Operators must increase their ESG data reporting in the face of increasing legislative pressure

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Operators are under growing pressure from consumers, investors and regulators to 'do better' in reducing their emissions and energy consumption.

Policymakers are introducing more carbon reporting requirements, as well as tightening up rules that will require businesses to disclose further environmental, social and governance (ESG) data.

To highlight the progress of telecoms operators in reducing emissions and reporting environmental data, Analysys Mason has recently published an *Environmental KPI tracker*. The tracker reports energy consumption, CO_2 emissions, circular economy metrics on waste production and recycling, emission factors and net zero target dates, for 50 telecoms operators worldwide.

Reducing and calculating emissions from downstream/upstream activities continues to be the greatest challenge for operators and based on our tracker, 10 of the 50 operators are yet to report Scope 3 emission numbers. A lot of work is still required for many operators to truly understand and reduce the emissions produced across their entire value chain.

The EU has increased pressure on companies, pushing more operators to review CO_2 reduction targets and reporting methods

On 5 January 2023, the European Commission's new Corporate Sustainability Reporting Directive (CSRD) further expanded its requirements that companies must regularly report each of the EU Taxonomy environmental objectives as part of their annual reports (including Scope 1, Scope 2 and, where relevant, Scope 3 emissions, water and resource use, circular economy metrics, pollution and net zero targets).[1]The new directive will come into effect from 2024, further aligning the EU with the commitments it made under the European Green Deal.

The CSRD builds on the Non-Financial Reporting Directive (NFRD), which was thought to lack reliability and comparability in its reporting requirements. Hence, this new directive strengthens and further standardises the rules concerning the environmental information that companies must report. Companies that do business in the EU or have an EU subsidiary – including companies based outside of the EU – will be required to start reporting their environmental data, while also increasing the transparency and consistency of disclosing a broader range of metrics.[2]

[1] Scope 1: direct emissions from owned sources such as company facilities or vehicles; Scope 2: indirect emissions from purchased electricity, heating and cooling; Scope 3: all other indirect emissions within the supply chain, including those generated by suppliers, the transportation of goods, employee commuting, end use and financial investments.

[2] EU Companies which meet two of the following three conditions will have to comply with the CSRD: EUR40 million in net turnover, EUR20 million in assets and 250 or more employees; or non-EU companies that have a turnover of more than EUR150 million in the EU will also have to comply.

In April 2023, the EU also started a public consultation on making a new intermediary climate target for 2040. As a consequence, telecoms operators in the EU will need to review their carbon reduction targets and reporting methods to align with the CSRD and for meeting future targets.

Some operators in the EU have already started to announce new and ambitious decarbonisation targets and since the CSRD was announced, they have been working to improve their reporting methods. For example,

- **Swisscom** committed to becoming climate-neutral by 2025 across its entire value chain. In March 2023, the company implemented an automated carbon accounting method to help meet the new CSRD reporting requirements.
- **TDC** has a net zero target date of 2030 across its entire value chain. On 11 January 2023, TDC partnered with Sievo CO2 Analytics to help improve the accuracy of its emission calculations.
- **Tele2** has a net zero target date of 2035 (across all emission scopes). Tele2 has already started to aggressively reduce its emissions and reports a 98% reduction in its Scope 1 and 2 emissions since 2018 (market-based definition).

Other regions outside the EU are also looking to strengthen their environmental reporting regulations. For example,

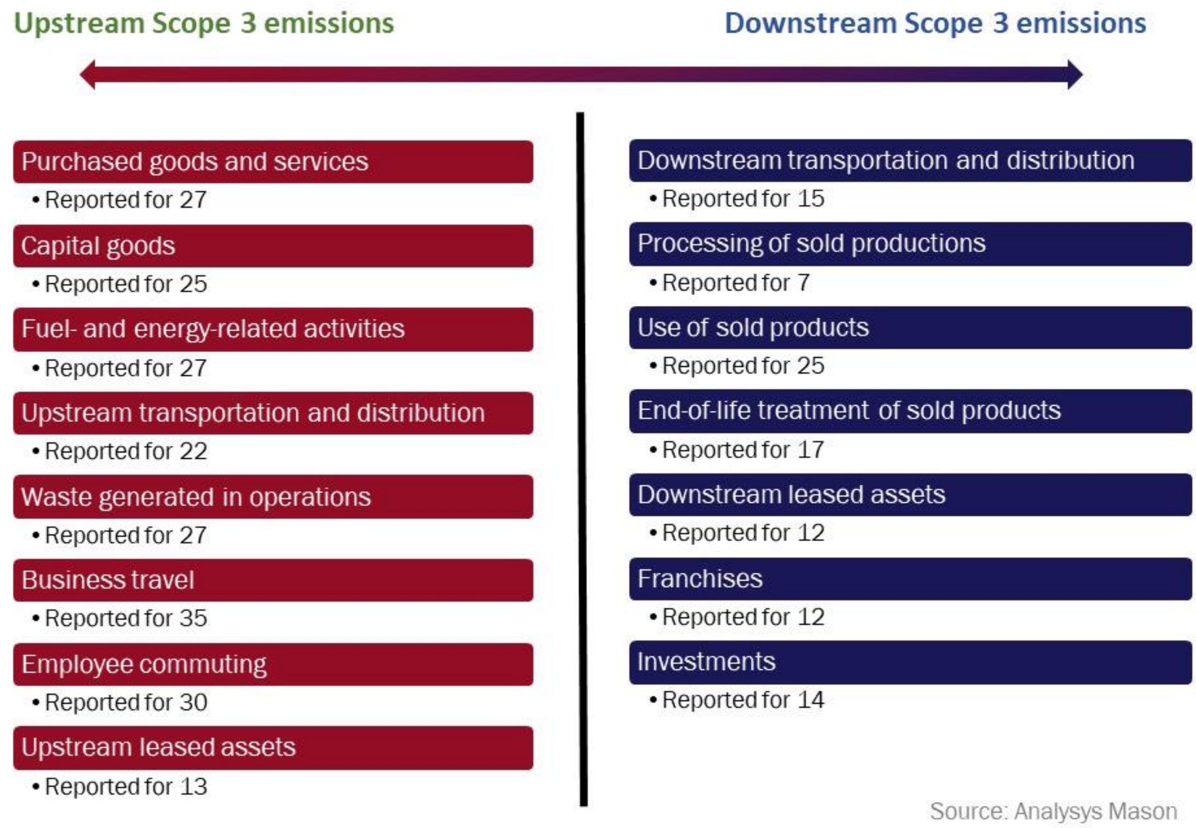
- In the **UK.**
  - The Streamlined Energy and Carbon Reporting (SECR) policy (which requires all UK listed companies, academy trusts and large unquoted companies incorporated in the UK to share energy use and carbon emissions – up to Scope 2 and including Scope 3 for large unquoted companies– information in their annual reports) updated to include a 'comply or explain' clause.
- In the **USA.**
  - The Securities and Exchange Commission (SEC) proposed a new rule in March 2022, which looks to standardise the disclosure of Scope 1, 2 and 3 emissions (if the company has set an emissions target or goal that includes Scope 3) for all registered public companies. The rules will be phased in over time to increase the reliability of the emission disclosures.

Operators should prioritise improving and expanding their Scope 3 emissions calculations

All but 2 of the 50 operators included in Analysys Mason's tracker publicly reported Scope 1 and 2 CO_2 emissions between 2018 and 2022. Even fewer operators are publicly disclosing their Scope 3 carbon emissions in their official company documents, with ten operators yet to report any figure. Scope 3 emissions are much more of a challenge for companies to report, as getting reliable data from suppliers and customers can be complicated and costly, therefore companies do not always disclose them. However, greater pressures to report Scope 3 emissions will require operators to act fast in working closely with external suppliers to deliver and implement strategies for improving data collection.

Where they do publicly report figures, operators are presenting Scope 3 emissions calculated using the Greenhouse Gas Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard, which defines 15 mutually exclusive categories that promotes additional completeness and consistency in the way companies report indirect emissions from value chain activities. Several operators are still required to expand the number of categories used to calculate their Scope 3 emissions, to increase the accuracy and usefulness of the estimate. A few operators report all (or most) of the categories including Deutsche Telekom, Telia and Singtel. It is clear that most operators have a long way to go before their Scope 3 emission calculations can give a full understanding of the emissions produced across their entire value chain.

Figure 1: The 15 Scope 3 emissions categories as defined by the GHG Protocol, with the number of operators (out of the 50 we track) that report each category in their annual sustainability reports, 2022



Source: Analysys Mason

Operators are going to come under increasing and sustained pressure to become more environmentally sustainable. Those that have yet to develop a full inventory of emissions should act quickly in doing so. This will enable them to benchmark themselves against their peers, and – learning from the methods of early movers – to identify the optimal strategies for meeting their net zero targets and more imminently, for meeting the new rules and regulations being introduced by governments around the world.

As part of Analysys Mason's *Telecoms Strategy and Forecast* programme, the *Environmental KPI tracker: 50 telecoms operators worldwide* is designed to help operators compare themselves with their peers, identify best practice, import ideas from market leaders and ultimately improve their sustainability KPIs.