The Payne Institute for Public Policy
COLORADO SCHOOL OF MINES
EARTH • ENERGY • ENVIRONMENT

PAYNE COMMENTARY SERIES: **COMMENTARY**

Corporate ESG Commitments are Gaining Popularity. Can They be Trusted?

By Elsa Barron, Jordy Lee, and Morgan Bazilian

Growing concerns about the long-term sustainability of many industries have led to big changes in approaches to corporate strategies and management. Pressure from financiers is adding to the momentum. Concerns about climate-related financial risks and environmental, social, and governance (ESG) data, have helped create demand from bankers for companies to show that they are actively working towards global climate goals. From enacting policy changes to purchasing carbon offsets, corporations and their shareholders are more aware than ever that remaining competitive requires a concrete commitment to sustainability. But can those commitments be fully trusted?

Many companies have already committed to more sustainable practices. The Climate Pledge is one example that allows companies to sign on to reach net-zero emissions by 2040. In 2021 alone, the pledge garnered nearly two hundred signatories from a diverse array of companies such as HP, Visa, and Johnson Controls. In fact, half of the world's largest companies (G250) have announced emissions targets or 'net zero' commitments.

Yet despite these well-intentioned investments and corporate pledges, it is becoming clear that there is a disconnect between word and deed when it comes to emissions reductions. "Greenwashing" has become so rampant that the EU estimates that 42% of online environmental claims are "exaggerated, false or deceptive," and might even violate commercial practices. Similarly, the Boston Consulting Group found that over 90% of firms aren't measuring their emissions correctly, and might have an error rate of as much as 40%. And while half of the world's largest companies have climate pledges, only 17% have disclosed a strategy for actually meeting those goals.

The desire for corporate sustainability is real, and there are clear benefits to going green. However, the challenges start where the work begins: with the numbers. Ultimately, there needs to be better

environmental data and easier ways for that data to be verified. Unfortunately, getting accurate data can be harder than one might assume.

The majority of ESG data on corporate activities comes from the companies themselves in the form of sustainability reports and environmental disclosures. However, there is no standardized format for sustainability reports, and companies have a lot of discretion in how they wish to relay information about their activities. Many reports are filled with minimal numbers and have an overwhelming focus on the firm's positive achievements. When hard data is presented, there is no requirement for the company to explain how they sourced the data, or if their methods and measurements are comparable to those used by other companies.

There are a plethora of ESG tools and guidelines (e.g., the Global Reporting Initiative, the Greenhouse Gas Protocol, the Task Force on Climate-Related Financial Disclosures), which are meant to help companies report on their impacts, but without clarity about the differences between these reporting mechanisms, it becomes challenging to compare one company's baseline to another's - or to understand what compliance with environmental disclosures means.

Many companies also do not know how detailed their reporting should be, or what values are acceptable to estimate. This means that even if companies are making the same products, they will likely have very different ideas of what emissions they need to report as part of their environmental disclosures.

For example, under the GHG Protocol, companies are expected to report on the emissions from "Use of Sold Products". This is important for commodities like fossil fuels where most of the emissions are released during combustion- after the company has already sold the product. However, for other commodities, many companies disagree on how far down their supply chain they are supposed to be investigating. Are copper companies supposed to research and account for the greenhouse gasses associated with every finished product that uses copper? How far down their supply chain should they investigate if copper is infinitely recyclable? Should they make a general estimate?

Differences in how companies answer these questions mean that even if companies are making the same copper products, they will likely have very different ideas of what emissions they need to report as part of their supply chains, and how those emissions should be calculated. BHP, one of the world's largest mining companies, frequently mentions the need to double count some of their reported emissions because there is a "degree of overlap in reporting boundaries." On the other hand, Freeport, another major copper company, often forgoes reporting on many downstream emissions categories altogether, stating that they are not relevant to their operations.

With some companies double-counting, and others ignoring entire categories of emissions reporting, it is clear how the current system can lead to concerns about inconsistency and inaccuracy. In fact, if

Freeport were to implement BHP's reporting methodology, their reported downstream (Scope 3) emissions could be 64 percent higher. That's a large discrepancy.

So, what can be done to improve the situation and increase transparency for companies, investors, and consumers?

The first step is to help companies understand what data should be recorded and how it can be sourced responsibly. There are numerous lifecycle assessments, academic studies, and industry reports that can help identify what each industry and company should include in their greenhouse gas disclosures. Harmonizing this data with robust industrial research can ensure that companies know what data they should be reporting.

Second, data sharing is another powerful tool, especially for companies that are making nearly identical products. There needs to be communication and agreement within industries on what data is important to include. Companies need to be brought into the standards-making process. Once there is agreement on what should be reported and how the data should be collected, then, it will be possible to accurately compare companies and evaluate the real emissions progress.

Once these steps are put in place, investors and consumers can have greater assurance that their decisions really will have the impact that they intend. If preventing climate change is the goal, emissions reporting is the map to get us there. Having a standardized legend for drawing that map is key.

The Payne Institute for Public Policy

COLORADO SCHOOL OF MINES
EARTH • ENERGY • ENVIRONMENT

ABOUT THE AUTHORS

Elsa Barron
Communications Associate, Payne Institute for Public Policy

Elsa Barron is an Environmental Journalist at the Payne Institute for Public Policy. Her writing has been published in the Wall Street Journal, the Hill, and the Chicago Tribune, amongst others.

Jordy M. Lee
Payne Institute Program Manager

Jordy Lee is a Program Manager at the Payne Institute for Public Policy at the Colorado School of Mines. He is currently aiding to develop public policy initiatives on the materials of the energy transition and the future of oil & gas. He also represents School of Mines in the development of a carbon accounting framework for the mining industry.

Morgan Bazilian
Director, Payne Institute and Professor of Public Policy

Morgan Bazilian is the Director of the Payne Institute and a Professor of public policy at the Colorado School of Mines. Previously, he wD.as lead energy specialist at the World Bank. He has over two decades of experience in the energy sector and is regarded as a leading expert in international affairs, policy and investment. He is a Member of the Council on Foreign Relations.

The Payne Institute for Public Policy

COLORADO SCHOOL OF MINES
EARTH • ENERGY • ENVIRONMENT

ABOUT THE PAYNE INSTITUTE

The mission of the Payne Institute at Colorado School of Mines is to provide world-class scientific insights, helping to inform and shape public policy on earth resources, energy, and environment. The Institute was established with an endowment from Jim and Arlene Payne, and seeks to link the strong scientific and engineering research and expertise at Mines with issues related to public policy and national security.

The Payne Institute Commentary Series offers independent insights and research on a wide range of topics related to energy, natural resources, and environmental policy. The series accommodates three categories namely: Viewpoints, Essays, and Working Papers.

For more information about the Payne Institute please visit:
https://payneinstitute.mines.edu/

or follow the Payne Institute on Twitter or LinkedIn: