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"Reducing Climate Risks in Federal Supply Chains While Revitalizing the Economy"

Testimony of Steven M. Rothstein
Managing Director, Ceres Accelerator for Sustainable Capital Markets

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Thank you Chair Obernolte, Ranking Member Foushee and members of the Subcommittee for the invitation to testify today. My name is Steven M. Rothstein. I serve as the Managing Director of the Ceres Accelerator for Sustainable Capital Markets. Ceres is a nonprofit organization working with investors and companies to transform the economy to build a just and sustainable future through equitable market-based and policy solutions.

I am grateful for the opportunity to share Ceres' views on addressing climate risk and resilience in federal supply chains with the Subcommittee.

The focus of this hearing is a proposal to address climate risks and opportunities by the FAR Council, a Congressionally-authorized policy making entity composed of the Department of Defense (DOD), NASA and the General Service Administration (GSA) and coordinated by the Office of Federal Procurement Policy. Released for public comment in November 2022 and awaiting finalization, the Federal Supplier Climate Risks and Resilience Proposed Rule is a critically important initiative. In February 2023, Ceres filed comments expressing strong support for the proposal and offering recommendations for improvement. We ask that these comments, as well as our March 2023 supplemental comments that provided an analysis of the comment file, be considered part of the hearing record.

Today I will emphasize six key points about the proposed rule:

1. The rule will strengthen the ability of agencies to deliver on their missions while reducing burdens on taxpayers
2. By focusing on federal supply chains, the rule addresses a major source of climate risk
3. Climate risk disclosure is now mainstream among major companies, including large federal contractors

4. The proposed rule does not dictate the outcomes of any particular contracting decision
5. The proposed rule has received broad support, including from the private sector
6. The proposed rule properly leverages standards that were developed by the private sector and are based on science, although Ceres recommends some changes

1. The rule will strengthen the ability of agencies to deliver on their missions while reducing burdens on taxpayers.

This proposal will make the United States stronger in many ways. The federal government spends over $630 billion a year on procuring products and services ranging from food and fuel to steel and cement to cars and helicopters. Currently there is no focused federal effort to understand and manage the climate risk in these supply chains. As explained in many comments on the proposal, ending this blindfolded approach to procurement would significantly decrease the burden of climate change on taxpayers. With focused attention to climate risk, the federal government can better identify opportunities for building resilience and saving money for taxpapers. For example, by reducing its overall energy use through cost-effective efficiency measures and increasing its use of renewable energy, the federal government has already saved billions for taxpayers, helped revitalize the economy and strengthened national security.

In recent years, a global consensus has emerged among investors, banks and other participants in capital markets: climate risk is financial risk. Clear, consistent and comparable reporting from companies on how they are managing climate risk is essential both for assessing the prospects of individual businesses and ensuring well-functioning capital markets.

Large companies are increasingly paying attention to climate risk in their supply chains. In a January 2023 survey of 2,000 C-level executives by Deloitte and market research firm KS&R, 97 percent of respondents stated that they expect climate change to impact company strategy and operations in the next three years. In PwC's January 2023 Annual Global CEO Survey, 76 percent of CEOs surveyed said they anticipate that climate risk would impact their supply chains in the next 12 months; 16 percent said they anticipate a "large" or "very large" impact. Focusing on these supply chain risks is simply part of their fiduciary duty to provide the best value for their investors and other stakeholders.

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California Office: 369 Pine Street, Suite 620, San Francisco, CA 94104

2. By focusing on federal supply chains, the rule addresses a major source of climate risk.

In the past year, our country has experienced one brutal climate-related disaster after another from Hawaii, California, Texas, Florida, Vermont and beyond. According to NOAA, this is part of a dangerous trend. On average there was a billion-dollar weather and climate disaster every four months in our country in the 1980s. By the 2010s, there was one every three weeks. This year we have experienced one every two weeks.

This is costing hundreds of billions of dollars for state and federal taxpayers to rebuild and strengthen resiliency in the face of these extreme climate and weather events. Governments must address the emissions that are increasing the risks and costs.

Reducing the climate risks that are increasing due to the government's operational emissions can *only* be achieved with the full participation of its major contractors. As the GSA has found, the vast majority of the government's emissions come from its supply chains (so-called Scope 3 emissions). Fortunately, emissions reductions from just a small number of large contractors can accomplish a lot. According to the FAR Council, the proposed rule, with its applicability limited to contractors with $7.5 million of contract awards in the most recent fiscal year, or roughly 1.3% of all federal suppliers, would cover about 86 percent of supply chain greenhouse gas emissions.

Concerned about the growing financial, environmental and national security risks of greenhouse gas emissions, national governments around the world are now committing to reducing emissions in their supply chains. In November 2022, 18 countries joined with the U.S. in launching a Net-Zero Government Initiative, pledging to achieve net-zero emissions from national government operations by no later than 2050 and to develop a roadmap for achieving this outcome by the 2023 UNFCCC Conference of the Parties. In February 2023, Canada's Treasury Board promulgated a Standard on the Disclosure of Greenhouse Gas Emissions and the Setting of Reduction Targets requiring major federal contractors to disclose their greenhouse gas emissions and set emissions reduction targets either through participation in Canada's Net-Zero Challenge or another approved internationally recognized and functionally equivalent standard or initiative.

3. Climate risk disclosure is now mainstream among major companies, including large federal contractors

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A growing number of major companies around the world are recognizing the benefits of disclosing their climate risk assessments and mitigation strategies and voluntarily undertaking significant disclosures. For example, 71 percent of Fortune 500 companies are already disclosing their greenhouse gas emissions. These and other climate risk disclosures are driven in significant part by the expectations of their investors: over 95% of the investors that submitted comments to the Securities & Exchange Commission are urging action to ensure consistent climate disclosure to reduce financial risk.

Among the companies that have embraced climate risk disclosure are large federal contractors. The GSA's Federal Contractor Climate Action Scorecard shows that many of the federal government's largest contractors are already disclosing greenhouse gas emissions, climate risk assessments and emissions reductions targets. For example, on emissions reduction targets, General Dynamics, Honeywell, IBM and Johnson Controls are disclosing their commitments.

The numbers of contractors disclosing actions on climate risk will increase dramatically in the coming years as regulators around the world put in place new disclosure standards. Such standards have already been enacted by the European Union through its Corporate Sustainability Disclosure Directive and will soon be enacted by hundreds of other national governments now that the International Sustainability Standards Board has finalized its climate risk disclosure requirements and those requirements have won the approval of the International Organization of Securities Commissions. As of the time of this writing, two landmark California climate disclosure laws have passed the legislature and the Governor recently announced his intention to sign them, with the support of 30 major companies including Apple, Microsoft and many others. State insurance regulators now require over 80% of insurers to submit public climate disclosure reports.

The FAR Council's proposal is completely in line with what is now mainstream thinking in both the private and public sectors.

4. The proposed rule does not dictate the outcomes of any particular contracting decision

It is important to note that the proposed rule does *not* dictate the outcomes of any particular contracting decision; it is designed solely to provide information for strategy development. Thus any claims that it would interfere with agencies' ability to deliver on their missions are unsupported.

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To the contrary, consistent with the objectives of the Procurement Act, the proposed rule would improve delivery of government services. Thanks to the proposed rule, strategic decisions about agency procurement policies and practices will be informed by essential information on risks and opportunities facing the federal government. Once required disclosures are submitted, DOD and other agencies will finally be able to properly assess the supply chain risks that threaten their programs and can develop strategies for reducing these risks. For example, if any of DOD's fuel suppliers have failed to plan for the transportation bottlenecks that are now regularly arising along key supply routes due to extreme weather, the proposed rule will ensure DOD has this information at its disposal as it updates its procurement strategies.

5. The proposed rule has received broad support, including from the private sector

In March 2023, we filed supplemental comments with an analysis of the public comments. While many supporters of the proposed rule including Ceres offered constructive suggestions for improvement, this analysis shows that the proposed rule enjoys broad support, with nearly 19,000 individual supporters and 68 organizational supporters, including private sector leaders such as **The Council of Defense and Space Industries Association**, **BP America**, **Baker Hughes**, **Global Electronics Council**, **Energy Workforce and Technology Council** and **National Contract Management Association** and nonprofit leaders such as **Taxpayers for Common Sense** and **Sustainable Purchasing Leadership Council** support the key elements of the proposed rule.

6. The proposed rule properly leverages standards that were developed by the private sector and are based on science, although changes are recommended.

The FAR Council takes three critical steps in its proposed rule to minimize burdens on the contracting community: limiting the rule's applicability to only the largest contractors; offering a suite of waivers, exceptions and exemtions; and leveraging private standards that are in widespread use across the private sector.

Leveraging private standards is what Congress sought to promote when it enacted the National Technology Transfer and Advancement Act in 1996. How best to leverage private standards was left to agency discretion to a significant extent and a robust discussion on this topic is welcome and appreciated.

In the proposed rule, the FAR Council calls for major contractors to use SBTI's standards in establishing science-based emissions reduction targets and to secure SBTi's validation that those targets are indeed science-based. Ceres has recommended

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that that the FAR Council instead set a minimum federal standard[1] and allow major contractors to enlist help in achieving the standard from SBTi or any other organization with a widely-accepted, science-based methodology. With respect to proposed rule's requirement that major contractors obtain third-party validation of targets, we similarly recommend that the FAR Council allow validation to be secured from SBTI or any other assurance provider that uses a widely-accepted, science-based framework.

By requiring third-party assurance of a science-based methodology for setting targets, the FAR Council would be following a well-established federal strategy for ensuring effective contractor oversight. An example is the U.S. Department of Defense's Cybersecurity Maturity Model Certification (CMMC) program, which uses third-party assessments in implementing cybersecurity requirements for federal contractors.[2]

The best approaches adhere to two guiding principles: respect for science and leveraging the important work that private sector leaders have already undertaken in partnership with civil society.

We know from experience that SBTI and the other groups mentioned in the proposed rule are committed to these principles. We look forward to working closely with these private standard setters, other civil society groups, the contracting community and policy makers to implement these principles in advancing a new era of procurement rules designed to effectively address climate risk.

Thank you again for this opportunity. I welcome your questions.

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