World Development Movement

Mandatory Carbon reporting – a short guide

What is mandatory carbon reporting?

The principle behind mandatory carbon reporting is simple. While companies include information about their profitability and the general progress of their business in their annual reports, not all companies report their CO_2 emissions.

At the Rio+20 summit in June 2012, Nick Clegg announced that all listed UK companies would be required to report their carbon footprints. However, the actual proposals that are going to be implemented in October 2013 fall short of what would be needed to expose the true impact of UK companies on global CO_2 levels.

Why is WDM calling for 'financed emissions' to be included in mandatory carbon reporting?

WDM's Carbon Capital campaign is focussed on the role of the UK financial sector in bankrolling climate change. WDM is concerned that the government's current plans for mandatory carbon reporting will not force banks and other financial sector companies to disclose their fossil fuel investments.

As things stand, listed UK companies will only have to report their 'scope I and scope II' emissions. What this means is that companies will have to report what they emit directly (scope I), which includes emissions from company owned power stations or vehicles, and what they emit indirectly through their use of electricity (scope II). What the current plans will not do, is force companies to report their 'scope III' emissions, which are the emissions that are caused indirectly by company activities. Scope III includes many things like the emissions caused by staff travelling to work in their own cars or the emissions emitted in the extraction of the raw materials used by the company. But it also includes what is called 'financed emissions' – carbon produced as a result of a company's financial investments.

So, the current plans for mandatory carbon reporting will force banks to disclose the carbon footprint of things like the lightbulbs in their offices and the petrol used by company cars (something they are generally happy to do anyway), but banks will not have to account for the true impact of ploughing billions of pounds every year into fossil fuel projects that are having devastating effects on people in developing countries.

In a world in which climate change is already being felt by the poor in the global south, WDM is calling for these financed emissions to be included in mandatory carbon reporting so that banks have to face up to their responsibility for climate change.

How will transparency on financed emissions make a difference to the poor in the global south?

WDM does not see transparency as an end in itself. Transparency is only a first step towards the radical change we believe necessary to curb emissions and prevent disastrous climate change claiming lives in the global south. But expanding mandatory carbon reporting to encompass investment activities will allow us and our allies in the south the opportunity to show the true extent of the UK financial sector's involvement in bankrolling climate change. Full information may also open the door to possible regulation of banks' carbon investments further down the line.

Full transparency on companies' high carbon investments will also make it easier for ordinary customers to see where their money is going and help expose UK companies involved in damaging high carbon projects in developing countries

How are financed emissions calculated?

There is no cast iron agreement about how to calculate the carbon footprint of investment portfolios but methods have been developed by a number of organisations such as Trucost. The basic principle is usually that if you own 15 per cent of a company, you are also responsible for 15 per cent of that company's emissions. Problems do arise, however around the 'double counting' of the same emissions depending on the method used. The exact definition of scope III emissions can also slightly vary, although even the Greenhouse Gas Protocol (which has received funding from Shell, Texaco and a host of other oil companies) defines it to include both investments and underwriting activity by banks of bonds and equity issues.

Who is in charge of implementing mandatory carbon reporting?

Mandatory carbon reporting does not require new primary legislation and is being implemented under the powers granted by the Companies Act to the secretary of state with responsibility for business, currently Vince Cable. In practice, mandatory carbon reporting will be enforced by the Financial Reporting Council, whose chair is appointed by the secretary of state.

Time is running out to persuade Vince Cable that banks need to face up to their responsibility for climate change. Mandatory Carbon Reporting for listed companies will be introduced in October. A government consultation on the issue was held but strong calls for scope 3 emissions to be included have gone unheeded (all but two of the 1,666 individual respondents to the consultation called for scope 3 to be included). It's time to step up the pressure to ensure that banks no longer get away with bankrolling fossil fuels.