Climate and the value chain

A roadmap for Scope 3 emissions reductions

ecoact

an atos company

Contents

Introduction

Scope 3 emissions, also known as "value chain" emissions, are indirect greenhouse gas (GHG) emissions both upstream and downstream of an organisation's main operations.

Many organisations find that the largest part of their carbon footprint lands within Scope 3 and that these emissions fall outside of the organisations' direct control. This makes them simultaneously the most important and the most challenging emissions to manage for many.

Organisations are coming under increasing pressure to demonstrate that they are taking responsibility for their full climate impact. Companies and indeed, even nations, are being called upon to be transparent about Scope 3 emissions which may fall outside their direct control, but remain within their sphere of responsibility.

The global COVID-19 pandemic in 2020 exposed the vulnerability of supply chains, demonstrating that we should be looking at how to make value chains more resilient to the risks we face in future, and none is so great as climate change.

We are now aware that we need to limit global warming to 1.5 degrees Centigrade to avoid the worst impacts of climate change. Therefore, more companies are committing to science-based targets (SBTs) for emissions reduction.

To gain approval of your SBT, you need to include your Scope 3 emissions. This is often cited by companies as the biggest blocker to SBT setting and validation.

This factsheet explores the challenges and solutions for tackling Scope 3, but also the potential opportunities associated with it. Addressing some of these challenges is the key to large emissions reductions in the value chain.

However, Scope 3 is not just about reducing the impact of one organisation. It is about contributing to a global shift to a lower carbon economy. Targeting value chain emissions provides the opportunity and the motivation for global collaboration to reduce emissions and meet our targets. The actions taken across international value chains will contribute to a cascading of positive impacts across geographies and industries.

As the window for adequate climate action continues to narrow, Scope 3 is key to the radical change needed to meet our climate goals in time.

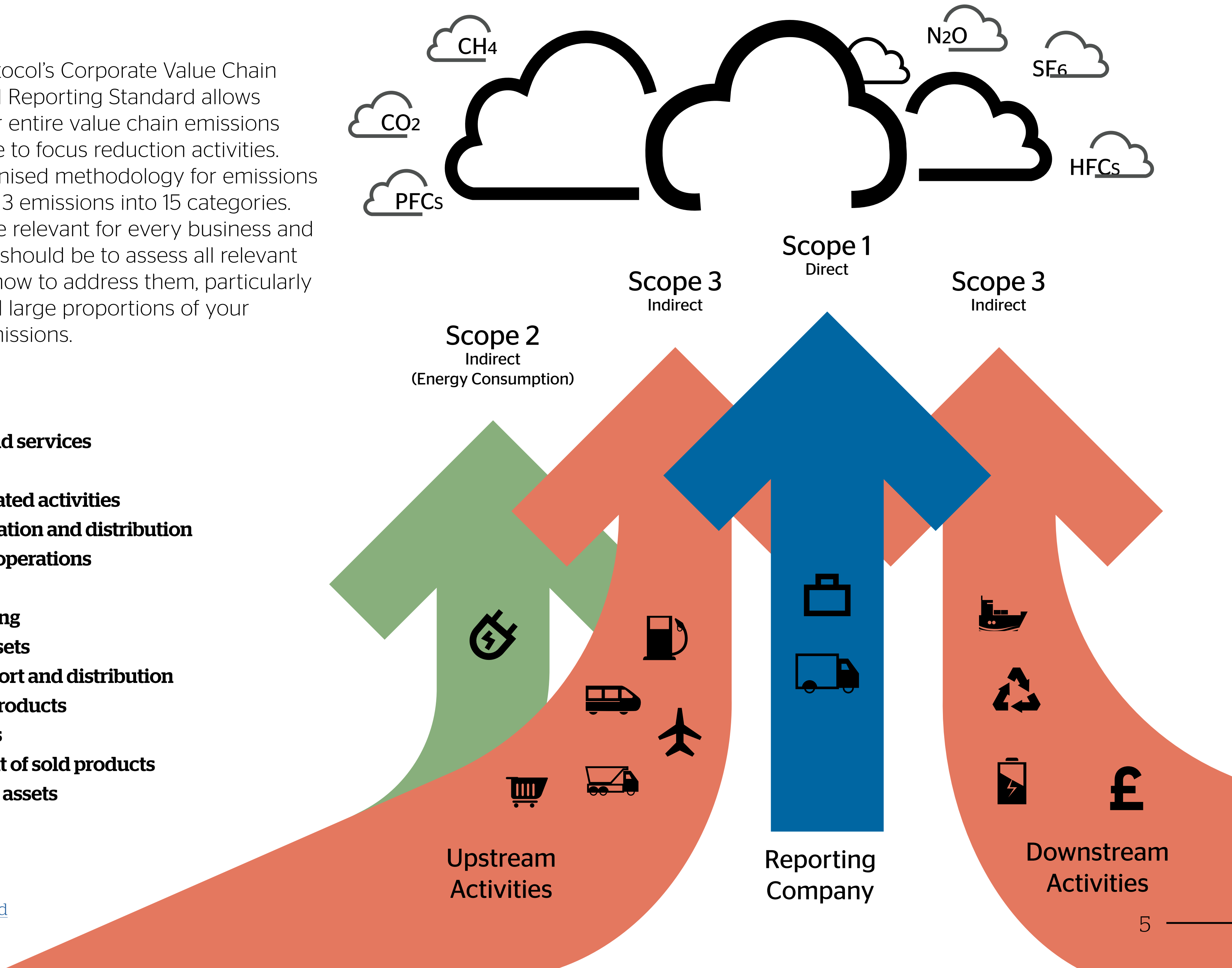
> "Tackling climate change is a collective endeavour, it means collective accountability and it's not too late"
>
> **Christine Lagarde**
> **President of the European Central Bank**

Scope 3 emissions

The Greenhouse Gas Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard allows companies to assess their entire value chain emissions impact and identify where to focus reduction activities. This internationally recognised methodology for emissions calculation divides Scope 3 emissions into 15 categories. Not every category will be relevant for every business and sector. However, the goal should be to assess all relevant categories and consider how to address them, particularly the categories which hold large proportions of your organisation's Scope 3 emissions.

15 categories

1. **Purchased goods and services**
2. **Capital goods**
3. **Fuel and energy-related activities**
4. **Upstream transportation and distribution**
5. **Waste generated in operations**
6. **Business travel**
7. **Employee commuting**
8. **Upstream leased assets**
9. **Downstream transport 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**



Adapted from the Scope 3 Standard

The challenges of tackling Scope 3

Difficult to measure:

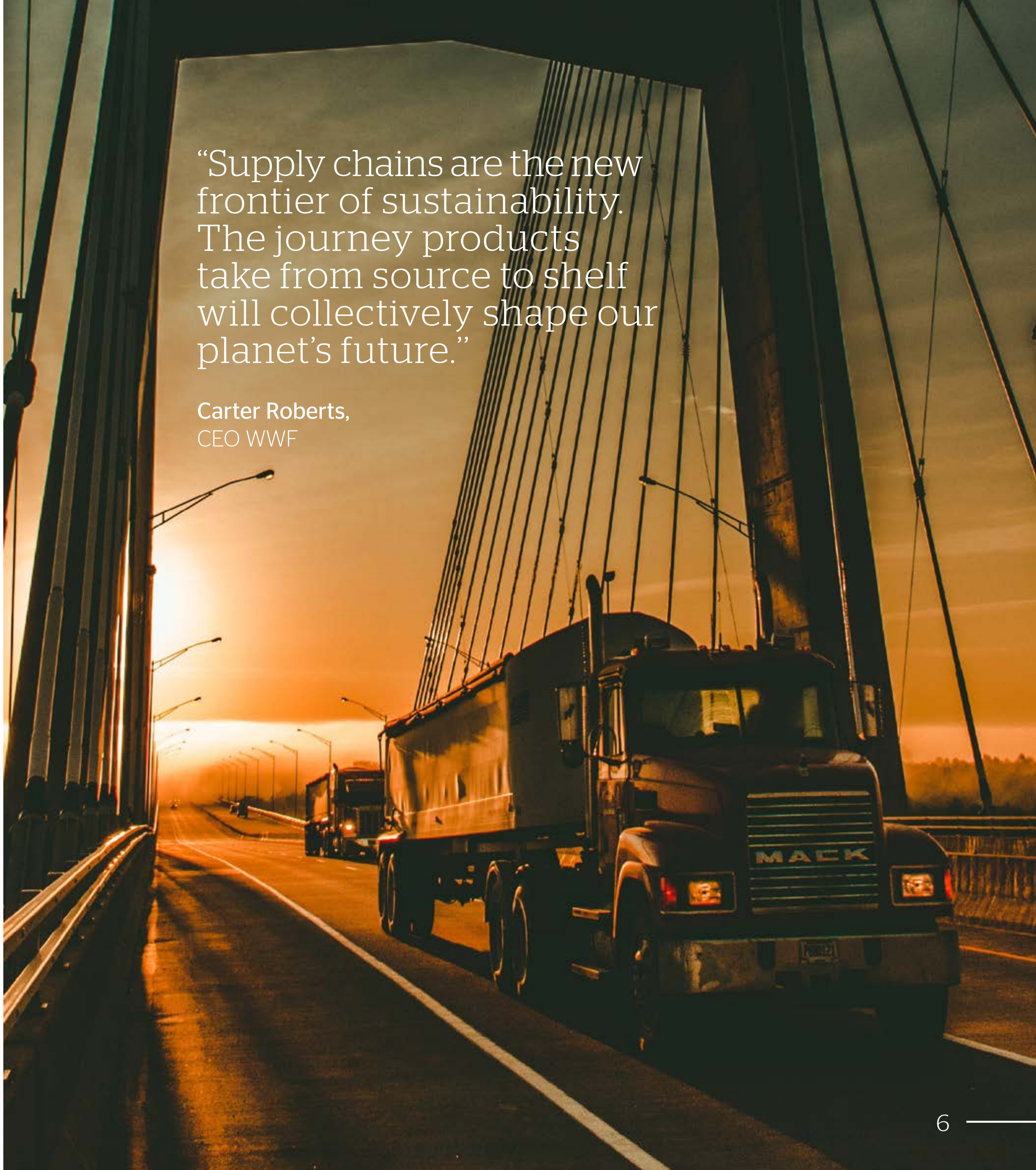
Scope 3 data collection is often reliant on a vast array of stakeholders, many of whom may not have their own data or calculate a footprint. Even if they are, the reliability and format of the data is uncertain. However, there are methodologies to help you to work around these challenges, and as more companies engage with their value chains and seek improvements, the easier these challenges should become.

Decentralised:

Ultimately these emissions are beyond an organisation's direct control. The challenge and the opportunity lies in implementing sustainability initiatives that have an impact through collaboration and influence.

Global:

If your organisation is large and complex, chances are that emissions sources are spread across the globe. To make an impact will require navigating various competing cultural, legislative and practical factors. However, climate change is a global problem. There is a compelling reason for all your stakeholders to cooperate on emissions reduction.



"Supply chains are the new frontier of sustainability. The journey products take from source to shelf will collectively shape our planet's future."

Carter Roberts,
CEO WWF

Diverse and complex:

From complex international transportation networks connecting to many different raw materials and manufacturers, the present-day value chain is highly complex. Where do you even begin? If you begin with the most material aspects and the areas you know you can influence, it is possible to take manageable steps.

Subject to competing priorities:

From modern slavery to waste, to climate change, there are a lot of issues to address in value chains. How do you prioritise these? Environmental and social challenges may seem polarised, but they will be reliant on the same lines of communication and collaboration.

Lacking in best practice guidance:

There is an absence of clear best practice on how to manage Scope 3 emissions meaning that this can be a daunting task. Remember, you are not the only one at the beginning of this journey, and while there are companies clearly leading the way, no one else has managed to entirely perfect it yet and every organisation will be different. You have an opportunity to forge a path forward that is compatible with your organisation and to demonstrate leadership in your sector.

(For further discussion on the challenges of Scope 3 emissions, specifically in the Supply Chain, watch this webinar.)

FAQ: Scope 3 and double counting

We often get asked about the robustness of Scope 3 accounting and the perceived issue of double counting.

In theory if every business was calculating their Scope 1 and 2 emissions, then our Scope 3 emissions will already be covered. In reality, we are a very long way from this.

The aim of a Scope 3 assessment is to get a view of an organisation's indirect emissions so that it can participate in addressing them. We should also be accountable for emissions emitted from the goods and services that we buy and sell. With a rapidly closing window for adequate action on climate change, it is imperative that we all participate in driving change not just within our own operating boundaries.

It is now best practice to do so, which is why Scope 3 is a disclosure requirement for the major reporting platforms and why it is built in as target-setting criteria for science-based targets.

There is no commercial or climate risk from more than one organisation taking account of emissions, but the risk is potentially huge if no one does.

The opportunities of tackling Scope 3

It may be difficult to discern a clear monetary return on investment for your Scope 3 work, but there will be rewards for your efforts.

CDP™ GOLD ACCREDITED PROVIDER 2022 Climate Change Consultancy & Science-Based Targets

According to CDP's Global Supply Chain Report 2021, almost 1.8 billion metric tons of GHG emission reductions saved over US$29 billion.

Reputation

It is increasingly expected by investors and customers that an organisation has calculated Scope 3. Failing to tackle Scope 3 can now have a significantly negative impact an organisation's reputation.

Reporting

Measuring and managing Scope 3 emissions enables companies to answer the demands for reporting by stakeholders. Sustainability reporting frameworks all include Scope 3 emissions criteria, and the bar of best practice continues to rise. A strong Scope 3 strategy can help bolster performance rankings in sustainability indices.

Reduction targets

Addressing Scope 3 allows science-based target (SBT) setting. SBTs are recognised as the gold standard in climate change targets. The SBTi's Net-Zero Standard requires long-term SBTs to cover at least 95% of company-wide Scopes 1 and 2 emissions and 90% of Scope 3 emissions.

Resilience

Tackling Scope 3 emissions necessitates a clear understanding, governance and oversight of your full value chain. It will help you to understand where your emissions hotspots are and potentially where you are most vulnerable to future risks, particularly those associated with the transition to a zero-carbon economy.

Telefónica case study: from supplier engagement to SBTi validation

EcoAct has been working with Telefónica to establish a strategic supplier engagement programme and in setting ambitious Scope 3 targets aligned with the most recent climate science.

Telefónica, a multinational telecommunications company headquartered in Madrid (Spain), is one of the largest telephone operators and mobile network providers in the world.

Telefónica partnered with EcoAct to launch a new climate engagement programme with their key suppliers. These suppliers were selected based on their contribution to Telefónica's Scope 3 emissions, their degree of maturity in their climate change management and their strategic importance for Telefónica.

The aim of the programme was to gather information from these suppliers to understand the maturity level of their climate strategies and help them set more ambitious emissions reduction targets.

This extensive programme included:

- Setting up interviews to better understand the processes of the selected suppliers and their initiatives, as well as finding potential areas for improvement;
- Facilitating a series of workshops by maturity level to inspire suppliers to take action and offer a forum to foster innovation and an exchange of best practices;
- Preparing training materials and supporting documentation.

The programme has proven to be very successful with suppliers defining concrete targets related to the handling of their footprint in different areas such as carbon management, energy management, transport, product design, internal carbon pricing or adhesion to the "100 Initiatives".

With a strong action plan for emissions reduction, EcoAct assisted in the development of an SBTi compliant Scope 3 target. This was undertaken by completing an assessment of Telefonica's objectives, formulating a Scope 3 target aligned to a 1.5°C scenario, and supporting the company through the SBTi validation process.

Tackling Scope 3

Tackling Scope 3

What should my organisation do next?

At EcoAct we have a robust methodology for overcoming the challenges and understanding how to tackle indirect emissions calculation and reduction.

Scope > Measure > Analyse > Target > Act > Report

1 Scope

The first phase is a vital one for you to establish the boundaries of your Scope 3 work and provide a full picture of the gaps, the areas for improvement, and the wider context. All of which will inform the rest of the Scope 3 strategy.

Scoping assessment

Firstly, you will need to map organisational activities across the 15 Scope 3 categories to understand which categories are relevant. From this you will be able to define the boundaries of your Scope 3 emissions, identify data requirements and get a sense of your Scope 3 footprint heatmap based on sector averages.

Review of existing data and systems

The next step is to undertake a review of any existing reporting processes to identify strengths and weaknesses in relation to Scope 3 emissions data collection. What data do you have already and what will you need to collect? If you are already collecting data, how robust is your system for data collection and monitoring? If your system is outdated and inefficient, or you find yourself in a sea of spreadsheets and endless email chains chasing people for data, it's probably time for an overhaul. Understanding the information available will be important to inform the best calculation methodology.

2

Measure

Armed with the knowledge from the initial phase you can move forward with Scope 3 emissions calculation.

Footprinting

You undoubtedly will have found some, if not a lot, of gaps in your data during the scoping phase. Despite this, you will still need to undertake a calculation next in order to understand your impact and how emissions are spread across your value chain.

There are different estimation approaches for upstream and downstream. We can guide you through that and help you overcome the challenges of missing primary data. Our methodologies are informed by annually updated industry conversion factors to provide you with a Scope 3 footprint that is as robust as possible.

3

Analyse

Armed with a footprint and a clear view on your Scope 3, you will be able to identify your emissions hotspots and assess the most material areas of your value chain to focus on.

Materiality Assessment

Using your Scope 3 footprint, you should start to look first at where the largest emissions reside (your emissions hotspots). You want to establish where to focus your efforts in improving primary data, emissions calculation and of course emissions reductions.

To do this, compare the size of emissions for each of your relevant Scope 3 categories. You can also consider areas where you have the greatest potential to communicate and influence, and map these factors against the size of emissions. This will enable you to establish which areas are the most material.

Focusing in on spend and volume, key products, geographies and business lines could help you to further break down your Scope 3 into target areas. The outcomes and the strategies for action will be specific to sector and business.

Also, once you understand your footprint it is important to move towards primary data. Tackling Scope 3 should be considered as a multi-year journey in which you are continually improving the quality of your footprint granularity.

4 Target

You will now know where your key areas of focus are and where to place your efforts for improving data and reducing emissions. From here you can start to formulate a plan of action and set targets to reduce your value chain emissions.

Internal stakeholder engagement

It will be crucial to involve the right people from your organisation in the process from the outset. Good governance on climate-related matters is now increasingly expected and essential for ensuring your initiatives are successful. It will be important to have input and oversight from procurement, sustainability and the C-Suite to devise a feasible strategy for Scope 3 and drive it forward.

Devising ambitious but realistic targets

Climate targets in principle are simple to set but being confident of the feasibility of your target and exactly how you are going to reach it is far more challenging, and, ultimately, the most crucial part. At EcoAct, we have developed a visualisation and calculation tool, CRaFT, that can be entirely tailored to a unique organisation. It can itemise all your possible efficiency and reduction initiatives across your various business units, products and/or services and account for contextual factors including the most up to date grid greening projections and estimated business growth to enable you to not only see the different pathways your company could follow to reach your target, but also the investment you would need for each of the pathways to take place.

Risk Assessment

Companies are currently facing increased pressure, particularly from investors, to assess and report their climate-related risks and opportunities. If you are not already undertaking this work as part of your reporting requirements, a climate risk and opportunities assessment could also inform your Scope 3 strategy, and will certainly inform a strategy for making your value chain more resilient to the risks of climate change.

SBTi criteria

The SBTi's Net-Zero Standard addresses the wide disparity and lack of comparability of current net-zero commitments. It also emphasises the requirements for deep decarbonisation to meet the goal of 1.5 °C.

SBTi Scope 3 criteria require that at a minimum Scope 3 data should conform to the following:

- Scope 3 emissions inventory, as defined by the GHG Protocol Corporate Standard, must be screened
- Should Scope 3 emissions represent >40% of total Scope 1, 2 & 3 emissions, a Scope 3 target must be set
- The Scope 3 near-term reduction target must cover at least two thirds (66.6%) of Scope 3 emissions
- The Scope 3 long-term reduction target must cover at least 90% of Scope 3 emissions

5

Act

A clear action plan will be needed to tackle your Scope 3 emissions. This action plan should first focus on your priority areas as identified during the Analyse phase.

This could look very different for different organisations. However, engagement will certainly play a big role in every strategy. We would recommend a pilot and scale approach to many of these actions to ensure that you can test how well your strategies work before fully implementing them.

Supply chain actions

If the majority of your emissions are in purchased goods and services then your strategy should encompass procurement processes, supplier engagement, and potentially third-party logistics initiatives. Your procurement team will be integral to this process as actions could include:

- Reviewing and setting new supplier criteria
- Communicating and incentivising your partners to improve both their data and their climate performance
- Third-party logistics strategy
- Setting specific procurement targets
- Collaboration with partners to improve products and source lower emission materials

Internal actions

Education and incentivisation of internal teams could be crucial, particularly when it comes to commuting emissions and business travel. For many companies, business travel, particularly from flights, can make up a significant proportion of emissions. Some example strategies to consider are:

- Internal education and training
- Engagement of travel teams and establishing travel emission reductions targets
- Incentives and rewards to drive behaviour change
- An internal carbon price

Life Cycle Assessment (LCA)

An LCA is a methodology to assess the environmental impacts of a product or service throughout its life – from raw material extraction, manufacture and use, to end-of-life disposal, recycling or reuse.

LCAs can be used to comparatively assess the emissions of different product or service design options. EcoAct have helped companies to undertake these assessments in order to make informed choices on how to most effectively reduce the impact of their products and services. This could help you find significant Scope 3 reductions and help you to market lower carbon products and services.

Downstream actions

Downstream covers the delivery to the end-of life of your products but could also include your investments and leased assets. Although companies typically have a lower degree of influence on downstream emissions, you do still have potential to influence here with the following example activities:

- Customer communication and engagement
- Investment choices and divestment
- Product innovation to improve emissions during the use phase

6 Report

From the outset it is important to consider how you are going to be reporting and communicating your actions to your stakeholders.

Developing key performance indicators

How are you going to measure the success of your Scope 3 initiatives?

It will be important to set individual targets and quantifiable measures to track your progress. This will not only help you to communicate your actions and improve your organisational carbon reporting, but it could act as a great motivator to galvanise your teams behind their specific goals and your collective goals as an organisation.

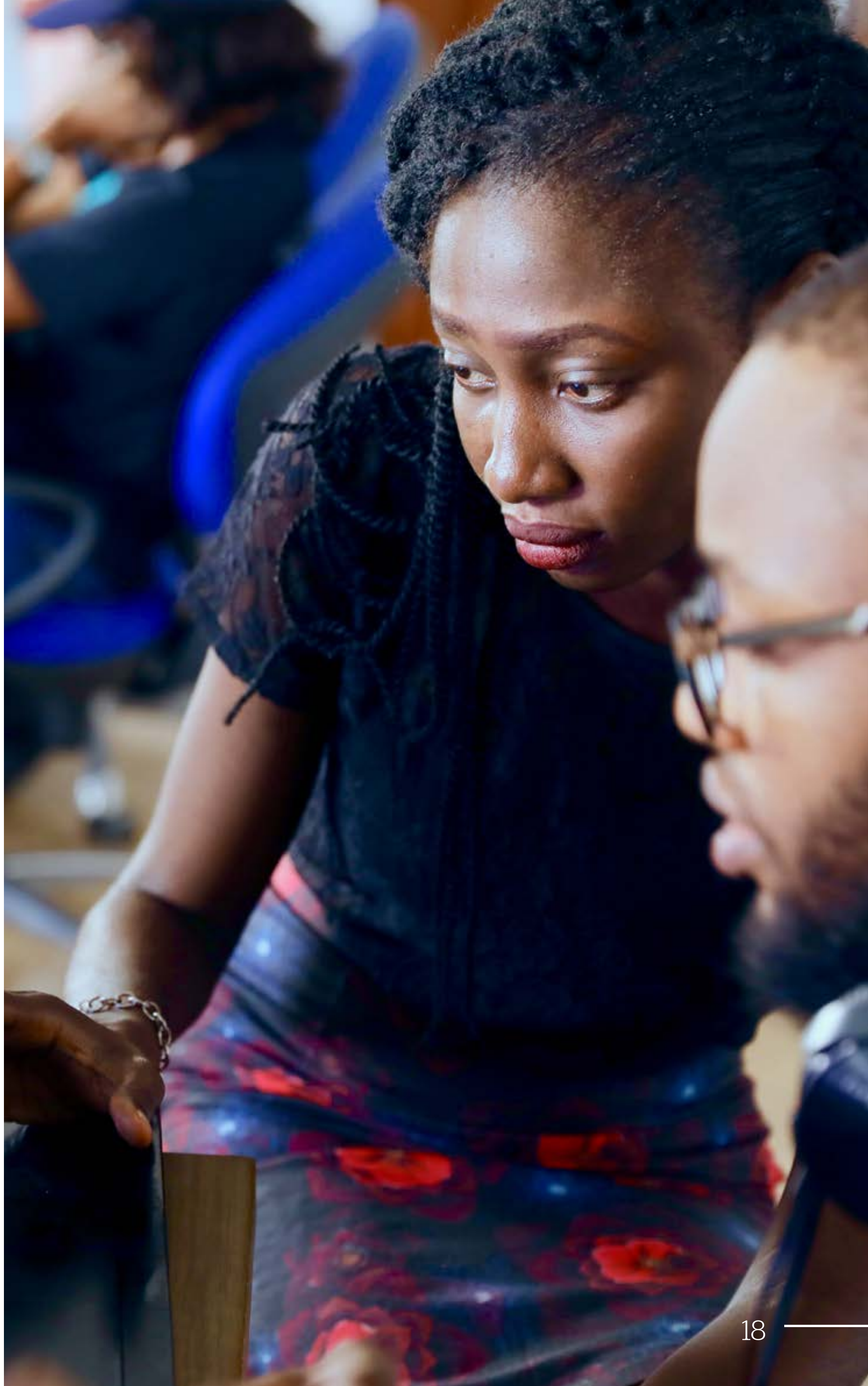
Enhancing systems and processes

Setting up robust processes and systems for measuring and monitoring your data across all Scopes will be vital to aid your compliance and voluntary reporting on climate change. As you improve on the quality of the data you receive from your suppliers, it will be important to ensure that you have the best systems and processes to drive forward your strategy and manage your progress. At EcoAct, we have experience of helping companies to find and build the most effective systems to suit a unique organisation.

Assurance

You may wish to consider getting your full company footprint assured by a third-party, this will help you to demonstrate the credibility of the work that you have carried out. You might also request your suppliers do this, as part of your strategy to improve you Scope 3 data and engage your suppliers in tackling their own climate performance.

> “As we start to rebuild our economies after the coronavirus, we need to invest smartly. Our compass will remain the #EUGreenDeal, which can transform our economies and societies to confront climate change. For the future of our planet and our children. #GreenRecovery”
>
> **Ursula von der Leyen,**
> on the “Build Back Better” pledge



Conclusion

The urgent need to limit climate change and achieve net-zero by 2050 requires rapid decarbonisation over the next decade. This demands a radical re-think of the way we do business across our value chains.

Organisations will find themselves increasingly held accountable for their indirect, as well as direct, emissions as the the year-on-year rise in climate change impacts continues.

The climate crisis is an international one, as complex and interwoven as our value chains are today. This is a collective global challenge for which we are all accountable and why Scope 3 emissions are such an important aspect of a corporate climate strategy. They may be the most challenging of emissions to tackle but there is a pathway forward and from there lies a huge opportunity to forge ahead and demonstrate leadership.

The climate crisis is already here and time available to limit global temperatures to 1.5°C is disappearing fast. It will be impossible to reach net-zero without tackling Scope 3 emissions. We expect to see more regulations and policies in the coming years, so it makes sense for businesses to get ahead by addressing Scope 3 now, particularly through improving data quality to better assess reductions being made.

Your climate experts.
Your partners for positive change.

EcoAct, an Atos company, is an international climate consultancy and project developer that supports companies to set robust science-aligned net-zero strategies and achieve their climate targets. Founded in France in 2006, the company now spans three continents with offices in Paris, London, Barcelona, New York, Montreal, Munich, Milan and Kenya.

With a team of more than 360 international climate experts, EcoAct's core purpose is to lead the way in delivering sustainable business solutions that deliver true value for both climate and client. EcoAct is a CDP Gold Partner, a founding member of ICROA, a strategic partner in the implementation of the Gold Standard for the Global Goals and reports to the UN Global Compact.

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