

edie explains

Scope 3

carbon emissions

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Expert Viewpoint: UL

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What are scope 3 carbon emissions

Simply put, Scope 3 refers to all of the indirect carbon emissions which occur in an organisation's value chain, which do not relate to the generation of purchased energy. Whilst Scope 1 and 2 carbon emissions tend to sit within the organisation, Scope 3 typically sits outside – both upstream and downstream.

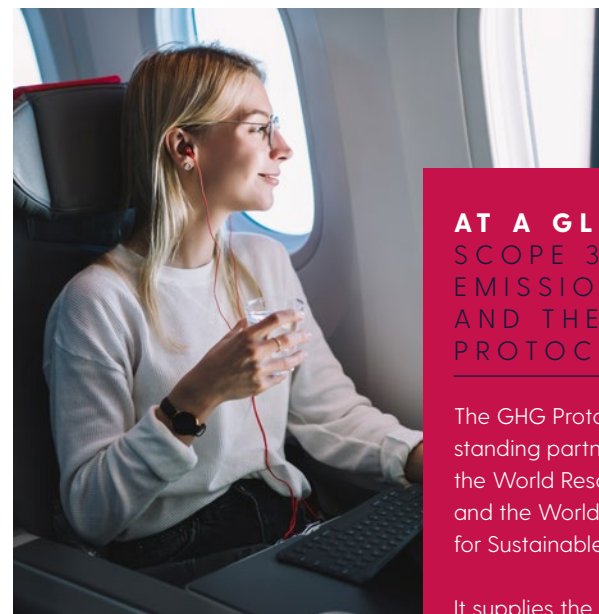
Scope 1 emissions, also called 'direct emissions', refer to the carbon which is produced as a direct result of an organisation's actions, for example, fuel combustion and the use of the company's own vehicles. Scope 2 are the indirect emissions resulting from purchasing electricity, heat or steam from an energy provider.

Scope 3, then, accounts for all of the other emissions which the organisation produces when fossil fuels are burnt within its value chain. This includes upstream – for example purchased goods and services which are brought into an organisation to make products or carry out services. It also includes downstream – for example, what

happens to a product after it has been taken to market and used by a customer.

The three Scopes were developed by the most widely-used international accounting tool – the Greenhouse Gas (GHG) Protocol. For Scope 3 emissions, the GHG Protocol defines 15 categories which can be managed by an organisation, including purchased goods and services, business travel, and investments.

Because Scope 3 carbon emissions are so wide-ranging in what they encompass, and vary so significantly for different types of organisation, they are the most complex part of an organisation's emissions.



AT A GLANCE: SCOPE 3 EMISSIONS AND THE GHG PROTOCOL

The GHG Protocol is a long-standing partnership between the World Resources Institute and the World Business Council for Sustainable Development.

It supplies the world's most widely used greenhouse gas accounting standards – the Corporate Accounting and Reporting Standard. One such Standard is the Scope 3 Standard – the only internationally accepted method for companies to account for these types of value chain emissions. More information on this can be found [here](#).

However, for most businesses Scope 3 emissions also make up the lion's share of their total emissions. Many organisations report that 80% of their emissions fall under the auspices of Scope 3 and, for some, Scope 3 accounts for as much as 97% of their overall emissions. Therefore, in the context of the UK government's 2050 net-zero target, they are arguably the most important emissions to address.

How are Scope 3 emissions calculated?

1. Establish which categories to focus on

The first thing to make clear is that the process differs significantly depending on the location and size of the organisation, as well as the sector in which it operates.

Each sector has its own business context in terms of its impacts on the environment and its emissions. Financial services, for example, would be radically different from a

manufacturing company or a retailer. Even companies within the same sector can vary, depending on the products they sell.

Therefore, the first step in calculating an organisation's Scope 3 emissions is to establish which of the 15 categories are material to its business. For example, a food retailer might focus more on purchased goods and services, while for a large water company, waste generated in operations would be of particular relevance.

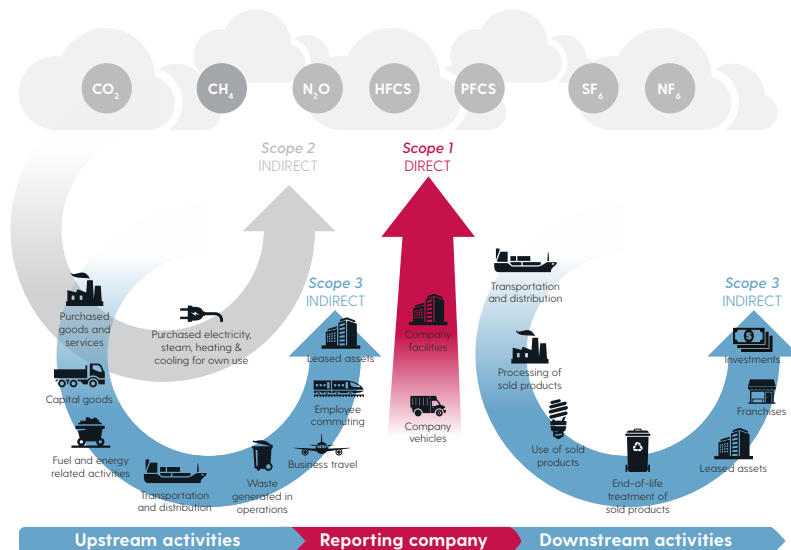
The categories which are identified as the biggest hitters are the ones upon which the organisation needs to place the most focus.

2. Work with an energy or carbon data consultant

Although an organisation can try to calculate its own Scope 3 carbon emissions, the process is often more complicated than calculating Scope 1 or 2 emissions. Therefore, it may be preferable to work with an energy or environmental performance consultant – a quick Google search throws up many examples of such companies.



Source: GHG Protocol



Source: [Figure 1.1 of Scope 3 Standard](#)

THE SCOPE 3 CATEGORIES

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1. Purchased goods and services
2. Capital goods
3. Fuel - and energy-related activities (Not included in scope 1 or scope 2)
4. Upstream transportation and distribution
5. Waste generated in operations
6. Business travel
7. Employee commuting
8. Upstream leased assets

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9. Downstream transportation and distribution
10. Processing of sold products
11. Use of sold products
12. End-of-life treatment of sold products
13. Downstream leased assets
14. Franchises
15. Investments



3. Gather the data

After establishing which categories to focus on, an organisation should establish what data it has available and the accuracy of that data. Most organisations will look at one year's worth of data to do the emissions modelling and calculate its emissions footprint against its spend. Scope 3 emissions can be calculated using either primary data specific to an activity within an organisation's value chain, or from secondary data – such as industry averages – which can be obtained from databases such as that of CDP.

It is important that the datasets are as accurate as possible, so the business avoids missing its net-zero goals and/or its science-based targets.

If an organisation works with a partner company to calculate its

“Most organisations will look at one year's worth of data to do the emissions modelling and calculate its emissions footprint against its spend.”

TOP TIP: COMPLETE A LIFE-CYCLE ASSESSMENT

Organisations that provide products and services may wish to carry out a life-cycle assessment to increase the accuracy of its Scope 3 emissions analysis.

It is worth conducting a deep dive, cradle-to-grave or cradle-to-cradle analysis which calculates, at product level, what the carbon emissions are from material extraction to the use of the product, and then the disposal with the potential to recycle.

emissions, the partner firm may put together a report showing the business its Scope 3 emissions against the material categories, modelled against all the data available for them. The business can use these results to inform its net-zero pathway and can set Scope 3 reductions targets using the science-based targets method.

4. Come up with a reduction strategy

Once a business knows its Scope 3 baseline, it can start to put in place some reduction strategies against the categories it is focussing on.

These will be slightly different depending on the category. For example, for procurement of goods and services the organisation may decide to engage its suppliers and

work with them to see what they can do to contribute to its Scope 3 emissions reduction.

An organisation's progress against its targets should be checked at least annually.

How much does it cost and how is it validated?

The cost depends on the complexity of the business, but generally a Scope 3 starter analysis will cost between £10k and £30k, depending on company size and complexity. The process usually takes about 6-8 weeks, depending on how easy it is for the organisation to access the data that is needed. Of course, reduction schemes and investments will add more to this initial cost and timescale.

For the analysis, it is helpful if two technical specialists are involved – one to undertake the majority of the modelling and the other one to verify the data.

This data can then be externally audited by one of the traditional auditors. This can be useful, as carbon accounting is increasing in strategic importance and is sometimes included in an organisation's annual report (if it integrates sustainability).

How can Scope 3 carbon emissions be reduced or mitigated?

Again, this very much depends on the type, size and location of the organisation, as well as the categories it is focussing on. So, when looking to reduce or mitigate Scope 3 emissions, an organisation should develop a category-specific reduction roadmap.

Purchased goods and services, for example, may require an engagement

AT A GLANCE: WHAT IS ISO 20400?

ISO 20400 Sustainable Procurement Standard is one of many voluntary International Standards developed by the International Organization for Standardization (ISO) – an international standard setting body composed of representatives from various national standard organisations around the world.

The standard works well with ISO 14001 which requires organisations to develop sustainable practices through their supply chains. It also picks up the key principles of ISO 26000 Social Responsibility and makes reference to the core subjects defined by this standard.

[Read about ISO 20400 in more detail here.](#)

programme to be put in place with suppliers to help them reduce the carbon emissions they produce. ISO 20400 – a widely-recognised sustainable procurement standard – can be used to help with this.

Other categories, meanwhile, require different focusses. If looking at business travel, an organisation might consider where air travel is being used and how it can be rationalised. The category of business travel is likely to change because of the Covid-19 pandemic, which has swept the globe over the past few months.

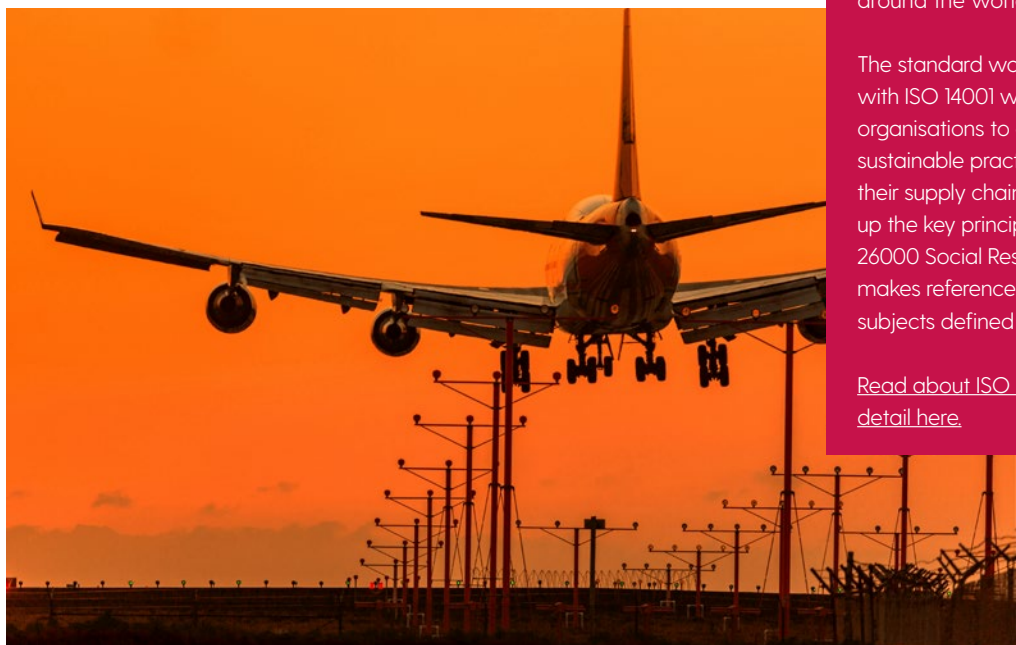
What about carbon offsetting?

Carbon offsetting is one way a business may wish to help reach its net-zero target. However, there is some cynicism around the extent to which offsetting should count towards decarbonisation goals. It is widely regarded that, in order to be effective, carbon offsets should be additional to the natural capital and sequestration that the world currently has. Some businesses may opt for carbon insetting instead, which involves investment in emissions reduction projects within an organisation's own supply chain.

“One of the key challenges when managing Scope 3 emissions is the availability and quality of an organisation's data, and the technical expertise needed to manage them.”

What are the challenges of managing Scope 3 emissions?

One of the key challenges when managing Scope 3 emissions is the availability and quality of an organisation's data, and the technical expertise needed to manage them. Businesses have, in the past, been rejected from them science-based target initiative because the data they have submitted is not up to standard.





“For some organisations, the actions of consumers also have a big impact on Scope 3 emissions. For example, a technology retailer which sells a laptop to a customer is then responsible for the energy used to charge that laptop, and the emissions resulting from its disposal at the end of its life.”

TOP TIP: REDUCTION BEFORE MITIGATION

An organisation should make sure it has reduced its own emissions, including Scope 3, as much as it possibly can before it considers carbon offsetting.

This is particularly important if the business has set a science-based target, which don't currently support offsets.

The complexity is that the data is often drawn from lots of different sources, and it becomes a systems integration challenge to bring it together.

There are numerous standards out there that help with this. For example, the GHG Protocol provides emissions factors and tools to amalgamate and make sense of data from numerous sources.

Another major barrier is the amount

an organisation's success in reducing Scope 3 is dependent on its suppliers and partners, which may not be as ambitious in their carbon-cutting endeavours. For example, an organisation may have set a net-zero target of 2030, but one of its major suppliers might have set a less ambitious net-zero pathway of 2050.

For some organisations, the actions of consumers also have a big impact on Scope 3 emissions. For example, a technology retailer

which sells a laptop to a customer is then responsible for the energy used to charge that laptop, and the emissions resulting from its disposal at the end of its life. Both factors are very difficult for an organisation to control and this is where collaboration and engagement is vital. Many businesses are put off going public with their intentions because they can then be held to account for things they perceive as beyond their control, and criticised if they fail.



What are the business benefits of managing Scope 3 emissions?

Environmental

One of the most obvious benefits of managing Scope 3 emissions is environmental. If an organisation reduces its emissions and, therefore, its impact on the detriment of the planet. It is more likely to avoid risks to its business as a result of climate change, such as financial loss due to extreme weather events.

Reputational

There is also a reputational advantage. An organisation with an ambitious target, which it discloses publicly, is likely to attract more sustainability-conscious consumers to buy its products or services.

Arguably, if a business does not move towards more sustainable business processes, consumers will start shying away from the products and services it provides because they are viewed as environmentally distasteful.



Attracting talent

The same goes for employees. There is a benefit in that, by addressing Scope 3 emissions an organisation is likely to be attracting the best talent. People, especially those under the age of 30, increasingly want to work for sustainable and responsible companies.

Financial

The aforementioned advantages often also translate into financial benefits, as they attract more consumers and more talent to the business. FMCG brand Unilever is a case in point – the firm has reported that its purpose-led, ‘Sustainable Living’ brands are growing as much as 69% faster than the rest of the business and delivering around three-quarters of its growth.

Additionally, in the financial sector, environmental and social governance (ESG) funds are often seen to perform better, as divestment away from fossil fuels continues apace, and people increasingly look at sustainability in terms of exposure and what it means for their investment. Companies are therefore increasingly looking to measure and report on the ‘cost’ of their carbon emissions alongside traditional profit metrics. In 2020, Paris-based food and beverage giant

Danone company adopted a “carbon adjusted” earnings per share metric. The metric, which is calculated on the theoretical cost per share of Danone’s greenhouse gas emissions, is designed to expose the financial cost of carbon emissions on its entire value chain and help investors better understand the firm’s environmental impact.

Getting ahead on compliance

Another advantage in starting to manage Scope 3 emissions is that it puts an organisation ahead in terms of applying for certifications and meeting standards. A lot of the standards and certification

schemes have, in the past, viewed disclosure on Scope 3 emissions as a ‘nice to have’. However, many are now starting to harden that requirement, and stipulate how it is met.

The UK government’s Streamlined Energy & Carbon Reporting (SECR) framework, for example, strongly recommends Scope 3 emissions are considered. And the science-based target initiative states that if an organisation has more than 40% of its total emissions in its Scope 3, it must set a target for its Scope 3 which addresses two-thirds of those emissions.

In the world of finance, the Task Force on Climate-related Financial Disclosures (TCFD) requires businesses to report on Scope 3, plus CDP now requires businesses involved in its scheme to disclose their portfolio carbon footprints.

What does the future hold for Scope 3 emissions?

It is clear consumers are becoming increasingly aware of sustainability issues and are demanding sustainable products, which are anecdotally selling 3-4 times more than traditional

products. Indeed, a survey carried out in 2020 by Smurfit Kappa found that 61% of consumers expect the brands they buy from to have clear sustainability practices. And this is having a knock-on effect on governance, with many standards and certifications now including Scope 3 emissions reporting as a requirement rather than a ‘nice to have’.

Against the backdrop of the UK government’s target to reach net-zero by 2050, and with many companies setting more ambitious goals, the number of organisations looking at reducing their Scope 3 emissions look set to grow. ■



TOP TIP: CUT CARBON, SAVE MONEY

The more carbon an organisation cuts, the more energy and resources it will save which equates to saving money. Done properly, reducing Scope 3 emissions will reduce energy demand and will always save the business money.



INDUSTRY VIEWPOINT

Taking control of your Scope 3 data

Evelyn Saelens, Senior Sustainability Consultant, UL

Scope 3 emissions, GHG (Green House Gas), net-zero targets: topics in the news and at the top of every organisation's agenda.

The latest Boston Consulting Group (BCG) survey revealed that fewer than 1 in 10 companies comprehensively reported emissions, with only 9% of respondents stating that they can quantify their full Scope 1, 2 and 3 emissions.

Businesses have a real opportunity to make a difference and achieve collective objectives in carbon emissions right across their value chain. But it does come with a set of challenges.

If your company has significant Scope 3 emissions, over 40% of your total Scope 1, 2 and 3 emissions, you should be setting an ambitious, measurable target that clearly demonstrates how your company addresses the primary sources of value chain GHG emissions.

However, knowing you should be doing something and delivering it are entirely different.

Here are some things to consider when starting on or evaluating your Scope 3 emissions reporting:

What is the value of reporting?

Companies are under more pressure than ever from investors, customers and regulators to be transparent with sustainability and ESG data. Gathering and reporting Scope 3 data brings challenges. But it also brings about immense opportunities to effect real change and leave a lasting legacy.

How engaged is your value chain?

Many businesses are finding inventive ways of engaging their supply chain using the domino effect. Some examples of best practices include:

- Communicating your objectives – once you have committed to a set of goals, incentivize your supply chain to join you
- Engaging their supply chain with supplier forums – companies are taking advantage of the ease of virtual events to engage suppliers
- Supporting your value chain in target setting and sharing knowledge and experience

Finding the right solution

Despite the various benefits of Scope 3 reporting, it can come with a set of challenges.

Gathering data from external organisations can be challenging and time-consuming. Defining a clear strategy and finding a software solution will simplify the processes and save time.

To efficiently gather qualitative Scope 3 data without burdening stakeholders, organisations must employ technical processes specific to collecting, measuring and managing such data. To use large quantities of data points, companies must adopt processes and tools that pragmatically drive carbon forward performance reporting. ■

To find out more, visit: www.ul.com/services/scope-3-carbon-advisory-and-reporting-services

HOW UL 360 CAN HELP

At UL, we provide sustainability and ESG software solutions and advisory services tailored to each organization. We work closely with you to understand your Scope 3 challenges, automate data collection and measurement and specify solutions to drive carbon performance.

We focus on transparency, pragmatism and agility and always ensure our advice and solutions are science and data-driven. We understand that value chains are continuously evolving.

So, establishing a Scope 3 carbon measurement program proves vital to growing and evolving your business.

