

GHG emissions disclosure: mixing it up

Lessons from the good, the bad and the ugly of CAC-40 reporting



Company accounting for greenhouse-gas emissions is central to non-financial reporting but likely to defy easy comparisons among issuers and sectors until the reliability and standardisation improves hugely from today's uneven disclosure.

The inconsistency of disclosure and the GHG-reduction goals of companies that make up France's benchmark CAC-40 stock market index points to the broad Europe-wide ESG challenge ahead for fund managers and corporate executives.

Large reporting gaps exist on indirect GHG emissions, the so-called scope-3 category. The CAC-40 companies are a good disclosure sample as they include some of the world's biggest by sales in various sectors: aircraft making, car making, luxury goods, oil & gas, pharmaceuticals, steel making and tyre making among others. The gaps in disclosure are not dissimilar to those of companies that make up the benchmark DAX-40 index in Germany.

Five identifiable categories of CAC-40 GHG disclosure

CAC-40 companies can be grouped broadly by disclosure into five groups: good, mostly good, indifferent, poor and negligible.¹

The first group offers detailed disclosure and large coverage of sector-relevant emissions: Compagnie de Saint-Gobain SA, Legrand SA, L'Oréal SA, Michelin SA, Sanofi SA, Schneider Electric SE. The second group provides limited detail across GHG-protocol categories but good coverage of those relevant to their industry: Thales SA, Vinci SA, Airbus Group, Orange SA and Carrefour SA.

The third group of service-related companies offers detailed disclosure across some GHG-protocol categories but limited coverage of downstream-related emissions or contribution to emission avoidance in the use of their sold products: Worldline SA, Eurofins Scientific SA, Publicis Groupe SA, Vivendi SE, and Capgemini SE.

The fourth group provides insufficient coverage of the relevant GHG disclosure categories and limited detail overall: STMicroelectronics NV and EssilorLuxottica SA.

Finally, a fifth group – excluded from our study – is made up of financial institutions. Only one of four CAC-40 listed companies (Crédit Agricole SA) reports on scope-3 emissions from their investments which is overwhelmingly the most important category for them.

As for GHG emissions-reduction goals, the targets set by CAC-40 companies differ widely which makes it hard to compare one firm's targets with another's. Corporate ambitions for emissions-reduction also vary considerably depending on how easily a company's business model allows it to adjust to carbon-neutral output.

GHG reporting leaves investors grappling with double jeopardy

Our first conclusion is that corporate climate-related disclosure is far from being uniform and standardised even under the regulatory impulse of the European Union – through the Sustainable Finance Disclosure Regulation (SFDR) coming into force next year and Corporate Sustainability Reporting Directive due in the financial year 2024.

Secondly, until that is the case, asset managers need to remain wary of designing climate-linked investment portfolios that claim to be green, not least because GHG disclosure can vary significantly among companies even within the same sector.

¹ We consider only publicly reported emissions from non-financial reports, universal registration documents, self-published CDP tables, investor presentation or the company's website.

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CO₂-intensive sectors have most comprehensive GHG disclosure

Most CAC-40 materials producers and manufacturers have good GHG-related disclosure due to extensive reporting on emissions from purchased inputs and use of sold products. These are the most relevant dimensions for the companies' own emissions due to the energy-intensive materials used and energy-intensive uses to which the products are put.

Mixed disclosures from services and sectors

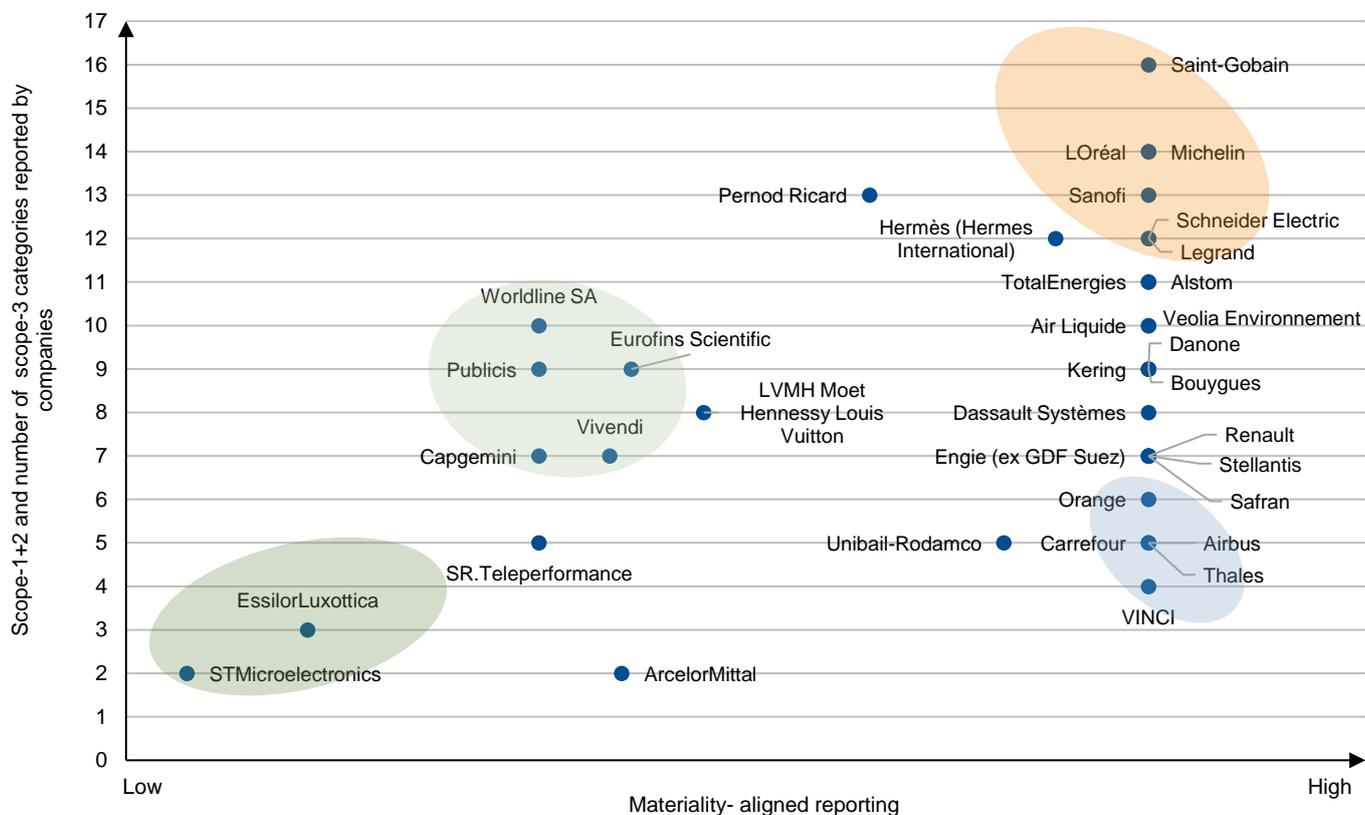
Mixed disclosure performance is seen across other less emissions-intensive sectors, such as retail, real estate, luxury good providers and services.

Most of the companies on the left-hand side in **Figure 1** report partially on scope-3 emissions, some missing out relevant emissions from the use of sold products, such as energy consumption over life-cycle use (running electrical equipment, etc.). Non-reported scope-3 emissions from use phase are especially important to semiconductor producer ST Microelectronics, or service provider SR Teleperformance.

For the CAC-40's food and drink producers and retailers, the picture is also mixed. Dairy products supplier Danone reports most of its emissions in the category purchased goods and services. This leads to a high ranking in the reporting quality assessment given the importance of GHG emissions in agriculture. Supermarket operator Carrefour has also stated the importance of their scope-3 footprint (98% of total emissions) and provided publicly available figure in previous reporting, while no detailed figures were published on the relevant categories for financial year 2021.

Figure 1: Hit and miss: precision of GHG reporting (2021) widely dispersed among CAC-40 non-financial companies

Number of reported categories (y-axis) and materiality-alignment (x-axis)



Note: We have excluded financial institutions due to non-reported data
Source: Annual, Integrated and/or Sustainability Reports 2021, own calculations

Financial sector provides limited data on financed emissions

Among the companies not reporting on GHG emissions, we find that banks and insurance companies are least likely to report across all scope dimensions. While most of the scope-1-3 categories are less relevant for financial institutions, the most important information relates to emissions from investment. Among CAC-40 banks BNP Paribas SA, Société Générale SA, Crédit Agricole SA and insurer AXA SE, only Crédit Agricole reports on scope-3 from investments, i.e., the volume of financed emissions. In the remaining companies, reporting is limited to investments in fossil fuels and other carbon-intensive industries.

Just 19 of CAC-40 companies report on scope-3 emissions

Large gaps in overall scope-3 reporting by CAC-40 companies

Looking at the distribution of reported emissions across the scope-1, scope-2 and scope-3 dimensions, most CAC-40 disclosure is of scope-3 downstream emissions with 74% of the overall reported volume (**Figure 2**).

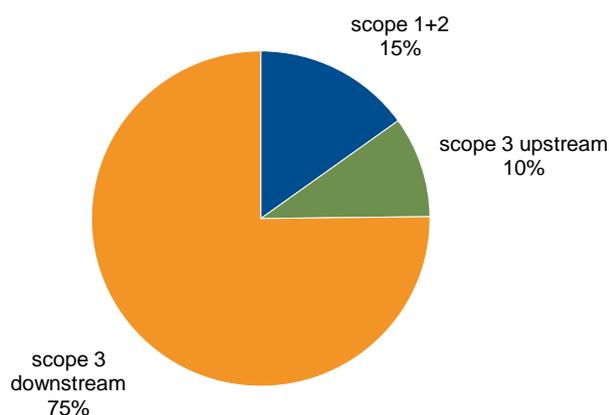
However, the comprehensiveness of that reporting remains limited – and not just in the financial-services sector. Just 19 of the 40 CAC-40 companies report on the most relevant downstream category in 2021, namely use of sold products, whereas 30 companies reported on the most relevant upstream category, namely purchased inputs.

Except for banks BNP Paribas and Société Générale, all CAC-40 companies reported on at least one scope-3 category. Yet emissions in categories such as employee commuting and business travel are negligible compared with indirect emissions from imported inputs or use of sold products. Disclosure on many, if not all, scope-3 categories requires significant work by management. The complexity increases in inverse proportion to the amount of corporate control over the relevant emissions category.

For reporting both on purchased inputs and use of sold products, a company needs information from suppliers as well as from intermediate and final users of its products. The larger the product portfolio, for instance in the chemical industry, the more complex becomes the scope-3 reporting.

Figure 2: Sources of reported GHG emissions

Share of total reported emissions among CAC-40



Source: Annual, Integrated and/or Sustainability Reports 2021

Lifecycle emissions important metric for investors

Another important distinction in reporting refers to lifecycle emissions. Downstream emissions are reported across the full lifecycle the engines and electrical equipment made by the likes of Alstom and Schneider Electric. In contrast, energy companies account only for their sold oil and gas products in the reporting period.

Yet lifecycle accounting is important for investors as a company can lock in emissions with its product for many years, even though working out how much is subject to a good

Long tail of reported CAC-40 GHG emissions

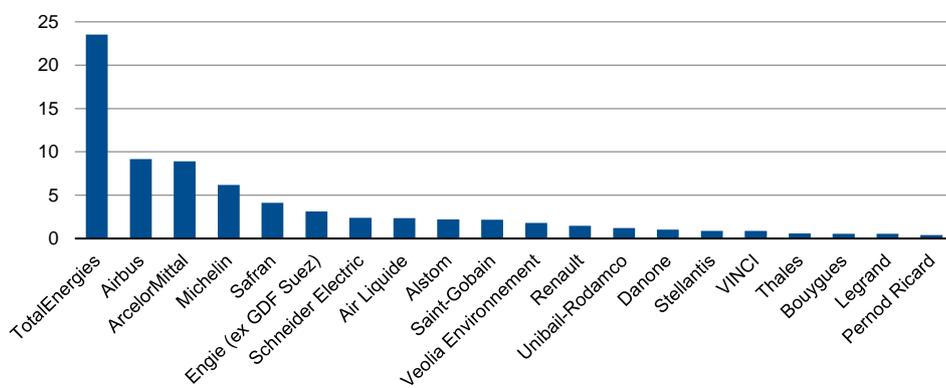
deal of uncertainty and inconsistency given the multiple assumptions for the energy mix, expected product lifespan and so forth.

GHG footprint skewed heavily to aircraft, energy sectors

Patchy as the CAC-40 data is, it does help show the uneven distribution of GHG emissions across industry. TotalEnergies is by far most exposed to carbon emissions in its business model with 22 tons of reported CO₂-equivalents per EUR 1,000 of revenues. Even though the company is also a large renewables producer with 10 GW of installed capacity, its revenues from renewables make up less than 3% of total revenues, which remain dominated by upstream oil and gas products.

Figure 3: Carbon intensity among CAC-40 companies

Tons of CO₂-equivalents per EUR 1,000 of revenues



Source: Annual, Integrated and/or Sustainability Reports 2021

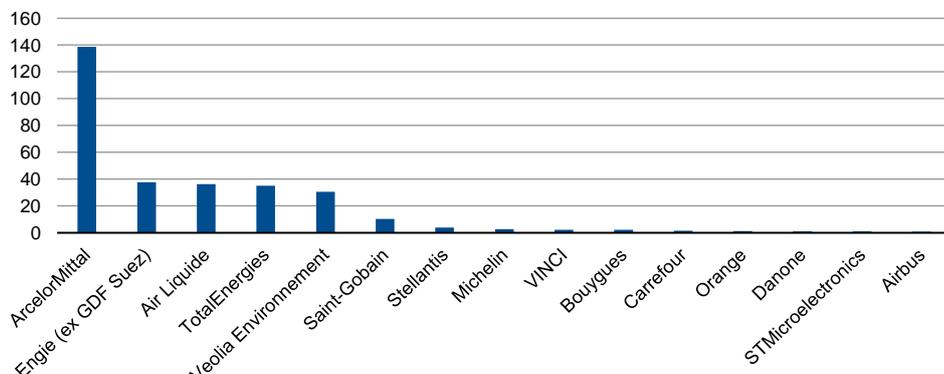
Airbus's footprint is also considerable as one of the world's two leading aircraft makers. Other emissions-intensive business models are found in the materials industry such as steel maker ArcelorMittal, followed by manufacturers of engines and electrical equipment.

Direct GHG emissions account for 15% of CAC-40 total

Direct emissions (scope-1) and electricity use (scope-2) account for only 15% of total reported emissions among CAC-40 companies (Figure 4). Discrepancies in reporting scope-1, -2 and -3 emissions across companies shows the importance of incorporating all dimensions of direct and indirect emissions in ESG assessments.

Figure 4: Direct emissions among CAC-40 companies

Million tons of CO₂-equivalents (scope-1, scope-2 emissions)



Source: Annual, Integrated and/or Sustainability Reports 2021

SBTi used for temperature alignment for own emissions

Large differences in GHG reduction targets

Companies are increasingly defining emission reduction targets. Most of the CAC-40 use the science-based targets initiative (SBTi) to ensure external verification of alignment with climate goals such as the 1.5-degree temperature objective.

The SBTi provides valuable information on companies' alignment with temperature objectives, but initiative refers only to direct emissions, not scope-3 emissions, where alignment is harder to assess and verify. Assigning responsibilities to reductions of indirect emissions is especially difficult when the link to related emissions is not clearly identifiable (such as origin of raw materials) or companies cannot track the ultimate use of their products.

Only four companies lack quantitative CO₂ reduction target

Only four CAC-40 companies have not defined an explicit quantifiable scope-1 and scope-2 target for their greenhouse gas emissions while seven have not defined scope-3 targets. Also, the targets themselves vary in size (7-100%), timetable (2025-35), base year (2015-2018), and relevant business segments. Some companies, including the banks, have not defined explicit scope-3 targets while reporting quantitative targets on product or industry level. Most companies have more ambitious plans for carbon reductions in own operations (unless they belong to the high direct emitters) (**Figure 5**).

GHG reduction targets differ widely among companies

Some companies have defined absolute reduction targets while others plan with relative targets (often related to the carbon intensity on product level). Many companies have published quantitative targets and pathways to reduce their direct and indirect exposure to GHG, but the targets differ widely across companies and make it hard to compare with each other.

Hard to compare targets

Companies with ambitious reduction targets across the different scope dimensions are more likely to have less exposure and/or face lower cost of making the transition to more sustainable business models. Accordingly, it is difficult to assess ambition levels of companies by just comparing the targets.

Producing green steel or cement and net-zero aircrafts continues to be a greater challenge than replacing fossil energy by renewables. Also, tracking of indirect emissions remains a greater challenge for financial institutions than for a materials producer. Accordingly, a proper assessment of reduction targets requires a combination of absolute and industry-specific analysis and benchmarking.

Multiple approaches to reporting on saved, avoided emissions

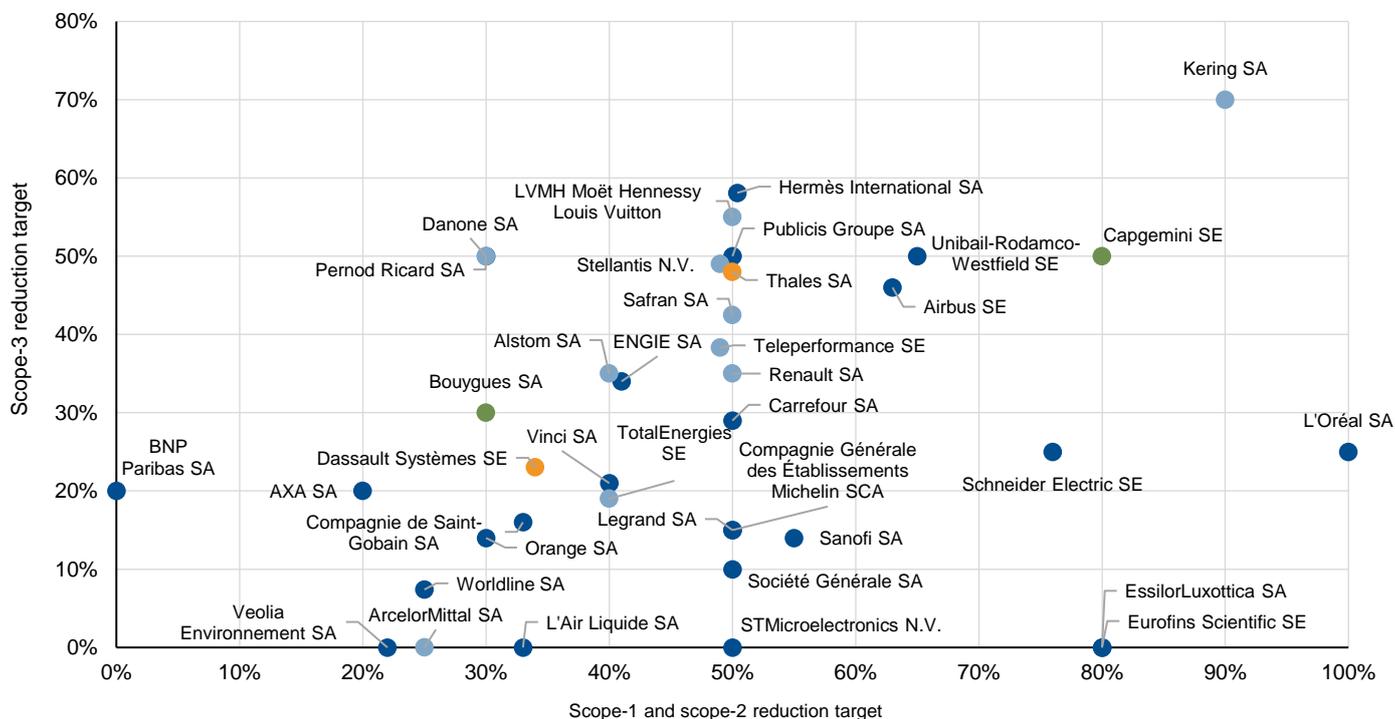
Several companies in the CAC-40 also report avoided or saved emissions related to their products.

Reporting on avoided emissions is inconclusive and inconsistent

The rationale behind the calculation of avoided emissions is to estimate potential energy savings in using a more energy-efficient product or technology compared with a benchmark product or technology or a hypothetical case with no alternative technology available.

These calculations are important in the context of alternative transport (i.e., production of rolling stock, rail infrastructure) or renewables production. In other industries, avoided emissions need to be put in the context of their ultimate use in combination with other products or technologies.

Figure 5: Quantitative carbon reduction targets among CAC-40 companies by 2030



Source: Scope ESG Analysis GmbH; Annual, Integrated and/or Sustainability Reports 2021/2022

Notes: light blue dots denote companies whose scope 3 reduction targets are relative (e.g. per vkm/veh/pkm, per FTE, per unit of value added, etc.); orange dots indicate companies whose scope 3 reduction target only applies to non-material categories (e.g. business travel, employee commuting etc.); green dots indicate companies whose scope 3 reduction targets only apply to upstream emissions from purchased goods and services.

Essilor Luxottica SA and Eurofins Scientific SE have not communicated absolute reduction targets but committed to become climate neutral in their operations (scope 1 & scope 2) by 2025.

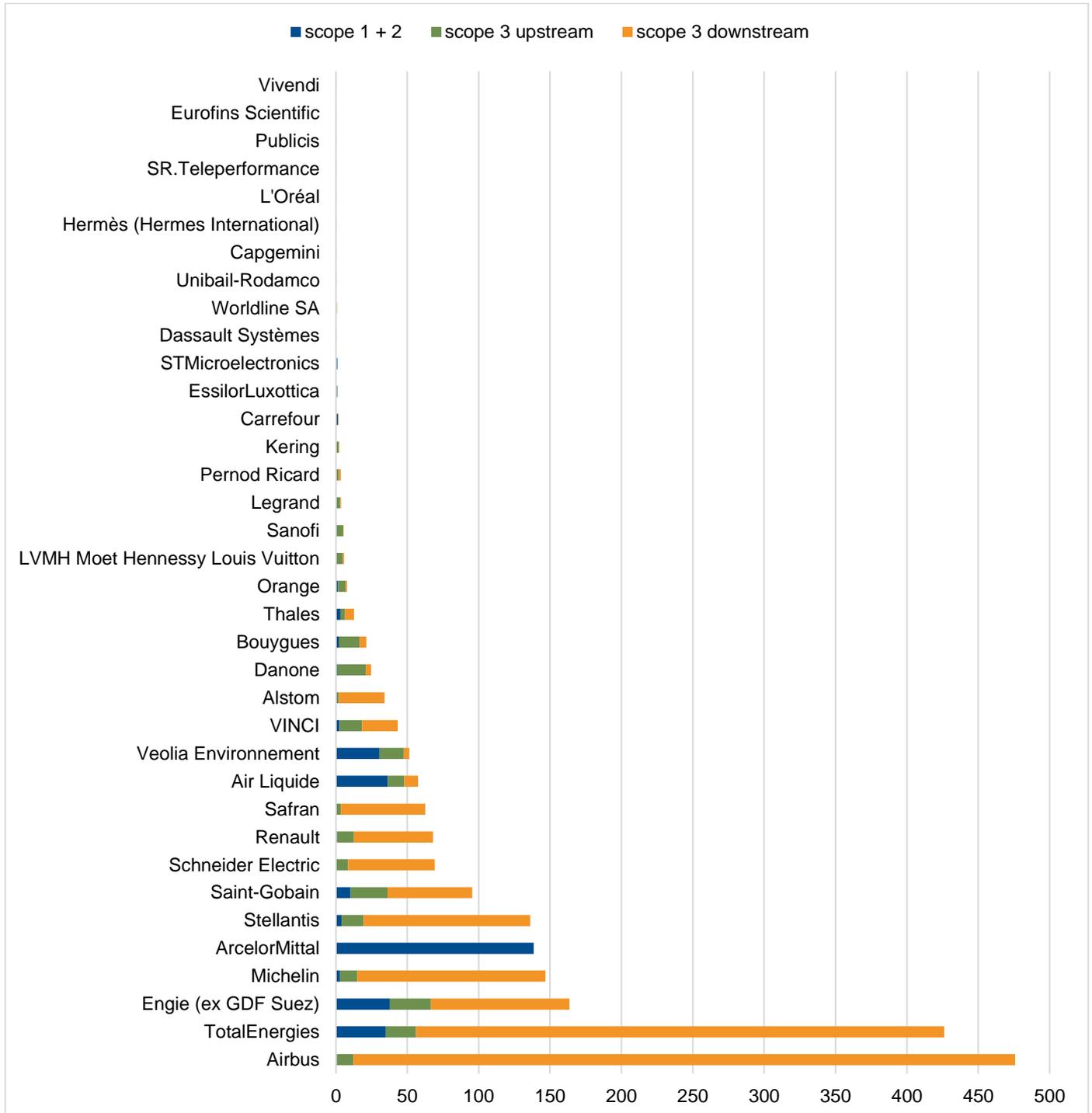
Today, there is yet no common methodology to account for avoided emissions systematically across sectors. Instead, companies are using different approaches and benchmarks for accounting for avoided emissions. This mixture of methodologies and approaches within and across industries creates another opacity in the accounting of greenhouse gas emissions.

See page 6 for chart of self-reported emissions of CAC-40 companies in 2021

Appendix.

Figure A1: Self-reported GHG emissions of CAC-40 companies in 2021

in million tons of CO₂-equivalents



Source: Annual, Integrated and/or Sustainability Reports 2021



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