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Scope 3 Reporting Rises to the Fore

Awareness of the need to measure and report on emissions from suppliers and users is growing rapidly among businesses and investors.

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In the past couple of years, "scope 3" has gone from a niche term understood only by greenhouse gas accounting experts to becoming a "buzzword" for corporates. In fact, the number of times scope 3 was mentioned in quarterly earnings calls and investor conferences has risen 15-fold from just 47 mentions in 2019 to 689 in 2021, according to financial data firm Sentieo.

There are three "scopes" under which greenhouse gases (GHGs) are reported, which relate to different categories of emissions. Scope 1 covers GHGs that a company emits directly, for example, by burning fuel in boilers and vehicles. Scope 2 emissions are those it produces indirectly, such as through the purchase of energy for heating and cooling buildings.

Scope 3 emissions refers to all the emissions that the company is indirectly responsible for, both up and down its value chain. Emissions from buying products from its suppliers, and from its products when customers use them are all covered, as are those from staff commuting and business travel, and waste generated from operations.

For many businesses, scope 3 emissions account for more than 70 percent of their carbon footprint. It is therefore crucial to tackle them in order to meet net zero targets – an ambition now set an increasing number of corporations globally.

But they are also emissions over which companies have significantly less control. How can a company reduce the emissions from the cars it manufactures once driven by consumers, or from a pair of jeans it has produced?

Despite the difficulty of cutting these emissions, many corporates are facing up to the fact that they can no longer be ignored. Many standards and certifications in finance require businesses to report on scope 3. For example, the UK government is mandating businesses to disclose climate risk under rules developed by the Task Force on Climate-related Financial Disclosures (TCFD) from April 2022.

In the US, the Securities and Exchange Commission is considering whether to mandate reporting on scope 3. The state of California proposed that larger companies doing business in the state would need to disclose GHG emissions, though it did not make it through the senate. The Singapore Stock Exchange announced in December that it will mandate TCFD-aligned disclosure among a subset of high-impact sectors.

There is also increasing understanding by companies that net zero targets need to be credible, leading to a growth in numbers signing up to the Science-Based Target Initiative (SBTi), meaning that they are in line with what the latest science deems necessary to meet the goals of the Paris

Agreement – limiting global warming to well-below 2°C above pre-industrial levels, and aiming for 1.5°C.

The initiative requires companies whose scope 3 emissions cover more than 40% of their combined scope 1, 2 and 3 emissions, to set targets covering scope 3.

Pressure is also coming from the consumer side. Sustainable products are anecdotally selling 3-4 times more than traditional products, with a survey carried out in 2020 by Smurfitt Kappa finding that 61% of consumers expect the brands they buy from to have clear sustainability practices.

"About three or four years ago, the world suddenly woke up to the fact that 90% of a company's carbon footprint happens in the supply chain. This was probably in part due to the SBTI and organisations such as the CDP putting a lot more emphasis on reporting of scope 3 emissions," says Will Jenkins, director of strategy at consultancy Carbon Intelligence.

"Companies realised that for them to take responsibility for their role in the climate crisis, they couldn't just focus on themselves, they had to focus on their network," he adds.

Cynthia Cummis, co-founder and technical director of the SBTi, says: "When the GHG Protocol launched the Scope 3 standard in 2011, we didn't see quick uptake of the standard. Companies were using it in a piecemeal approach rather than fully complying by developing a full inventory.

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90% of a company's carbon footprint happens in the supply chain

WILL JENKINS, Carbon Intelligence

"But once we launched the SBTi, and required scope three to be covered when those emissions were significant, there was quick uptake of full scope 3 accounting, and now SBTi has 1,100 companies with validated targets and 95% of them cover scope three, which may not have happened otherwise," she says.

Antonia Gawel, deputy head of the World Economic Forum's Centre for Public Goods says: "Tackling scope 3 emissions is a logical evolution when we look at the reality of what we have to do to achieve a science-based transition. The way to move that forward is to start to really transition all the way down the value chain, and be able to help transition not only yourself but also all of your suppliers."

Jamie Barsimantov, co-founder of data platform SupplyShift believes that the type of company looking to deal with scope 3 emissions has changed. When the company first launched around eight or nine years ago, most of its clients were in the food, apparel, or personal care sectors, he says.

But in the past year, he has noticed a trend for non-consumer-facing brands such as chemicals and pharmaceuticals to look at scope 3, he reports. "These companies are feeling pressure more from investors, which is great," he says.

Jenkins has also noted an uptick in investor pressure. They are looking at their own scope 3 footprints, which includes the emissions of companies they finance, meaning they need more transparent information from them.

Around 13,000 companies responded to the CDP's call for information this year, under which you are awarded a higher score the greater the number of GHG sources you disclose, and for having that data verified, he notes.

Even the oil and gas sector is looking at scope 3. In January 2021, Exxon released data on its scope 3 emissions, having thrown out a shareholder proposal to make it disclose full GHGs only a year earlier. It admitted that "stakeholders have expressed a growing interest" in scope 3, though it also states that reporting on these emissions was "less certain and less consistent" than those in scope 1 and 2.

However, the rise in interest in scope 3 emissions has yet to translate to reporting. Research by Boston Consulting Group published in October found that, though 85% of the 1,290 firms surveyed wanted to reduce their GHG emissions reporting, only nine per cent felt they were able to comprehensively measure them. Scope 3 was a significant barrier, with 66% of respondents not reporting any of the emissions relating to their value chain.

Similarly, research by US environmental group Ceres found that, of the 50 largest North American food companies with exposure to the highest-emitting agricultural commodities,


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only 20 disclose scope 3 emissions, 14 included scope 3 in their general GHG targets, while just eight had scope 3 emissions covered by SBTi-validated targets for 1.5C or well-below 2C.

Jenkins believes that work on scope 3 is still very much at an early stage. "Some companies are really starting to get their head around scope 3, they know it's a priority. But most companies are not doing it very well or at all, and those that are doing it have a long way to go before they have really accurate data that they can use to make decisions," he says.

Nick Blyth, policy and engagement lead at IEMA, a membership body for sustainability professionals, says that the number of its members who say their companies are not reporting scope 3 emissions has fallen from 32% ten years ago to 23% in 2020. However, that does not mirror the increase in those who have declared net zero targets, he points out.

"We know from this that there must be a huge amount of work underway at the moment to really understand scope 3, and get systems in place, and good accounting underway. But it might take a company two or three years to really understand the sources of their scope 3 emissions and set baselines," he says.

Gawel points to the fact that only around one third of around 10,000 companies reporting emissions data to the CDP report on scope 3. "That just tells us that there's a data challenge in terms of companies having their arms fully around the ability to gather and then report the full scope of their emissions," she says.

Andrew Marsh-Patrick, consulting director in the EMEA climate change advisory services at ERM says that scope 3 has moved away from being "the elephant in the room", and is

> **One third of around 10,000 companies reporting emissions data to the CDP report on Scope 3**
>
> **ANTONIA GAWL, World Economic Forum**

now being addressed in most sectors. "But they're at different stages of understanding their scope 3 emissions, and are struggling to get the best estimates. It requires obtaining a lot more complex and wide-ranging data than for Scope 1 and 2."

With scope 3 covering procurement of goods and services, information on outsourced operations, capital goods and leased facilities, use of products in each key market, recycling rates at end of life, and emissions from investments and franchises, there is a lot for companies to grapple with.

Cummis says: "A lot of the barriers are in measurement and tracking performance. The lack of transparent supply chains means that companies don't always know where their raw materials are coming from, and unless you have transparency in your supply chain it's very hard to know how to make investments to drive reductions, and then how to track the performance over time."

According to ERM's Marsh-Patrick, even data that appears simple often turns out not to be, for example, capital goods such as steel, plastics and electronics have an embodied carbon footprint, for which data is often difficult to obtain unless a lifecycle analysis has been undertaken. Even

obtaining data on gas and electricity use from landlords can be hard, so office-related emissions are often estimated based on floor area.

Owen Hewlett, chief technical officer of corporate reporting experts Gold Standard, agrees that the quality of reporting on scope 3 is still "fairly weak". However, he stresses that companies should focus on getting started, while guarding against accusations of greenwashing by being honest and transparent about the complexity of the task ahead.

Reporting the emissions of your suppliers can be one of the most significant parts of a company's scope 3 emissions. For example, if it buys a product from a mill, and that mill in turn is supplied by thousands of smallholders who do not keep any records. Most companies at the moment estimate their emissions using assumptions based on multiplying the amount of a particular material they buy by the average number of tonnes of CO2 per dollar spent, explains Barsimantov.

Then can also use ask their suppliers for data through the CDP, though that comprises all the emissions from the business they have purchased from, not specifically the products bought, nor those from the specific factory used to produce them, he says.

Almost every company that has set a science-based target has done so using spend-based estimations as their baseline, according to Barsimantov. However, once they worked with suppliers to understand their real emissions, they could be far higher or lower than they had thought, he points out.

Companies using estimated data will have "a confusing journey to decarbonisation"

JAMIE BARSIMANTOV, SupplyShift

"How am they going to explain that in the boardroom? There's never going to be incremental change from that baseline, because it's not a real baseline," he says. As a result, companies using estimated data will have "a confusing journey to decarbonisation", he says.

Companies wanting to go further could then fall into a trap of trying to obtain data from every tier of their supply chain, finding that too hard, and taking no action as a result, he says. The aim is to find data that is actionable in terms of helping suppliers focus on reducing carbon, rather than merely counting it.

"If we just focus on counting carbon, so we have a really accurate baseline, we're going to miss the boat on what we're after, which is reductions," he says.

Motivating suppliers to provide information on carbon emissions, especially those that are located in parts of the world where reporting is not common, can be challenging. "Buyers generally aren't willing to threaten suppliers with

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different pricing or cancelling contracts based on lack of improvement in reducing GHGs," he says.

Multiple companies asking for the same information in the same way can help, along with showing suppliers how they compare to each other so that they are motivated by the need to stay competitive, Barsimantov says.

It is important to provide suppliers with tools they can use if they have no experience of calculating their emissions, guidance on how to improve, and how improvement will be measured the next time emissions are assessed, he says.

Blyth agrees that focusing on identifying the emissions of key suppliers through questionnaires and surveys is the way to go. "It's a significant piece of work, involving building teams internally, and working across departments inside an organisation including finance, IT procurement, suppliers and contractors."

Marsh-Patrick agrees the workload is significant. "The development of a robust scope 3 inventory is a three-year journey and often needs specialist support, and a long-term data management and reporting solution."

Jenkins stresses the need for businesses to use software platforms to manage scope 3 data properly.

Carbon Intelligence has a platform containing data on around 8,000 companies, and also integrates publicly available data on carbon. Clients upload lists of their suppliers, and can cross reference against those already contained in the platform to obtain their GHG data, and then use the platform to request the same information from the remainder, he explains.

Similarly, data platform Supply Shift provides a way for global networks of buyers and suppliers to exchange

information which has been designed specifically to support suppliers engagement and performance around all environmental, social and governance (ESG) topics. This includes GHG emission data at the level of company, facility or product.

Jenkins cautions that though the number of GHG accounting tools in the market has increased, companies are often lacking expertise in being able to use them.

"There's a real war for talent in the sector at the moment as the requirements for companies to share good carbon footprint data increase. A lot of companies are struggling to recruit and hire, and attract consultants," he says.

As well as accounting tools to help obtain and store suppliers' GHG data, technology is also evolving to support suppliers' collection of data from source, for example, using blockchain and artificial intelligence (AI).

Business should not wait for a technology development to solve their scope 3 problems

NICK BLYTH, IEMA

Gawel points to the use of satellite data and direct sensor technology to gain insight from a particular supplier or site. "There's a broader evolution in technology that is helping us better monitor what's happening on our planet, which then can inform at a very granular level what exactly is happening on the sites of some of these companies," she says.

For example, the Australian Open Data Cube satellite imagery can provide detail of what is happening on the ground up to a few square metres over a particular timeframe. "You can literally see the destruction or regeneration over time of a particular mining company – it's an incredibly powerful monitoring tool that can used understand what is evolving in the context of emissions as well," Gawel says.

However, technology will need to be used alongside other methods. Hewlett: "None of the remote sensing technologies have really been able to overcome the fact that you'll still need to do some kind of on-site empirical measurement. If you want to measure soil carbon, you can track a lot of emissions with remote sensing, but you're still going to need to visit the site and do a soil sample - you can't see that from a satellite."

Blyth stresses that businesses should not wait for a technology development to solve their scope 3 problems. "To put it into context, we need to cut emissions roughly by 45% by 2030 to keep in line with the Paris Agreement target of keeping global temperatures within 1.5C of pre-industrial times.

"So is there time for anybody to wait for new technology solutions? We need to make such progress in this decade, so I think it's about building the right processes and systems based on what is available now, and then you might be able to bring in blockchain or AI in certain areas in future," he says.

GIANLUCA MUSCELLI/SHUTTERSTOCK

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End-user conundrum

Even those companies who have set out to measure and report on scope 3 often omit the impacts from the use of their products due to the lack of available data, despite the fact that it could be a major source of their carbon, Marsh-Patrick says.

End-use emissions can be even more complex to obtain on than those from suppliers. For example, an item of clothing has indirect emissions from the transport used to get to the shop to buy it, and the emissions from washing and drying it.

The SBTi does not require these emissions to be covered under scope 3 because it would involve too many assumptions about how customers use the products, and how you collect that data, Cummis says. However, some companies such as Colgate have opted to adopt a target to educate their customers to reduce their use of water and energy when using the toothpaste as a way of influencing their emissions.

Hewlett says that most of the work in this area has been done by the apparel sector, such as encouraging consumers to wash an item of clothing at lower temperatures. "There's a lot of good work, but it tends to be enabling work rather than tracking of what's genuinely happening because it's a very difficult thing to trace without intruding."

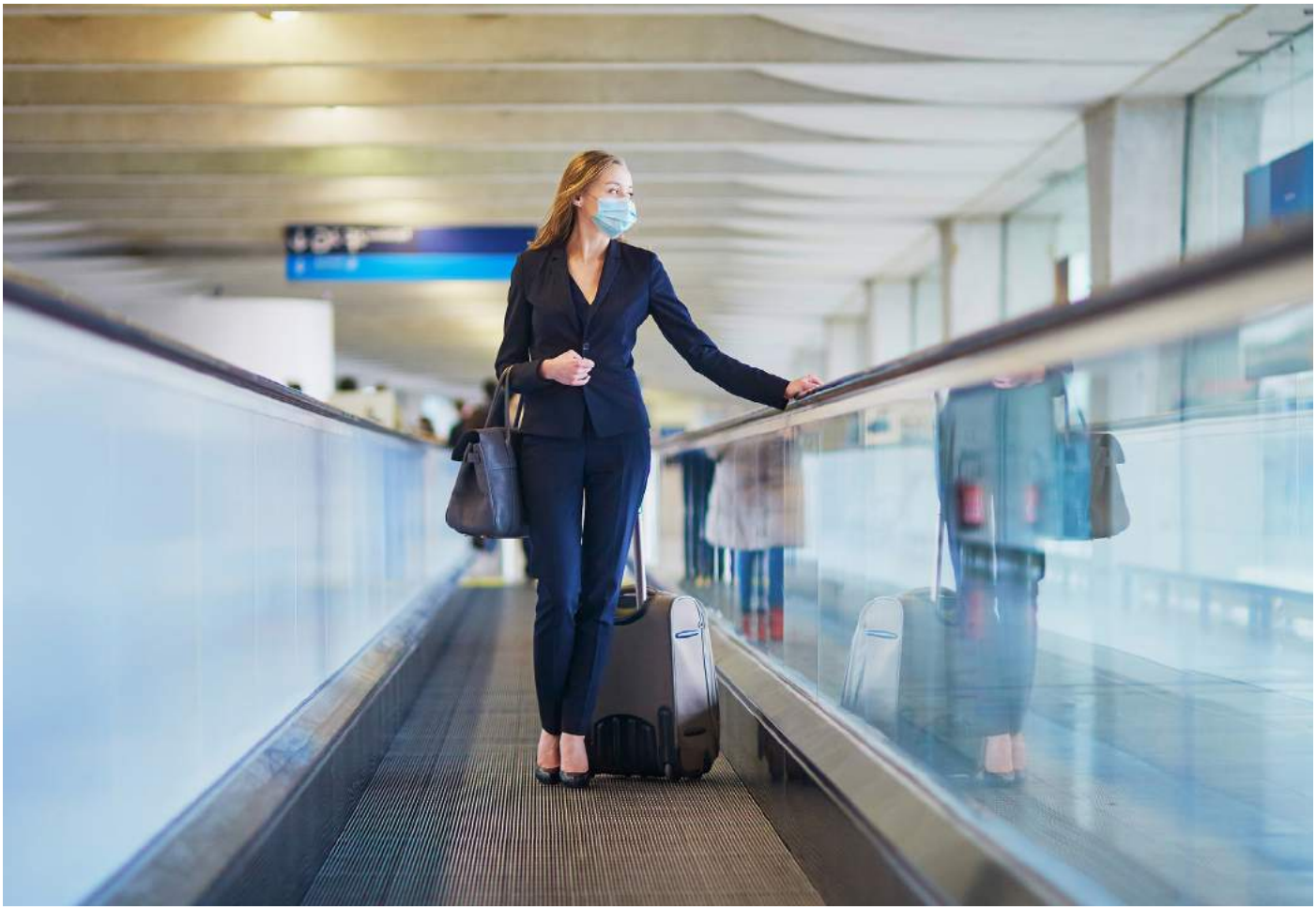
The food and drink sectors have also been looking into end-use emissions. Around 10% of a supermarket chain's carbon emissions occurs once the product leaves their store, in refridgeration, cooking and disposal, according to Jenkins. Pukka Tea has calculated that around 50% of the carbon footprint of a teabag is from boiling the kettle. It has looked into how to encourage people to only boil the water they need, and what kind of impact that will have on emissions.

Despite the fact that this relies on consumer behaviour, and the carbon efficiency of the grid in the markets where they sell their product, the wrong attitude to take would be to say it is too hard and ignore it, Jenkins says.

This reliance on elements that companies cannot control is encouraging some to get more involved in asking the government to regulate. "More and more companies are starting to understand that to achieve their SBTIs they need a favourable regulatory ecosystem, and they're going to need to advocate for the policies they need to achieve their targets," Cummis says.

Gawel believes that it would not be right to rely on citizens to have to navigate all the complexities for themselves, and that companies need to look at what is put on the market, and at what price, in order to drive scope 3 emissions down.

For example, a consumer considering buying an electric vehicle would not then need to make an ethical decision, they just have to decide between two competitively-priced options. "This has to be designed and refined through corporate and government frameworks," she says.



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Business travel

Business travel and staff commuting can be a significant source of emissions for some companies, particularly in the services sector. Global environmental consultancy ERM set itself a target to reduce absolute scope 3 GHG emissions from business travel and employee commuting by 30% by 2025, compared with 2018, after discovering that 60% of its scope 3 emissions came from these sources.

Its strategy has been to add some trigger questions into its travel booking system, such as to ask staff if they had looked at taking a train instead of flying. It has also reduced budgets for travel to internal meetings and training by 50%, to prompt staff to consider whether they need to travel in the first place, or if they can find a better location.

To deal with staff commuting, ERM has set up inter-office challenges around commuting, and put requirements in place for new offices to be near public transport, and to have incentives for using public transport, or walking and cycling.

> **Emissions from business travel and commuting have effective swapped for emissions from homeworking**
>
> **LINDEN EDGELL, ERM**

Since then, working from home and a lack of business travel resulting from the COVID-19 pandemic have made work in this area more challenging, according to ERM's global sustainability director Linden Edgell.

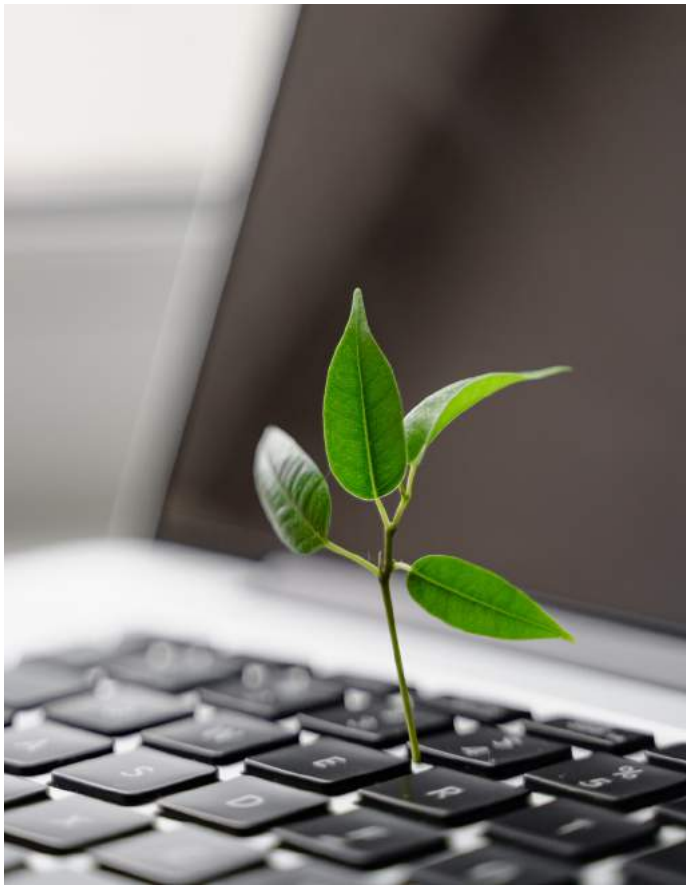
Emissions from business travel and commuting have effectively been swapped for emissions from homeworking, such as greater use of heating. "We can raise awareness of this across teams, but it's not something we have direct control over," he says.

Sectoral approach

Increasingly, there are sector initiatives to standardise approaches on all aspects of scope 3. In this way, businesses can target the same data, know what to include and what to exclude, and how to use it.

For example, the UK Green Building Council has launched a net zero carbon commitment requiring signatories to tackle embodied as well as operational carbon with accompanying guidance; while the hospitality sector has the Zero Carbon Forum, with a 2040 target for decarbonising supply chains. Manufacturers are combining efforts on scope 3 through Manufacturing 2030.

Organisations such as the World Business Council for Sustainable Development (WBSCD) and Business for Social Responsibility (BSR) also have scope 3 projects underway. WBSCD's Carbon Transparency Partnership launched in June and is working at both sectoral and cross-sectoral levels to identify solutions to scope 3 challenges.



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> **The poor supplier has five different requests in five different formats asking for different styles of the same data**
>
> **JAMIE BARSIMANTOV, SupplyShift**

The apparel sector has the Higg Index, a suite of tools for the standardised measurement of value chain sustainability. Since its launch in 2011, the index's user base has increased to 21,483 organisations across 119 countries, with membership covering approximately 40% of the apparel, footwear, and home textiles industry.

"These industry and sector-driven collaborations are a great thing to get involved in, and they're happening all over the place," says Jenkins.

In November, Gold Standard launched the Value Change Initiative to facilitate collaboration on particular issues regarding scope 3, particularly quality and accessibility of data, and double counting. Sectoral working groups have been set up, including for food and agriculture, and apparel.

The Value Change Initiative is closely aligned to the Greenhouse Gas Protocol and the SBTi, and provides a "safe space" for businesses to talk to each other about credible ways to meet their targets, especially in the short term, Hewlett says.

"I see the initiative as a place where that interim challenge can be addressed - how to take action in the short term, while recognising the need for overall improvements in data quality and traceability in the medium term," he explains.

Standardised sectoral approaches will help suppliers who are facing data demands from multiple customers, says Barsimantov. "The poor supplier has five different requests in five different formats asking for different styles of the same data," he says. Using a network to collect data in a common way avoids businesses "just spinning wheels," he adds.

Sustainability issues have typically bought companies in the same sector together, even in really competitive sectors such as the UK supermarkets, Jenkins notes. "I think businesses realise that if they get on the wrong path and lock into the wrong options or technology, it'll far more damaging to them than sharing some information because if everyone's moving in the same direction at the same pace, the cost of doing so is much lower, which means it won't affect your competitive position much."

Though he sees strong collaboration and will to share approaches, he is not so optimistic about specific data being shared. Data platforms such as the one run by Carbon Intelligence can help here, he believes, since the impact of a reduction in carbon by one supplier will ripple through the network.

"I think people will become more comfortable sharing this information. There's obviously a lot of data confidentiality that will need to be built in, but I think people will get behind the vision, because carbon is such a networked problem," he says.

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Next steps

As the number of companies getting serious about scope 3 expands, the standards they have to meet are not standing still. According to Cummis, the SBTi has several updates planned for the near future, including guidance on supplier engagement; a category by category reassessment of its approach to scope 3 targets; and temperature alignment of scope 3, under which it will be able to judge whether such targets are aligned with the Paris Agreement 1.5C target. The GHG is also planning to revisit its scope 3 standard, which is now nine years' old.

"The GHG Protocol needs to stay current with the evolving landscape - things are changing so quickly in terms of how companies operate, the standards aren't keeping up," says Cummis.

> **The GHG Protocol needs to stay current with the evolving landscape... the standards aren't keeping up**
>
> **CYNTHIA CUMMIS, SBTi**

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