AXPC Scope 3 Position Statement

The American oil and natural gas industry has an important role in helping meet the challenge of global climate change. AXPC members are committed to reducing emissions throughout our operations and working collaboratively to enhance transparency and comparability in the disclosure of upstream independent companies' emissions.

Scope 3 greenhouse gas (GHG) emissions are the result of activities from assets not owned or controlled by a reporting organization, but presumed as deriving from its value chain, such as from the end use of products. The nature of Scope 3, as estimates of emissions largely beyond a reporting company's operation, requires the use of often unreliable assumptions. In our view, this presents an uncceptable risk of confusion that is inappropriate as a mandated disclosure requirement.

A robust environmental, social, and governance (ESG) strategy, along with disclosure, are important to companies and stakeholders to assess the risks and opportunities a low-carbon future may present to businesses. AXPC member companies often consider their Scope 1 and 2 emissions within their assessment of potential links between climate-risk drivers and financial-risk. While several of our member companies voluntarily report on Scope 3 emissions, it is important to understand the challenges of Scope 3 calculations for our industry segment and the limitations of their utility. Scope 3 emissions calculations are not an effective way to measure business risk for a specific company and instead may ultimately detract from an investor's or regulator's accurate assessment of an entity. For this reason, as further explained below, AXPC does not support regulations mandating the disclosure of Scope 3 emissions estimates for the upstream industry.

Reliance on Broad Assumptions for Scope 3 Reporting can be Misleading and Inaccurate

Upstream independents are suppliers of raw materials, crude oil and natural gas – global commodities as opposed to finished goods. Our products are most often used as inputs in the creation of a wide variety of *other* finished products, goods or services to meet growing demand for consumer products and affordable energy. Not all oil and natural gas is combusted, there is a wide range of end products or services that can be later generated and with differerent emissions outputs, some even with zero emissions. As the vast majority of Scope 3 emissions are associated with this end use of subsequent goods or services, upstream companies have limited, if any, ability to accurately track them due to their fungible nature or to determine the direct impact of Scope 3 emissions. Reducing Scope 3 emissions would generally require reducing production volumes or offsetting them – which could result in supply disruptions, higher prices, or both.

Scope 3 Reporting Lacks Comparability and May Involve Double Counting

The comprehensive nature of Scope 3 emissions calculations necessitates access to accurate information across the value chain at each data point. However, not all Scope 3 reporting is equal or comparable and although various methodologies and categories for Scope 3 reporting exist, the lack of uniformity and amorphous nature of current guidelines often makes disclosures among companies uncomparable. As noted above, estimating the Scope 3 emissions beyond the reporting company's operations involves a reliance on information outside of the reporting company's control, necessitating the use of significant assumptions and increasing uncertainties. Due to data gaps, boundary definitions, and ambiguous categories, Scope 3 emissions disclosures lack consistency and utility. This data needs to be treated with caution on the reliability of such disclosed estimates. Thus we believe requiring disclosure of Scope 3 by regulation poses an unacceptable risk of confusion among both reporting entities and the investing public, including the risk of double counting of emissions.

Scope 3 Emissions Estimates Do Not Provide a Clear Picture
One of the primary interests in Scope 3 emissions is the desire to understand transition risk associated with societal and economic shifts toward a lower-carbon future. Scope 3 emission estimates are likely misleading about a reporting entity's contribution to, or risk within, the global context in which they are occurring. For instance, increased natural gas sales by a company would translate to an increase in Scope 3 emissions even where the actual result could be reducing GHG emissions by displacing coal burned for power generation. This is just one example of how Scope 3 emissions can create a distorted picture.

AXPC appreciates the importance of protecting investors through disclosure of risks affecting their business, including those related to climate change. We have taken action to enhance consistency and comparability in the reporting of key metrics in the upstream sector through the launch of our AXPC ESG Metrics Framework and Template in February 2021. Ultimately, the development and deployment of affordable, lower-emission-intensive technologies economy-wide are required to drive meaningful Scope 3 emissions reductions.

Please see AXPC's climate policies and principles to learn more.

###