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PERSPECTIVES

Carbon Management: Issues in Greenhouse Gas Management

Our perspectives feature the viewpoints of our subject matter experts on current topics and emerging trends.

INTRODUCTION: NAVIGATING THE COMPLEXITIES OF CARBON MANAGEMENT

Companies in all industries are faced with increasing pressure to define their corporate approach to climate change and greenhouse gas (GHG) reduction, disclose GHG numbers, and manage a flurry of ESG acronyms and reporting bodies. A growing list of stakeholders, including regulators, investors, bankers, insurance companies, NGOs, and the public, are demanding greater transparency of and corporate commitments to environmental performance.

The forthcoming 2024 SEC GHG reporting regulation—which will likely follow the California Bill SB253 and EU CSRD regulations—is widely considered the biggest change driving ESG and Carbon Management complexity in the new year. These regulations mandate reporting of scope 1, 2, and 3 GHG emission inventories, and strict assurance audits. But what does this mean for those impacted?

In this article we will discuss likely impacts on organizations and provide a high-level strategic checklist for responding effectively. The following information may be of particular interest to professionals in industrial sectors, companies who sell directly to the public, and any companies traded on North American or European stock exchanges.

WAYS THE 2024 REPORTING REQUIREMENT MAY IMPACT YOUR ORGANIZATION

The regulations referenced above mandate increasingly stringent and audited reporting requirements. The new requirements create several critical risks and impacts to organizations across industries:

1. **Compliance Impacts.** Lack of understanding, lack of data, or lack of time to produce the necessary compliance reports may result in painful experiences for reporters, potential penalties, and difficult regulatory relationships. The regulations create a significant additional burden for GHG reporting and compliance professionals.

2. **Operational Impacts.** In response to these reporting pressures, most organizations are responding with changes to various parts of their organizations to reduce GHGs over time. For heavy industry these changes can be material to operations, while for other sectors, such as technology, it may be easier to adjust to these expectations. Whatever the industry, increased reporting transparency is a tool that stakeholders will use to gain an understanding of an organization's exposure to climate risk and emission of GHGs.

3. **Carbon Cost Impacts.** Organizations in different industries and regions may see different impacts (depending on their carbon profile) and expectations placed upon them. Scope 3 is an important emerging issue, quantifying the GHGs embedded in an organization's supply chain. As regulatory incentives mature and expand, many companies will find opportunities to reduce GHGs and, in some cases, create entirely new profitable business lines to mine carbon value in addition to their normal operations.

4. **Reputational Risks & Opportunities.** Depending on the specific nature of your business there are risks and opportunities to be explored in how you present your business publicly. Consumer-facing businesses and heavy industry can defend brand value, and create additional opportunities, by having a clear corporate position and plan around carbon.

DEVELOPING A CARBON STRATEGY

There are several things to consider when developing a carbon strategy, informed by your organization's unique context, and an executable plan to deliver value to your organization. As a first step, sustainability professionals should consider the following:

- **Regulatory exposure analysis.** Understand which regulations apply to which components of your business and exactly what the obligations are.
- **Customer analysis.** Think about whether your brand value is related to your customer's opinion of your business's climate impact.
- **Competitor analysis.** Review your competition's statements and plans.
- **Corporate positioning, plan, and narrative.** Develop a corporate position, a plan to meet any commitments, and a narrative to communicate.
- **Greenhouse gas baseline.** Develop a baseline of your GHG emissions in a business-as-usual scenario and look at historical emissions, if possible.
- **Specific carbon reduction opportunities.** Review your operations for reduction opportunities, associated capital projects, and operational impacts.
- **Greenhouse gas reporting process.** Develop a transparent, repeatable, well-documented, and controlled process to calculate and report GHGs.
- **Greenhouse gas assurance.** Prepare for and retain an auditor to verify your GHG reports.

CONCLUSION

The climate change issue and the exposure to associated risks and business opportunities continue to evolve and expand quickly. The interdisciplinary nature of this issue, bringing together compliance, finance, operations, and technology teams, means that many businesses have difficulty finding the right resources to develop successful strategies and plans to address carbon. Therefore, it is advisable to seek the appropriate experts in compliance and sustainability early on, enlisting consultants and other outside professionals with experience in matters that involve multiple disciplines, teams, organizational divisions, and/or segments which an organization is not already fully prepared to manage on its own. However, addressing carbon management and having the appropriate strategies in place can also bring benefits to your company's bottom line.

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REFERENCES

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