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Trucost by S&P Dow Jones Indices ESG Analysis

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Corporate Carbon Disclosure in Asia-Pacific

Asia-Pacific (APAC) firms quantify supply chain risks, set science-based targets, and implement internal carbon pricing.

EXECUTIVE SUMMARY

Trucost, part of S&P Dow Jones Indices, assessed the trends in corporate disclosure of carbon emissions to see how companies are managing risks in three important areas: quantifying supply chain carbon emissions, setting meaningful emission reduction targets, and pricing carbon to understand the current and anticipated financial implications of impending regulatory and policy measures. The headline findings include the following.

- In 2017, APAC businesses continued to expand their carbon reporting to all-time highs, rising 22% since 2016 and 32% since 2014. However, this reporting varied greatly in terms of depth and breadth.
- Many corporations, particularly in the health care and financial services sectors, do not fully track the carbon sources that are most material to their business activities.
- APAC companies lag global companies in modeling Scope 3 emissions to simplify their carbon calculations.
- Companies in APAC are increasingly setting science-based targets that will cut emissions in line with international efforts to limit global warming to 2 degrees Celsius.
- Nearly one-half of APAC companies have set or plan to set an internal price on carbon to help understand the risks and opportunities of the transition to a low-carbon economy.

INTRODUCTION

Trucost analyzed environmental data submitted by companies to the CDP annual climate change questionnaire. Trucost compared data for 2017 with previous years to identify trends in carbon management and reporting, focusing on companies in APAC. The analysis covered emissions from company operations and use of electricity (Scopes 1 and 2, respectively), as well as value chain emissions (Scope 3) as classified in the Greenhouse Gas (GHG) Protocol.[1]

INSIGHTS

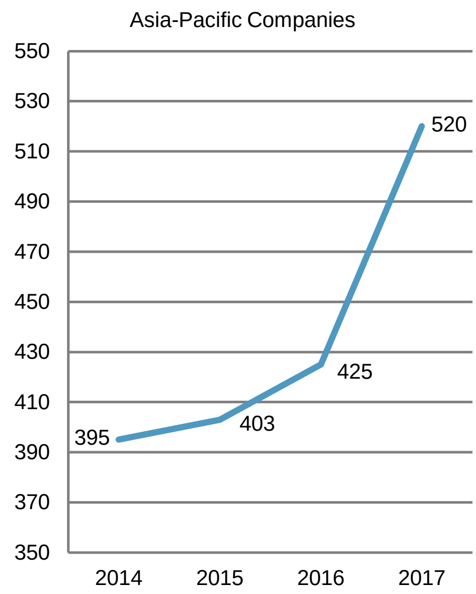
Carbon Disclosure Continues to Grow

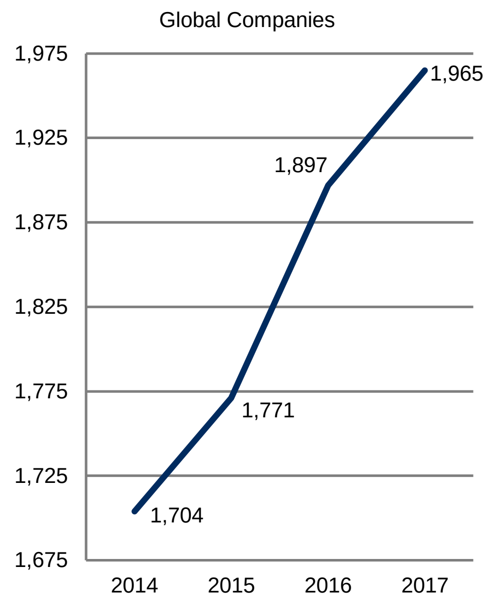
The number of companies completing the CDP climate change questionnaire continues to increase.

The number of companies completing the CDP climate change questionnaire continues to increase. For 2017, over 1,900 global companies responded to the CDP's data request. However, a huge gap persists: CDP responders represent a small fraction of all publicly listed companies—just 4% of global corporations.

In 2017, APAC companies accounted for 520 CDP responses—over 25% of global reporting. As reflected in Exhibit 1, disclosure among APAC businesses rose 22% since 2016 and 32% since 2014.

Exhibit 1: Growing Number of Companies Disclosing Their Carbon Emissions





Source: Trucost. Data as of June 2017. Charts are provided for illustrative purposes.

[1] GHG Protocol Corporate Accounting and Reporting Standard available at http://www.ghgprotocol.org/corporate-standard.

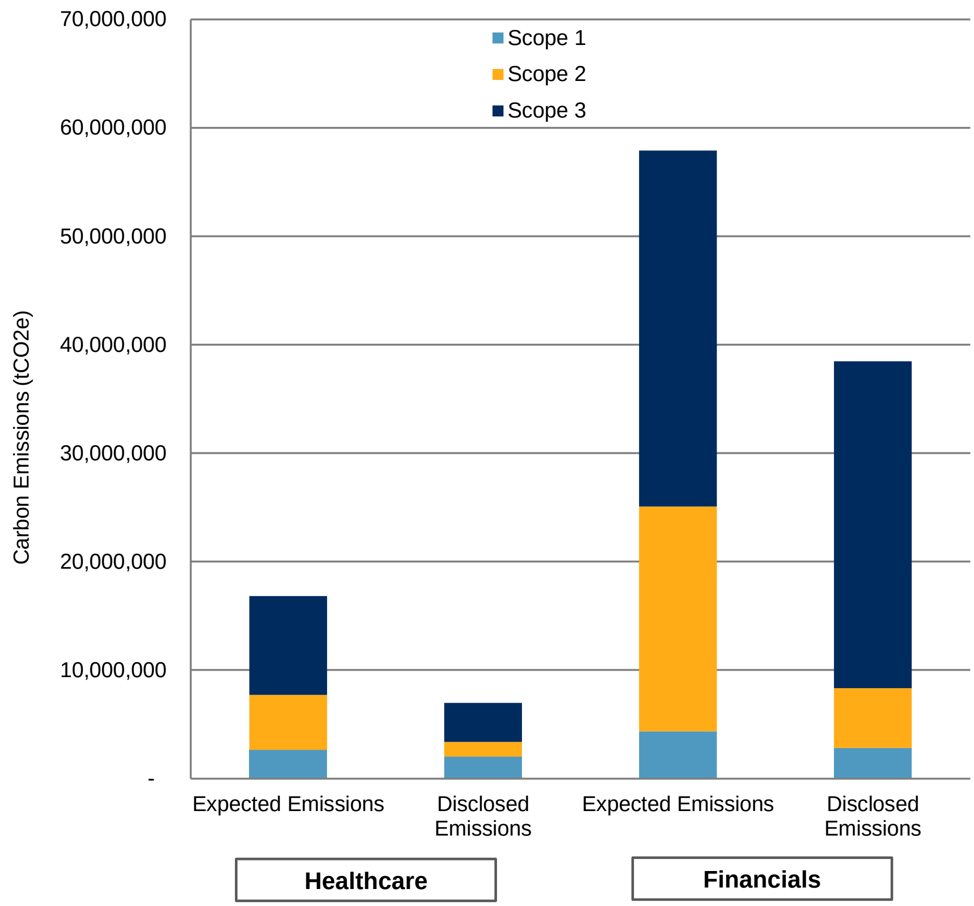
Some Sectors Underreport Carbon Emissions

Companies disclosing emissions represent a diverse set of industries and sectors.

Companies disclosing emissions represent a diverse set of industries and sectors. The sectors accounting for the greatest percentages of responders were financials and industrials (16% of APAC respondents), materials and information technology (15%), industrials (14%), and consumer discretionary (13%).

However, Trucost's analysis suggests there are significant gaps in emissions disclosures. Exhibit 2 compares the extent of disclosed emissions with expected emissions by sampling company data within two APAC sectors. Among companies in the health care and financials sectors, expected emissions greatly surpassed disclosed emissions—both for total quantities and many individual scopes—with Scope 3 emissions being of notable concern.

Exhibit 2: APAC Companies Disclosed Carbon Emissions Relative to Expected Emissions



Source: Trucost. Data as of June 2017. Chart is provided for illustrative purposes.

More Companies Disclose Supply Chain Emissions From Purchased Goods and Services

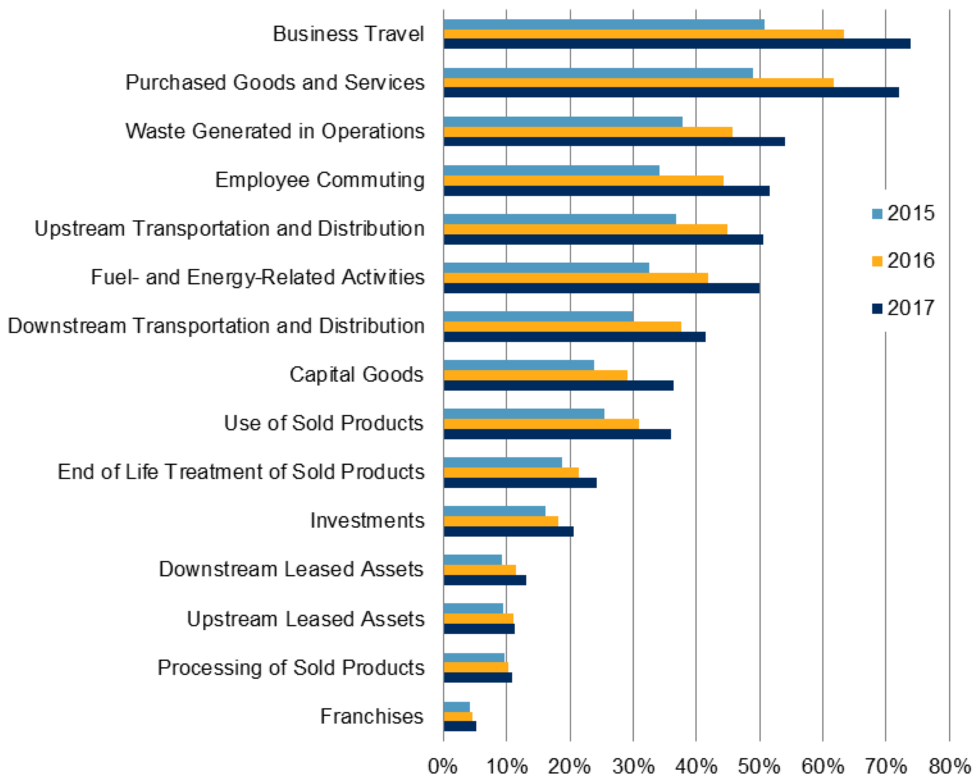
Businesses are increasingly reporting on supply chain Scope 3 emissions to quantify and manage their most material value chain impacts. Exhibit 3 captures the variety of Scope 3 categories being disclosed by APAC companies as percentages of the region's CDP responders, as well as the change in prevalence among categories over time.

Exhibit 3 shows that 70% of APAC firms continue to identify business travel as a material source of carbon emissions. However, categories such as purchased goods and services, employee commuting, and waste generated in operations have clearly grown in importance since 2015.

Trucost recommends that companies consider measuring and disclosing all relevant Scope 3 categories.

These findings underscore shifting trends in corporate disclosure, likely due to perceptions of changing stakeholder concerns, as well as enhanced data gathering capabilities for previously underreported categories. Trucost recommends that companies consider measuring and disclosing all relevant Scope 3 categories, which we define as being 1% or more of emissions per category.

Exhibit 3: APAC Firms Broaden Disclosure of Scope 3 Emissions



Source: Trucost. Data as of June 2017. Chart is provided for illustrative purposes. Fuel- and Energy-Related Activities measures categories not included in Scope 1 or 2.

APAC Firms Lead in Percentage of Spending Included Within GHG Engagement Efforts

Trucost found that companies are increasingly using various mechanisms to track, quantify, and manage GHG emissions throughout their value chains—including upstream suppliers and downstream customer use and disposal (see Exhibit 4). Nonetheless, APAC companies lag global companies in modeling Scope 3 emissions to simplify their carbon calculations.

There is a trend toward expanding supply chain engagement both to collect more emissions data and to collaborate to decrease shared climate change impacts. Across all CDP respondents, over 60% reported engaging their suppliers to implement measurement and reduction activities. Supply chain engagement among APAC businesses is aligned with global peers at 60%.

Additionally, many companies are working with partners to reduce emissions. Over 50% of global CDP respondents pointed to customer engagement for carbon savings, and over 30% reported engagement with others in their value chains to achieve similar goals. Similarly, 44% of APAC respondents acknowledged customer engagement on climate change, and 30% indicated engagement with others in their value chains.

Global firms reported partner engagement as covering just over 50% of their spending, while APAC firms also reported that engaging with partners covered just over 50% of their spending. Trucost recommends that all businesses consider collaborating with upstream and downstream partners to reduce their indirect Scope 3 emissions.

Exhibit 4: APAC Firms Ahead on Modeling and Assurance

EMISSIONS MEASUREMENT OR REDUCTION TOOL	GLOBAL CDP RESPONDENTS (%)	APAC CDP RESPONDENTS (%)
Spend Analysis or Input-Output Modeling of Scope 3 Emissions	35	45
Supply Chain Engagement	63	60
Customer Engagement	51	44
Other Value Chain Engagement	31	30
Percentage of Spend Included Within GHG Engagement Efforts	50	47

Source: Trucost. Data as of June 2017. Table is provided for illustrative purposes.

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Science-Based Carbon Targets Gain Popularity

Over 80% of APAC businesses responding to the CDP questionnaire have established carbon targets.

An important development for all businesses has been the emergence of science-based targets, which are aligned with the Paris Agreement to limit global warming to 2 degrees Celsius and are considered best practices for carbon management. The proportion of companies adopting science-based targets has grown from single digits in 2015 to 20% of global firms and 9% of APAC firms in 2017 (see Exhibit 5).

Exhibit 5: More Companies Set Carbon Targets, but Few Were Science-Based

EMISSIONS REDUCTION TARGET	GLOBAL CDP RESPONDERS (%)	APAC CDP RESPONDERS (%)
Absolute Target Only	26	25
Intensity Target Only	32	32
Both Absolute and Intensity Targets	24	30
Science-Based Absolute Targets	12	5
Science-Based Intensity Targets	8	4

Source: Trucost. Data as of June 2017. Table is provided for illustrative purposes.

More Companies Set an Internal Carbon Price

APAC companies are increasingly prioritizing climate change disclosure and action.

Internal carbon pricing is an increasingly common way for companies to make the business case for low-carbon investments by assessing the financial implications of current and future carbon taxes, emissions trading schemes, and fuel duties (see Exhibit 6). More than 500 firms globally and over 100 firms in APAC have established an internal carbon price. About 300 more global companies and 128 APAC companies are expected to follow suit in the near future.

Exhibit 6: Many APAC Companies Have or Expect to Adopt an Internal Carbon Price

ADOPTION OF INTERNAL CARBON PRICE	2017	
	GLOBAL CDP RESPONDERS (%)	APAC CDP RESPONDERS (%)
Currently Utilizing	23	22
Expected to Utilize Within the Next Two Years	16	25

Source: Trucost. Data as of June 2017. Table is provided for illustrative purposes.

MOVING FORWARD

Corporate reporting of carbon emissions has reached an all-time high and is expected to continue rising in the future, as it effectively becomes a requirement of doing business. APAC companies are more actively measuring the carbon footprint of their own operations, upstream suppliers, and downstream customers, broadening the range of emission sources that they track, and setting targets to decrease their climate change impacts.

Companies will need to continue to raise their game on disclosure to meet demand from investors for financially relevant carbon data and forward-looking metrics, such as carbon pricing and science-based targets. The disclosure of such data is being encouraged by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), as it provides market participants with a strategic lens on carbon risks and opportunities. Starting in 2018, the CDP is to align its annual climate change information request with the TCFD recommendations.

ABOUT TRUCOST, PART OF S&P DOW JONES INDICES, A DIVISION OF S&P GLOBAL

Trucost is part of S&P Dow Jones Indices. A leader in carbon and environmental data and risk analysis, Trucost assesses risks relating to climate change, natural resource constraints, and broader environmental, social, and governance factors. Companies and financial institutions use Trucost intelligence to understand their ESG exposure to these factors, inform resilience and identify transformative solutions for a more sustainable global economy. S&P Global's commitment to environmental analysis and product innovation allows us to deliver essential ESG investment-related information to the global marketplace. For more information, visit www.trucost.com.

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