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The climate reporting challenge for wineries

What you need to know about California's climate reporting rules and how they will impact many public and private wineries

In the US and abroad, regulations are forcing a pivot in climate reporting: What was once voluntary is increasingly becoming compulsory for public and private companies alike.

What does that mean for the wine industry? On the inside: Better internal controls. New and stronger data systems. Enhanced engagement with the value chain. From the outside: Public reporting to regulatory bodies. Tougher scrutiny. Possible financial penalties. Reputational risk.

These are not insurmountable challenges, but they do require action.

Let's look at some of the changes unfolding right now.

SB 253
California Climate Corporate Data Accountability Act

SB 261
California Climate-Related Financial Risk Act

California Climate Corporate Data Accountability Act

This legislation (Calif. SB 253) requires public and private businesses that do business in California[1] to publicly disclose and verify their Scope 1, 2, and 3 greenhouse gas (GHG) emissions data.

WHO	WHEN	THE STAKES	FRAMEWORK	ASSURANCE NEEDED?
$1B+		**$500K**	GHG	**Yes**
Reporting entities with annual revenues over $1 billion that do business in California[1]. *Estimated impact: 5,000+ companies*	**Scope 1 and 2 disclosure begins in 2026. Scope 3 disclosures start in 2027.** *The California Air Resources Board (CARB) will adopt a regulation with more specifics by January 1, 2025.*	**Fines of up to $500,000 per reporting year.**	**Greenhouse Gas (GHG) Protocol**	**Limited at first and advancing in phases[2]**

California Climate-Related Financial Risk Act

The companion bill (Calif. SB 261) requires both public and private businesses to publicly disclose their exposure to physical and transition climate risks—and the measures they're using to address them.

WHO	WHEN	THE STAKES	FRAMEWORK	ASSURANCE NEEDED?
$500M+		**$50K**	TCFD	**No**
Covered entities with annual revenues over $500 million that do business in California[1]. *Estimated impact: 10,000+ companies*	**On or before January 1, 2026.**	**Fines of up to $50,000 per reporting year.**	**Task Force on Climate-Related Financial Disclosures (TCFD)[3]**	

Demystifying the new language of climate reporting

The primary ESG focus for wineries to date has been around being better environmental stewards. This new legislation is forcing wineries to add ESG reporting to their focus. Getting a handle on climate data and then reporting it in compliance with these California bills and other laws may require an additional mix of resources, data, and systems.

But first thing's first: Complying with new regulatory structures begins with understanding them. Let's clear up a few of the terms:

Scope 1 GHG emissions
Emissions that a company *makes directly*—for example, emissions from owned diesel tractors running in a vineyard.

Scope 2 GHG emissions
Emissions a company *makes indirectly*—for example, when the electricity or energy it buys for heating and cooling buildings is being produced on its behalf at a nearby power plant.

Scope 3 GHG emissions
All the emissions a company is *indirectly responsible* for, up and down its value chain—for example, emissions from third-party trucks moving the cases of wine by the distributor.

Physical risk
Direct impacts from climate change, either immediate —for example, wild fires burn down vineyards, or long-term—for example, excess rain or heat impacting the yield and quality of the grapes).

Transition risk
Risks that arise from an organization's management of the market, regulatory, technology, and other changes that climate change is driving—for example, green consumer demands or new regulations.

California Climate Reporting Rules FAQ (as of February 2024)

1. Who is governing these regulations?
The legislation empowers the California Air Resources Board (CARB) to issue regulations pertaining to the reporting and compliance with the two Senate bills. Entities in scope will report the required information to a nonprofit emissions reporting organization to be contracted by CARB.

2. Why is the timeline to comply so long/staggered?
The timeline has been intentionally staggered to reduce the burdens on reporting entities to provide this information. In particular, the provisions related to Scope 3 emissions have been pushed out given the complexity in developing this information, and the assurance requirements are initially not applicable to Scope 3.

3. What happens if you don't comply?
Noncompliance, in the form of failing to file timely or filing with misstatements, is subject to fines of up to $500k per year. However, consistent with the relief provisions for Scope 3 timing in question 2 above, no fines will be issued for Scope 3 emissions disclosures made with a reasonable basis and disclosed in good faith. CARB will issue regulations that will authorize fines and provide additional details. Direct language from the Calif. SB 235: "A reporting entity shall not be subject to an administrative penalty under this section for any misstatements with regard to scope 3 emissions disclosures made with a reasonable basis and disclosed in good faith. (C) Penalties assessed on scope 3 reporting, between 2027 and 2030, shall only occur for nonfiling."

4. Where does the information go?
The nonprofit emissions reporting organization that CARB contracts with will be responsible for developing a digital platform accessible to the public, with the information to be publicly available within 30 days of receipt for SB-253 GHG emissions disclosure.

5. Are there third-party assurance requirements?
Yes, assurance will be required for Scope 1 and 2 emissions data beginning in 2026. The assurance will be performed at a limited assurance level at first; but beginning in 2030, they will be stepped up to reasonable assurance for Scope 1 and 2 emissions. CARB will evaluate trends in Scope 3 emissions during 2026 and decide whether to establish a limited assurance requirement for Scope 3 that would begin in 2030.

6. What if the data you turn in says you are not a sustainable organization?
The legislation does not provide standards or judgment on the degree of effectiveness of sustainability programs; it only requires that this information is provided to the public in compliance with the regulations. One intended consequence of the legislation is to limit "greenwashing" and other deceptive marketing practices that may be in use by requiring transparent and standardized, comparative information.

7. Is this just about reporting or does something happen if your data says you are not making good progress?
The legislation is only about reporting. However, the disclosure of this information may be viewed by investors, financial markets, customers, suppliers, and other stakeholders as material information in making decisions about investing in or transacting with the reporting entity. As noted in the preamble to the legislation, one of the intents of the legislation is for this information, in conjunction with a free market, to encourage companies to move toward a net-zero carbon economy.

8. Where do we go from here?
While the timeline for disclosure may appear relatively far away and seem like something to address in the next couple of years, there is a benefit to acting now. Many companies don't have the proper data processes and governance currently in place to accurately and effectively report out on the required metrics. Over the coming years, we expect more legislation, both state and federal, to get passed specifically around greenhouse gas emissions and climate risk reporting. Deloitte is well-positioned to help and advise you along your ESG reporting and compliance journey so that not only are you prepared, but you may potentially gain competitive advantage in the market.

Let's talk.

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Endnotes

1. The term "Doing Business in California" is defined by The State of California Franchise Tax Board and the existing California tax code; however, the bill as-is does not explicitly reference these definitions. To determine the applicability of the bills, companies should carefully assess whether they meet the definition of "doing business" in California by consulting with their tax and legal advisors.
2. Limited assurance over scope 1 & 2 starting in 2026, phased into reasonable assurance beginning in 2030 (scope 3 assurance requirements to be determined by 2027).
3. Companies may also report in accordance with an "equivalent reporting requirement" (e.g., International Financial Reporting Standards Sustainability Disclosure Standards, as issued by the International Sustainability Standards Board).

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