

# Emissions Reporting Battle Brewing

Scope 3 clouds the path for supply chains and their suppliers.

by Macey Mueller

Although U.S. agricultural producers continue to make great strides in environmental, social and economic sustainability efforts, today's farmers and ranchers are being asked to produce more food to sustain a rapidly growing population — recently topping 8 billion — while constantly overcoming a barrage of increasingly burdensome regulations from governmental agencies.

The latest is a U.S. Securities and Exchange Commission (SEC) rule, proposed in March 2022, requiring U.S.-listed companies to “disclose information about their direct greenhouse gas (GHG) emissions (Scope 1) and indirect emissions from purchased electricity or other forms of energy (Scope 2). In addition, a registrant would be required to disclose GHG emissions from upstream and downstream activities in its value chain (Scope 3), if material or if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions.”

The SEC is charged with enforcing rules against market manipulation and ensuring shareholders have the information they need to be wise investors in publicly traded companies. Mary-Thomas Hart, National Cattlemen's Beef Association (NCBA) chief counsel, said the proposed climate-related disclosure rule is the latest iteration by the agency to provide more accurate supply chain data for investors.

“In recent years, there's been an increased interest among certain investors and shareholders to get more supply chain information because they understand the investment risk associated with supply chain disruptions,” Hart says. “That was made most clear in 2021 when we saw supply chain disruptions directly impact the values of those publicly traded companies.”

However, after reviewing the more than 2,000-page rule, NCBA and 10 other national trade associations submitted a set of robust technical comments to the SEC outlining the extreme burden Scope 3 reporting could place on the agricultural industry, especially individual producers.

“This was the first time NCBA has ever submitted a set of comments to the SEC because farmers and ranchers have never been subject to SEC rule-making in the past,” Hart explains. “Because they've never attempted to regulate our industry, SEC told us they really hadn't thought about the impacts to agriculture, but those

concerns have really come to light during the comment period.”

Kim Stackhouse-Lawson, director of AgNext and professor of animal science at Colorado State University (CSU), said that while the proposed rule seeks to standardize climate impact reporting and provide clarity for investors, requiring Scope 3 emissions reporting is not only cumbersome but could also have harmful, unintended consequences for U.S. farmers and ranchers.

“Companies are responsible for their footprint as it extends into the supply chain of the product they are procuring to sell, but for a retailer, that can get unwieldy pretty quick,” Stackhouse-Lawson says. “From a reporting standpoint in the beef industry, there is incredible risk because we don't know how to accurately report and be confident in the process for the entire supply chain.”

“According to the proposed rule, Scope 3 emission reporting would be mandatory only if output of those GHGs is significant to investors or companies outline specific targets for them, but it is clear to see every food company would be reporting Scope 3 emissions.”

## Claims without a plan

Climate change is currently dominating the conversation in the corporate world, with more than 1,400 companies making public net zero commitments as they attempt to balance the amount of GHGs they produce and the amount they can remove from the atmosphere.

The trend initially stemmed from the 2015 Paris Climate Agreement, as world leaders attempted to limit global temperature increase and companies began to consider their contribution to the emissions that contribute to temperature change, but it has intensified due to recent public pressures.

“Most companies first came out and said that they were going to be ‘carbon neutral,’ but they have since updated their public commitments to ‘climate neutral’ or ‘net zero’ because of the public greenwashing backlash they received,” Stackhouse-Lawson says.

She added that while Scope 3 emissions account for more than 90% of emissions produced by consumer food companies, none of the companies currently committed to net zero have a plan to achieve that goal by their target dates and there is currently no standard for reporting in place.

“Not one plan was announced alongside these commitments,” Stackhouse-Lawson explains. “And to make matters more complicated, there are more than 6,000 standards a company could use to report their emissions, and every sector — from corporations and government agencies to academia and even carbon markets — is using a completely different standard-setting body.”

Efforts to standardize climate-related disclosures is also a result of evolving financial markets, which have seen a vast reallocation of capital toward sustainable products since the first “green bond” was initiated in 2007.

Stackhouse-Lawson says hedge funds are especially interested in investing dollars in companies with good environmental, social and governance (ESG) protocols, as assets under the ESG umbrella reached \$41 trillion globally and are expected to reach \$50 trillion by 2025.

To qualify for ESG capital funding, companies have historically only been required to report to one of the thousands of available standards and make that reporting public, but hedge funds are now beginning to dictate which standards should be used and require proof of performance.

“Unfortunately, I worry the beef supply chain doesn't have enough information to ensure we are accurately reporting emissions and to create confidence in those companies and brands that sell our product and who are vying for ESG funding opportunities,” Stackhouse-Lawson says.

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National Cattlemen's  
Beef Association

## SEC Climate-Related Disclosures Rule Update

While the Securities Exchange Commission (SEC) is expected to finalize the climate-related disclosures rule in the first half of 2023, a recent Supreme Court ruling in *West Virginia v. Environmental Protection Agency* will require the SEC to consider the durability of the Scope 3 emissions reporting requirement. The case challenged an administration's attempt to pass climate change-related regulations, and in the opinion, Justice John Roberts wrote there must be a clear mandate from Congress before an agency begins a rule-making process.

“That certainly calls the emissions disclosure rule into question because there is no statutory language telling the SEC to write any kind of climate-related disclosure rule,” according to Mary-Thomas Hart, National Cattlemen's Beef Association chief counsel. **HW**

### Essential research needed

The proposed Scope 3 emissions reporting rule stands to affect each sector of the beef industry. While the cow-calf sector contributes more than 70% of total methane emissions, feedyards are under especially intense pressure to reduce their footprints because of their proximity in the supply chain to the companies that have net zero commitments.

Sara Place, associate professor of feedlot systems at CSU's AgNext, says her conversations with cattle feeders have been focused around tools — like lifecycle assessments — to determine an emissions baseline for individual facilities and realistic practices to demonstrate improvements over time.

“Actually measuring the emissions on a commercial feedyard is very cost prohibitive and that's something that we do more in a research setting,” Place explains. “We are, however, starting to move beyond theoretical discussions to seeing some people on the leading edge thinking critically about how to create a system or plug into a system to document where they are currently.”

The industry is also exploring potential genetic and nutritional strategies to mitigate GHG emissions.

For instance, CSU's AgNext is collaborating with the American Hereford Association to evaluate the breed's genetics for methane production and nitrogen excretion. Methane emission, as a genetic trait in cattle, appears to be moderately heritable with genetic correlations (modest to strong) to economically relevant production traits, such as measures of growth, dry matter intake and various estimates of feed efficiency. Previous research also suggests genetics play a significant role in nitrogen excretion by cattle.

As well, pharmaceutical companies are working to get feed additives approved that could potentially reduce beef cattle emissions up to 80%, but Stackhouse-Lawson estimates those are still at least two years out.

“When we put those cattle on the same diet, just in confinement, we have some incredible data that shows a 10% to 15% difference in methane emissions,” Stackhouse-Lawson says. “Enteric methane is a lever we can pull and get some win-wins because reducing the amount of methane an animal produces also means reducing the amount of energy they burn, which equates to efficiency. Basic animal performance selection has helped make huge strides in this area already.”

Those methane-reducing efforts are evident in publicly available data sets, like the U.S. Environmental Protection Agency's (EPA) annual GHG emissions inventory, which provides a per head emissions range, or the USDA's beef lifecycle assessment, which is updated every five years using Beef Checkoff dollars and provides an emission estimate per pound of beef. NCBA has suggested both of these tools as potential alternatives to the cumbersome Scope 3 emissions reporting, at least until more accurate and consistent standards are developed.

“Companies could use those data sets rather than mandating individual reports from individual operations and then trying to develop some kind of uniformity with the data,” Hart says. “There are other supply chains around the world that are required to submit this kind of information, and one of the chief complaints in those countries is that there is no standardized way to report because there is no standard calculation.”

Place, who just recently returned to academia after several years in the industry, explains her key motivator in making the move was the ability to do some of the necessary research to test emissions reporting solutions.

“Good science is required to back up all of these estimations and predictions,” she says. “The beef industry needs to stay focused on quality data collection and on solutions to reduce GHG emissions that are economically viable and actually scalable.” **HW**