures they see as unfit. Corporate sustainability has a strong role in employee engagement, performance, and retention. Thus, businesses have incentives to implement sustainability reporting to better convey a company's environmental commitment to effectively engage with employees and the broader business community.

Sustainability Spotlight: BeatBox Beverages

BeatBox Beverages has been named the fastest-selling ready-to-drink cocktail and wine brand in the US—and they're also on track to become the most sustainable.

CarbonBetter worked with BeatBox to measure and report on its environmental impacts, inclusive of Scope 1, 2, and 3 emissions, and to implement an Environmental Management System (EMS) to track environmental performance and align 75+ employees on the company's sustainability key performance indicators.

BeatBox is already plastic-neutral and is working towards carbon neutrality by reducing emissions and purchasing carbon offsets. Learn more at carbonbetter.com/beatbox.

Proactive Reporting Is for All Companies

Some companies may choose to overlook the increasing climate risks, but many companies are already suffering from adverse, climate-related impacts. For example, extreme weather conditions can create vulnerabilities that can disrupt a company's supply chain. In 2020 alone, about $119 billion US dollars was directly lost due to natural disasters in the US alone and this amount is projected to rise.[25] And, while the world is already moving towards a decarbonized economy, these adverse climate change impacts will affect all industries big and small. Companies are proactively preparing for higher energy costs as we shift towards decarbonizing the economy, in addition to forthcoming climate statutes that can expose them to potential litigation.

Sustainability reporting can help businesses identify potential hazards and engage in opportunities to safeguard their businesses. In addition, proactive reporting can improve public image and prepare companies to effectively respond to future environmental regulations. While voluntary sustainability reporting may seem like a substantial cost initially, businesses that begin to implement these measures now will be ahead of their peers who do not, especially once carbon-emission reporting mandates are in effect. Reporting costs will likely become more expensive as these businesses scramble to catch up.

YOUR FIRST SUSTAINABILITY REPORT

In light of forthcoming regulations and the benefits of voluntary reporting, your company may consider writing its first sustainability report. When you are preparing for your initial sustainability report, there are several considerations to keep in mind.

Getting Started

- *Reporting Frameworks*

One of the main challenges complicating net-zero goals is the lack of clarity about how to measure environmental impacts. To address this issue, businesses often follow sustainability reporting frameworks and standards as outlined by international bodies. Nearly 400 frameworks for climate and sustainability disclosure have been compiled and each evaluates sustainability differently *(refer to the appendix for a summary of common standard protocols)*. Adhering to a specific framework is not required unless a jurisdiction mandates a certain framework.

Standards and frameworks offer guidance on how to structure a credible report and provide consistent information for investors and consumers across industries. Some companies may choose to use a variety of frameworks to derive a comprehensive report that appeals to a wider audience. While frameworks provide a foundation of what information your report should include, completing a report is not a matter of following a simple checklist. Rather, companies must determine what information is relevant for the business and its stakeholders.

CDP INTEGRATED REPORTING <IR> CDSB Climate Disclosure Standards Board GRI SASB

Scope of the Report

An initial step of your sustainability journey is to define the scope of your report and the strategic purpose the report will serve. Establishing your company's sustainability objectives will map out the data and resources necessary to generate the content. Additionally, investor stakeholders and participants involved in your sustainability goals can help establish the scope or extent of your report. A starting point can be conducting a materiality assessment to help determine which impacts are essential to cover.

The boundaries of a sustainability report can include, but are not limited to, direct and indirect emissions, water and energy consumption, packaging or materials selection, waste generation, and ingredient or raw materials sourcing as well as goals and improvements towards more sustainable practices.

Organizational Structure

Engage with your team about the upcoming reporting efforts and the drivers behind it. Many employees may want to be involved so they will likely need insights regarding their roles in reporting. Building a good sustainability report will involve employees from multiple departments; thus, designating a special team to support the process will improve organization. Your company should also consider whether it plans to report in-house or work with a third-party sustainability consultant. Hiring a third party to complete your reporting will ensure the scope of your report is comprehensive and verify the accuracy of the sustainability information.

Data Gathering

A significant benefit of sustainability reporting stems from sharing the impacts of your company's operations. Gathering data may be a multistep effort to collect relevant information from different entities and facets of your company's operations. Standard internal data needs can include energy bills, water bills, equipment specification sheets, fuel consumption records, and corporate travel records. Scope 3 emissions may be a larger data collection effort that involves coordination with multiple suppliers to gather their information, including but not limited to logistics data, purchase quantities, and operational process information. You will need to assess whether your suppliers have the data on hand or whether you need to assist them in the collection process.

Quantifying Your Environmental Impacts

- *Calculation Methodology*

It's important to use consistent methodologies for calculating impacts to allow for meaningful comparison over time. The most common approach for carbon accounting is through the application of emission factors. Emission factors can come from a number of sources, such as the US EPA, state databases, peer-reviewed journals, and GHG protocol guidance. When choosing the most appropriate emission factor, you should assess the geography and operational contexts of your emission sources. There is no one-size-fits-all approach to calculating GHG emissions—the formula and emission factor for calculating carbon will vary by type of emission source and the nature of your operations. Working with a third party with expertise in carbon accounting can help ensure the accuracy of your carbon emissions calculations.

- *The Final Report*

An effective sustainability report consists of more than just numbers and math. Be sure to engage your readers with a cohesive narrative structure that links your company's sustainability objectives to its performances so stakeholders can recognize the added value created. Provide context for the data points to help readers gain insights into your business operations and strategies as well as how sustainability is part of the journey. Include information about the company's background, mission, partners, and stakeholders. Providing consistent information is key to a reliable and accurate report. Include an appendix that details calculation methods and data points to support greater transparency, comparability, and accountability.

Ensuing Opportunities

Measuring and reporting on your baseline GHG inventory and making efforts towards setting and reaching decarbonization or GHG targets creates the potential for identifying unseen risks and opportunities. A GHG target can serve as a tool to achieve cost savings and stimulate innovation by driving business improvements. Prospective opportunities include identifying more efficient modes of resource usage and transport, investing in low-emission sources, buying carbon offsets and renewable energy certificates, and diversifying through new market opportunities.

Including mitigation plans within your sustainability report highlights measurable steps your business is taking to reduce its environmental impact. After the initial report, subsequent sustainability reports will be able to expand upon the baseline information, which further builds your company's credibility as a sustainable business in an economy that demands it.

TAKING STEPS TOWARDS SUSTAINABILITY

The demand for sustainability reporting is quickly evolving and growing. Soon all companies will be expected to measure and reduce and/or offset their carbon emissions across their operations whether requested by consumers and investors or mandated by regulators. Smart businesses will recognize the opportunity to prepare for future disclosures by embarking on sustainability reporting today. Further, they can start to invest in transparency and environmental resilience strategies to enhance their sustainability initiatives and improve risk management. Even with all the sustainability reporting guidance available, navigating the path forward can be confusing for companies.

- *How We Can Help*

At CarbonBetter, we believe in progress over perfection. It's not about doing everything—it's about doing something. With over a decade of experience in the energy industry, we partner with organizations to guide them in the transition to a net-zero economy. CarbonBetter's sustainability specialists work closely with partners across all industries to integrate sustainability solutions seamlessly into any business.

We'll assist you in any step of your sustainability journey: from quantifying your environmental impact to determining different methods to reduce and offset your footprint and more. CarbonBetter experts can help you choose the right reporting approaches, assure climate risk data, manage clean energy logistics, and provide strategy development on reduction methods. We believe when one company makes a move in the right direction, others will too—adding up all these sustainability actions will enable massive shifts towards decarbonization that will help save our planet.

Footnotes

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Appendix

Sustainability Reporting Frameworks

Framework	Scope	Report Coverage	Reporting Period	Notes
Carbon Disclosure Project (CDP)	Companies, regions, cities, and states	Scored mechanism based on questionnaires for three sectors: climate change, forests, and water security	Annual basis	Scoring mechanism drives improvement through benchmarks
Climate Disclosure Standards Board (CDSB)	Companies	Focus on environmental and social policies. Includes guidance on climate, water, biodiversity, and social disclosures	Annual basis	Provides e-learning courses through the Task Force on Climate-Related Financial Disclosures (TCFD) Knowledge Hub
Global Reporting Initiative (GRI)	Companies	Modular system comprised of 3 complementary series of Standards. GRI 300s encompass environmental topic specifics: biodiversity, materials, energy, water & effluents, emissions, and waste. Additional standards include governance and social considerations	Rolling	Focus on organization's sustainable development
International Integrated Reporting Framework (IIRC)	Companies	Covers eight content elements: organizational overview and external environment, governance, business model, risks & opportunities, strategy & resource allocation, performance, outlook, and basis of presentation	Rolling	Provides insight on how to allocate capital more efficiently
Sustainability Accounting Standards Board (SASB)	Companies	Separate set of standards that focuses on the industry-specific sustainability concerns. Overlooks five dimensions: environment, social capital, human capital, business model & innovation, leadership & governance	Rolling	Focus on financial material impact on the company for investor needs
Greenhouse Gas Protocol (GHGP)	Companies, cities, countries, policies, products, and projects	Consists of 2 linked standards: GHG Protocol Corporate Accounting and Reporting Standard & GHG Protocol Project Quantification Standard. Covers how to measure and calculate GHG emissions	Rolling	In-depth guidance on identifying sources and calculating greenhouse gas emissions

To bridge discrepancies between sustainability reports, in 2021 the International Financial Reporting Standards Foundation (IFRS) announced the formation of International Sustainability Standards Board (ISSB) with the intention of creating a common, global approach for sustainability reporting. The ISSB is backed by the CDP, CDSB, GRI, IIRC, and SASB. The ISSB standard has not yet been issued.

ABOUT CARBONBETTER

CarbonBetter is a privately held firm specializing in sustainability and decarbonization services, clean energy and carbon offset project consulting, and energy logistics. We're a creative and diverse team tackling the complex climate challenges that are changing our world by helping organizations transition to a net-zero future—accelerating the societal shifts that will save our planet. We're proud to be a certified minority-owned business. Learn more at carbonbetter.com/about

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