June 17, 2022

U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Via electronic submittal

Re: Comments on the SEC’s proposed rulemaking, “The Enhancement and Standardization of Climate-Related Disclosures,” File No. S7-10-22

On behalf of Pacific Environment, thank you for the opportunity to provide comments on the U.S. Securities and Exchange Commission’s proposed rulemaking to enhance and standardize climate-related disclosures for investors.

Pacific Environment is a 501(c)(3) public-benefit corporation, headquartered in San Francisco, California, with regional offices in Anchorage, Alaska, and Chongqing, China. Founded in 1987, Pacific Environment protects communities and wildlife of the Pacific Rim by supporting community leaders to fight climate change, protect the oceans, build just societies, and move away from fossil fuels toward a green economy. We are the only California-headquartered non-governmental organization that has earned rare permanent consultative status at the International Maritime Organization, the United Nations’ entity that sets international shipping law.

Introduction

Pacific Environment welcomes the SEC’s proposed rulemaking to require all publicly traded companies to disclose their climate-related risks in their financial reports to the SEC and explain how those risks will affect their business and strategy. While not directly regulating climate change impacts, we believe that improving companies’ transparency around climate risks and holding them accountable for climate-related claims is an important step forward for the Biden Administration’s response to climate change.

Human-induced climate change is causing dangerous and widespread disruption in nature and affecting the lives of billions of people around the world. In the maritime shipping sector, at any given moment, more than 50,000 merchant ships are crossing the oceans. These ships moving
90% of world trade burn the world’s dirtiest fossil fuels and emit one billion metric tons of climate pollution a year, making the industry one of the world’s top 10 climate polluters.

Oil and gas companies and shipping companies are major contributors to the climate crisis. In addition, retail companies are polluting communities and climate through their fossil-fueled maritime shipping. If retail companies are to continue relying on fossil-fueled shipping to import their products, they must also take responsibility for the pollution they generate on the voyage.

The SEC Must Require Companies to Disclose Their Scope 3 Emissions

The proposed rule as written has a big loophole. While the rule would require companies to disclose the greenhouse gas emissions associated more directly with their operations (Scope 1 and Scope 2 emissions), it leaves their indirect emissions (Scope 3 emissions) almost entirely up to each company’s discretion to disclose. Companies could in theory choose to determine that their Scope 3 emissions are “material” to investors and worth disclosing to the SEC. However, in practice, few companies may decide to disclose these emissions.

The SEC must articulate a clear and specific mandatory Scope 3 reporting standard that does not rely on a company’s interpretation of materiality. Scope 3 emissions are a perfect example of information that all investors need to know in order to be protected. Both the physical risks of climate change and the risks associated with the transition to a decarbonized economy – such as government policies requiring a shift away from fossil fuels, disruptive energy technology innovations, or changes in consumer demand – can affect entities up and down a company’s value chain.

Further, Scope 3 emissions are often the largest category of GHG emissions for companies, accounting for up to 75 percent of overall emissions, according to the Principles for Responsible Investment. This is especially true for certain industries, such as oil and gas companies, whose products are responsible for a wide range of emissions down the value chain, including combustion of fuel in marine vessels, aircraft, trucks, cars, and nonroad equipment.

As another example, most retail companies do not include maritime freight emissions in their voluntary climate reporting. Being indirect Scope 3 emissions, they are outside what most retail companies hold themselves accountable for when reporting or giving targets for GHG emissions. Without including maritime shipping emissions in their corporate responsibility or climate reporting, these companies are not living up to the spirit of their climate commitments or their duty to the customers they serve.

Unless climate disclosure regulations require Scope 3 emissions reporting, investors may have no way of knowing the extent of a company’s Scope 3 emissions or what steps the company is taking to reduce them. As written, this rule would reverse decades of progress by the environmental and sustainable business movements to include Scope 3 emissions in company emission frameworks. It would send the message to many of the world’s most polluting companies that they don’t need to monitor, accurately count, and report, as well as work to reduce, their Scope 3 emissions.
Conclusion

In closing, Pacific Environment urges the SEC to finalize a rulemaking with strong disclosure rules that require companies to report all of their contributions to the climate crisis, including all Scope 1, 2, and 3 emissions. The SEC has a responsibility to make sure companies are being honest with the public about the risks that climate change poses to their business plans and the health of our communities, as well as what they’re doing to mitigate those risks. The proposed rule is an important first step, but it must close the loophole that allows companies to determine what Scope 3 pollution they report. A fully decarbonized economy – including the maritime shipping sector – cannot be achieved without addressing these emissions.

Thank you for your consideration of these comments.

Sincerely,

Antonio Santos
Federal Climate Policy Director