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Via email: reporting@energysecurity.gov.uk

Business Energy Transformation
Department for Energy Security and Net Zero
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Dear Sirs,

Fuels Industry UK Response to DESNZ Call for Evidence "Scope 3 Emissions in the UK Reporting Landscape"

Fuels Industry UK represents the eight main oil refining and marketing companies operating in the UK. The Fuels Industry UK member companies – bp, Essar, Esso Petroleum, Petroineos, Phillips 66, Prax Refining, Shell and Valero – are together responsible for the sourcing and supply of product meeting over 85% of UK inland demand, accounting for a third of total primary UK energy[1].

In principle, Fuels Industry UK and its member companies are not opposed to disclosure of GHG emissions – most of the Fuels Industry UK member companies are subsidiaries of international oil companies who report Scope 3 emissions at a corporate level in their annual sustainability reports. However, their ability to estimate Scope 3 emissions depends on the level of transparency and availability of information from a large number of companies in the extended supply chain. Lack of robust data inevitability undermines the value of any reported emissions.

[1] BEIS Digest of UK Energy Statistics (DUKES) 2023.

Significant concerns have been expressed by companies that will have to comply with multiple reporting requirements, specifically mandatory sustainability reporting under requirements imposed by the US Securities Exchange Commission (US SEC) and the European Financial Reporting Advisory Group (EFRAG). Multiple reporting methodologies, requirements and disclosure regulations have the potential of becoming burdensome and expensive for member companies, as well as confusing and misleading for investors and stakeholders.

Fuels Industry UK welcomes the opportunity to respond to the call for evidence - our responses to the questions posed are given in Attachment 1.

Yours faithfully,

Dr Andrew Roberts
Director – Downstream Policy

cc:	Michael Duggan	Department for Energy Security and Net Zero
	Simon Stoddart	Department for Energy Security and Net Zero
	Emilio Marin	Department for Energy Security and Net Zero

Attachment 1

Fuels Industry UK Response to DESNZ Call for Evidence "Scope 3 Emissions in the UK Reporting Landscape"

Chapter One

General Questions

Q1. What is your company number? If you work for an LLP, please state so here.

Fuels Industry UK is a trade association representing the eight main oil refining and marketing companies operating in the UK. The UKPIA member companies – bp, Essar, Esso Petroleum, Petrolneos, Phillips 66, Prax Refining, Shell and Valero – are together responsible for the sourcing and supply of product meeting over 85% of UK inland demand, accounting for a third of total primary UK energy[2].

Fuels industry UK Ltd is registered at Companies House under company registration number 01404376.

Q2. Where applicable, what percentage of your supply chain is within the UK, within the EU, outside of the UK and the EU?

The UK fuel supply chain is highly complex and is part of a global supply chain which changes frequently (day to day) as crude oil and fuel products and intermediates are imported and exported from and to different countries around the world. Consequently, refining and marketing companies interact with a wide range of oil producers and suppliers, as well as many downstream customers and users daily.

Q3. What is your role in relation to company reporting? For example, are you a reporting entity, a company within the supply chain of a reporting entity, an investor and/or a user of accounts, contracted to report on behalf of a reporting entity, part of a consultancy firm, or part of a voluntary reporting scheme?

Fuels Industry UK has no role in relation to company reporting activities. As identified in the response to Q1, Fuels Industry UK is a trade association representing the eight main oil refining and marketing companies operating in the UK.

Q4. What role does Scope 3 emissions reporting currently play in your organisation? If your organisation does report its Scope 3 emissions, which Scope 3 emissions categories are you currently reporting on and why? Is this on a voluntary or mandatory basis? Please state whether you have done so in the past and, if you no longer report Scope 3 data, why.

Fuels Industry UK itself is not covered by reporting requirements under the Simplified Carbon Reporting (SECR) framework.

Most of the Fuels Industry UK member companies are subsidiaries of international oil companies who report Scope 3 emissions at a corporate level in their annual

[2] Department of Energy Security and Net Zero Digest of UK Energy Statistics (DUKES) 2023.

sustainability reports in line with the IPIECA/API/IOGP Sustainability Reporting Guidance[3] and guidance on estimating petroleum industry value chain (Scope 3) greenhouse gas emissions[4]. The Scope 3 upstream and downstream emission sources vary by company type (Table 1).

Table 1. Scope 3 upstream and downstream emission sources by company type

	COMPANY TYPE				
EMISSION SOURCE	Integrated oil and gas company	E&P company	Refining company	Petrochemical company	Service stations
Purchased raw materials and services	Cat 1, 2	Cat 1, 2	Cat 1, 2	Cat 1, 2	Cat 1, 2
Purchased distribution	Cat 4	Cat 4	Cat 4	Cat 4	Cat 4
Extraction and production	Scope 1 and 2	Scope 1 and 2	Cat 1, 3	Cat 1, 3	Cat 1, 3
Refining operations	Scope 1 and 2	Cat 10	Scope 1 and 2	Cat 1, 3	Cat 1, 3
Waste from operations	Cat 5	Cat 5	Cat 5	Cat 5	Cat 5
External distribution purchased by the company	Cat 9	Cat 9	Cat 9	Cat 9	Cat 9
Product use	Cat 11	Cat 11	Cat 11	Cat 11	Cat 11
Product disposal	Cat 12	Cat 12	Cat 12	Cat 12	Cat 12

Scope 3 upstream emissions: related to purchased or acquired goods and services
Scope 1 and 2 emissions
Scope 3 downstream emissions: related to sold goods and services

Source: IPIECA[4]

The estimates of Scope 3 emissions reported generally cover Category 11 Scope 3 emissions from product use as identified in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard[5]. These are most relevant to member company operations.

See also responses to Questions 2 and 7.

Chapter Two

General questions

Q5. Do you agree or disagree with the ISSB's assessment of the value of Scope 3 information?

In principle, Fuels Industry UK and its member companies are not opposed to disclosure of GHG emissions – indeed most Fuels Industry UK member companies report Scope 3 emissions in their annual sustainability reports as mentioned in the response to Question 4. However, estimates of Scope 3 emissions depend on the level of transparency and availability of information from a large number of companies in the extended supply chain – see response to Question 2.

[3] IPIECA/API/IOGP "Sustainability reporting guidance for the oil and gas industry", March 2020.
[4] IPIECA "Estimating petroleum industry value chain (Scope 3) greenhouse gas emissions. Overview of methodologies", June 2016.
[5] Greenhouse Gas Protocol, Corporate Value Chain (Scope 3) Accounting and Reporting Standard, 2011.

Significant concerns have been expressed by companies that will have to comply with multiple reporting requirements, specifically mandatory sustainability reporting under requirements imposed by the US Securities Exchange Commission (US SEC) and the European Financial Reporting Advisory Group (EFRAG). Multiple reporting methodologies, requirements and disclosure regulations have the potential of becoming burdensome and expensive for member companies, as well as confusing and misleading for investors and stakeholders.

Whilst reporting requirements under ISSB will not be mandatory unless adopted by other legislative jurisdictions, companies which have to comply with all three sets of standards are concerned regarding alignment on materiality, greenhouse gas (GHG) reporting narrative including governance, transition plans, integration and timing with financial reporting and assurance processes. This includes most Fuels Industry UK member companies.

Q6. In general, what is your view on the approach to Scope 3 reporting contained within IFRS S2? Please consider the ISSB's approach to materiality in your answer.

Fuels Industry UK and its member companies have concerns regarding the approach to Scope 3 emissions reporting contained within IFRS S2. However, while the US SEC reporting requirements are currently only climate related, they do add financial and materiality complexities. Fuels Industry UK understand that the 13 draft EFRAG standards will be developed further to include an oil and gas sector specific standard. This will compound the reporting complexity where there are additional reporting requirements, for example under UK SECR, if these are based on different standards.

Q7. What is your view on the use of the GHG Protocol for the purposes of Scope 3 reporting within IFRS S2? Will this lead to comparable and consistent reporting that is useful for investors and users of accounts?

Fuels Industry UK and its member companies have concerns regarding use of the GHG Protocol methodology[5] for the purposes of Scope 3 emissions reporting under IFRS S2, due to issues with lack of robust data and issues with the methodology itself.

As identified in the response to Question 2, Fuels Industry UK member companies have long and complex value chains that cross multiple jurisdictions and countries, including countries with little to no mandatory GHG emissions reporting requirements. Furthermore, due to limited or no public disclosure of Scope 1 and 2 emissions from many value chain partners, including private enterprises and state-owned entities, it is not possible to fully calculate value chain GHG emissions.

The GHG Protocol also suffers from a number of flaws which lead to over-estimation and misrepresentation of Scope 3 emissions:

- Under the GHG Protocol, there is risk of duplication in emissions reporting due to the requirement that Scope 1 and 2 emissions for all value chain partners be allocated to a company's Scope 3 emissions. The reporting company has no control over Scope 1 and 2 emissions elsewhere in the value chain.

- Where member companies are merchant refiners, they have no visibility regarding the final use of their products and consequently, can only estimate a portion of the GHG emissions related to the use of sold products (i.e. GHG Protocol's Scope 3 Category 11).
- Not all customers disclose their intended purposes for the materials purchased. For example, some refinery products, including naphtha and liquified petroleum gases, have several downstream uses aside from combustion, such as in plastics and petrochemicals production.
- The GHG Protocol Scope 3 Standard also requires the reporting of gross absolute GHG emissions (or intensity) from a company's value chain, which directly reflects a company's size and ignores its carbon efficiency. By requiring that a project-level accounting approach be used to report avoided emissions and reductions, the GHG Protocol overlooks efforts to remove or displace carbon and instead focuses attention on the magnitude of Scope 3 emissions. The GHG Protocol's Scope 3 Standard does not allow for the integration of GHG emissions related to the use of combusted petroleum products with emissions reductions or emissions displacements (avoided emissions) and therefore does not give credit for lifecycle emissions benefits from low-carbon fuels and investments in carbon capture and sequestration (CCS).

GHG emissions for low-carbon fuels are better measured in terms of lifecycle carbon intensity (CI). For example, one of our member companies discloses ethanol, a low-carbon fuel, that offers at least 30% reduction in lifecycle GHG emissions, and renewable diesel, a low-carbon fuel, that offers up to an 80% lower lifecycle GHG emissions. Low-carbon fuel pathways and the corresponding carbon intensities are robustly audited by independent third parties and the fuels sold into regulated low-carbon markets. Examples of such markets are California (Low Carbon Fuel Standard), Canada (Clean Fuel Regulations), EU (Renewable Energy Directive II) and the UK (Renewable Transport Fuel Obligation) among many others.

Use of the GHG Protocol Scope 3 Standard therefore provides limited insight into how a member company might lower emissions, aside from discontinuing or divesting operations. Use of the GHG Protocol within IFRS S2 is therefore unlikely to provided comparable and consistent reporting that is useful for investors and other stakeholders.

Q8. Would using the ISSB's approach to Scope 3 reporting have knock-on consequences for your organisation that the Government should be aware of? For instance, you may wish to consider the interaction between IFRS S2 and any EU regulations, or other energy/emissions reporting requirements that your organisation may be impacted by.

As identified in the responses to Question 5, multiple reporting methodologies and disclosure regulations will become burdensome and expensive for member companies, as well as confusing and misleading for investors and stakeholders.

Q9. Is there any additional emissions or energy-consumption related data that is not required within IFRS S2 that you believe is valuable for investors, users of accounts and other stakeholders?

Fuels Industry UK has no response to this Question.

Questions for reporting entities

Q10. What further guidance and support might be needed for your organisation, and organisations in your value chain, to report Scope 3 information in accordance with IFRS S2?

This question is not applicable to Fuels Industry UK.

Q11. If your organisation does not already prepare Scope 3 information, how long would you need to build the capacity and capability to do so?

This question is not applicable to Fuels Industry UK.

Questions for investors and other users of accounts

Q12. How, if at all, do you expect to use the Scope 3 information that could be disclosed by businesses in accordance with IFRS S2? If you are an investor, how will this information influence your decision-making?

This question is not applicable to Fuels Industry UK.

Q13. If you are a user of annual reports, which of the Scope 3 GHG emissions categories do you most value information on and why?

This question is not applicable to Fuels Industry UK.

Q14. When making investment decisions, does the usefulness of Scope 3 data vary depending on the sector and the size of the reporting organisation?

This question is not applicable to Fuels Industry UK.

Chapter Three

General questions

Q15. What are your views on the overall costs and benefits of Scope 3 reporting? Please be as specific as possible.

Fuels Industry UK member companies have mixed views on the overall value of Scope 3 reporting. The majority report Scope 3 emissions in their annual sustainability reports in line with the IPIECA/API/IOGP Sustainability Reporting Guidance[3] and guidance on estimating petroleum industry value chain (Scope 3) greenhouse gas emissions[4]. The estimates of Scope 3 emissions generally cover Category 11 Scope 3 emissions from product use as identified in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard[5]. These are most relevant to member company operations.

However, some member companies believe that the overall costs and challenges related to obtaining primary data for accurately calculating all categories of Scope 3 emissions outweigh the limited benefits of Scope 3 reporting.

Q16. What benefits could Scope 3 reporting bring to your organisation? Please be as precise as possible when explaining the basis of any benefits you provide. If you currently produce Scope 3 data voluntarily under SECR, please explain the benefits you have received and how they have changed over time.

As explained inn our response to Question 7, there are limited benefits to Scope 3 reporting due to lack of robust data and issues with the methodology itself which lead to over-estimation of emissions and inconsistencies which render comparison between different companies problematic.

A lifecycle carbon intensity approach for reporting GHG emissions that includes only Scopes 1 and 2 and a measure of "net emissions" for Scopes 1 and 2 would provide a more accurate and complete picture of a company's transition risk exposure, enable direct comparisons of companies' GHG emissions across business models, and allow for the measurement of companies' GHG emissions performance over time.

Q17. What costs could Scope 3 reporting bring to your organisation? Where possible, please give a breakdown of each element of cost. Please be as precise as possible when explaining the basis of any costings you provide. If you do currently produce Scope 3 data voluntarily under SECR, please explain the costs you have incurred and how they have changed over time.

Some member companies have estimated the costs of building internal systems and procedures to quantify Scope 3 emissions across their operations at over $100 million, excluding any costs for the Scope 3 disclosure requirements. One member company has estimated a cost of approximately $35 million over five years for Scope 3 reporting including one-time and recurring expenses but excluding the time of at least 60 individuals who are involved in the reporting of emissions and the additional time necessary to review the information to be submitted. The primary categories of cost included in this estimate include audit fees, professional services, subscriptions, labour, licenses and training. Within these estimated costs, the reporting of Scope 3 emissions constituted the largest expense at $15.6 million or 45% of total cost over five years. A significant part of this cost is attributed to attestation requirements and with "filing" Scope 3 information. Further, the company's estimate identified that annual labour resources required would amount to at least 17.5 FTEs.[6]

Questions for reporting entities

Q18. How are you approaching the issues around data availability in relation to Scope 3 reporting? Are you aware of any useful data sources, reporting tools, or resources (such as emissions factors) to help UK organisations report their Scope 3 emissions, and how are you tackling them?

This question is not directly applicable to Fuels Industry UK. However, most oil and gas companies follow the IPIECA/API/IOGP Sustainability Reporting Guidance to inform their

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[6] M. Sommers, American Petroleum Institute (API), "Comments of the American Petroleum Institute on the Proposed Rule "The Enhancement and Standardization of Climate-Related Disclosures for Investors," SEC File No. S7-10-22", June 2022.

sustainability reporting[3]. Other member companies also report using SASB Standards[7] and other reporting frameworks favoured by investors.

IPIECA[8] carries out an annual sustainability reporting survey to identify trends in the sustainability reporting practices of IPIECA member companies[9]. The results provide an overview of current practices, identify widely used performance indicators and emerging trends, allow companies to learn from their peers, and improve industry communication around sustainability issues.

Q19. What are, or do you anticipate being, the greatest barriers to producing consistent Scope 3 data?

The greatest barriers to producing reliable, consistent and meaningful Scope 3 data are: (i) the lack of primary GHG emissions data across member companies' value chains and (ii) the shortcomings of the GHG Protocol Scope 3 Standard methodology, which employs duplicative accounting of Scope 1 and 2 emissions of all value chain partners and does not allow for the integration of GHG emissions related to the use of combusted petroleum products with emissions displacements (avoided emissions) or reductions and therefore does not give credit for lifecycle emissions benefits.

These barriers lead to an incomplete picture of a company's transition risk exposure, prevent direct apples-to-apples comparisons of companies' GHG emissions across business models, and impede the ability to measure companies' GHG emissions performance over time. See also responses to Questions 7, 15 and 18.

Q20. If you currently voluntarily report your Scope 3 emissions, including through non-Governmental frameworks such as CDP and SBTi, what effect has this had on your relationships with businesses in your supply chain?

This question is not applicable to Fuels Industry UK.

Questions for smaller businesses in the supply chains

Q21. What impact could an increase in Scope 3 reporting by a larger reporting entity have on your organisation? What are the costs and benefits of Scope 3 reporting on smaller organisations within their supply chain? Please provide any evidence you have of these.

To date, Fuels Industry UK have not been requested for GHG emissions information for reporting purposes. As a small trade association with 8 employees, any such emissions would be limited, but would require significant resources to develop and cause disruption in our day-to-day activities.

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[7] As of August 2022, the International Sustainability Standards Board (ISSB) assumed responsibility for the SASB Standards.

[8] IPIECA is the UN accredited global oil and gas association for advancing environmental and social performance across the energy transition.

[9] IPIECA "Sustainability reporting survey: 2023 results", November 2023.

Q22. If you currently supply data to a reporting entity to enable it to voluntarily report its Scope 3 emissions, has the cost to you of doing so reduced, stayed the same or increased over time? What effect has this had on your relationship with the reporting entity?

Fuels Industry UK has no response to this Question – see response to Question 21.

Q23. What could the Government do to reduce the costs or increase the benefits of reporting for smaller businesses in the supply chains of entities that report on Scope 3?

Fuels Industry UK has no response to this Question – see response to Question 21.

Q24. If you supply data to a larger entity, what effect (including financial impacts) has this had on your organisation? We are particularly keen here to receive views from SMEs.

Fuels Industry UK has no response to this Question – see response to Question 21.

Questions for investors and other users of accounts

Q25. What benefits does robust Scope 3 reporting provide to stakeholders outside of the investment community?

Member companies have mixed views on the benefits of Scope 3 reporting. The majority report Scope 3 emissions in their annual sustainability reports but some have advised they believe Scope 3 reporting leads to an incomplete picture of a company's transition risk exposure, invalid comparison of companies' GHG emissions across different business models and scope and an impediment on the ability to measure companies' GHG emissions performance over time. See also responses to Questions 7, 15 and 18.

Chapter Four

General questions

Q26. Overall, do you think the SECR regulations are achieving their original objectives? If you do not think they are achieving the original objectives, or are partially achieving the objectives, please explain why.

Fuels Industry UK believe the original objectives of the SECR regulations have been only partially achieved due to a lack of consistency in absolute and emissions intensity reporting.

Q27. Have there been any unintended effects of the SECR regulations that you think Government should consider? Please include whether there are any equality impacts to be taken into consideration.

Fuels Industry UK has no response to this question.

Q28. Are the current SECR requirements targeted at the correct population of businesses (including LLPs)? If not, which types of businesses and of which size do you think the requirements should apply to? If you think that different requirements should apply to different populations of businesses, please specify.

Fuels Industry UK has no response to this question.

Q29. SECR reporting is currently required within a company's annual report. Would it be more appropriate to report on SECR in another document or format?

Inclusion of SECR reporting in a company's annual report appears to be an appropriate and pragmatic approach.

Q30. How can the government streamline current energy and emissions reporting requirements for organisations in scope of SECR while still meeting the SECR objectives?

Fuels Industry UK has no response to this question other than a request that SECR reporting requirements should be consistent with other reporting requirements.

Q31. Under the existing SECR framework, there are different reporting requirements for quoted companies and unquoted companies/LLPs. Are these differing requirements appropriate? If not, what reforms would you suggest?

Fuels Industry UK has no response to this question.

Q32. What resources do you currently use to comply with SECR (e.g., ERG guidance, conversion factors, the GHG Protocol, etc) and do you feel these are sufficient? If these aren't sufficient, what do you think is missing?

See response to Question 4.

Questions for reporting entities

Q33. What benefits has compliance with the current SECR regulations had for your organisation?

This question is not applicable to Fuels Industry UK.

Q34. What are the costs (monetised costs and FTE equivalent) of reporting under the current SECR framework for your organisation? Please provide quantitative costs or estimates if possible.

This question is not applicable to Fuels Industry UK.

Q35. If your organisation reports under SECR, has the information that you have collected and reported led you to, or helped you to, reduce your energy consumption and/or carbon emissions? If so, how? Please provide energy and emissions reductions data where that is possible.

This question is not applicable to Fuels Industry UK.

Q36. Are you aware of the option to use SECR taxonomy for your reports? If so, please provide information on whether you have used the taxonomy or plan to.

This question is not applicable to Fuels Industry UK.

Q37. Have you experienced any overlap between the SECR regulations and other Government-led reporting requirements? Please include details of any additional voluntary or regulatory schemes you are in scope of, and the extent in which you consider the data and evidence being reported to be a duplication.

For member companies with global operations, government-led reporting requirements of GHG emissions have been in place for many years – for example. reporting requirements for direct emissions (equivalent to Scope 1), as well as the combustion of products (equivalent to a portion of Scope 3, Category 11) imposed by environmental regulators in the UK, Europe and the U.S.

As we have expressed in responses to earlier questions, multiple reporting methodologies, requirements and disclosure regulations have the potential of becoming burdensome and expensive for member companies as well as confusing and misleading for investors and stakeholders, including regulators.

Questions for investors and other users of accounts

Q38. If you are an investor, has the information businesses report or will report under SECR affected your investment decisions? If so, how?

Fuels Industry UK has no response to this Question.

Q39. Have you used the information businesses report under SECR to hold those businesses to account for their emissions or energy consumption? If so, how?

No, Fuels Industry UK has not used the information businesses report under SECR to hold those businesses to account for their emissions or energy consumption.