Mastering Scope 3: Strategies and Insights for Reducing Value Chain Emissions

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Your South Pole experts today

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After this FIBS training, you will understand

- The key challenges and complexities involved in managing Scope 3 emissions.
- How companies have successfully reduced their value chain emissions through real-world examples and case studies.
- Practical strategies and best practices for accurately measuring, managing, and reducing Scope 3 emissions.

Schedule

Topic	Time
Introduction FIBS & South Pole	09:00-09:20
Understanding & measuring scope 3	09:20-10:00
Break	
Scope 3 challenges & case studies	10:10-11:00
Break	
Practical strategies	11:10-11:45
Wrap-up	11:45-12:00

About South Pole

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Who we are

South Pole partners with climate action projects and corporate clients worldwide to drive finance towards sustainable practices

Innovative solutions

An award-winning, 18-year history of providing sustainability solutions

Project developer

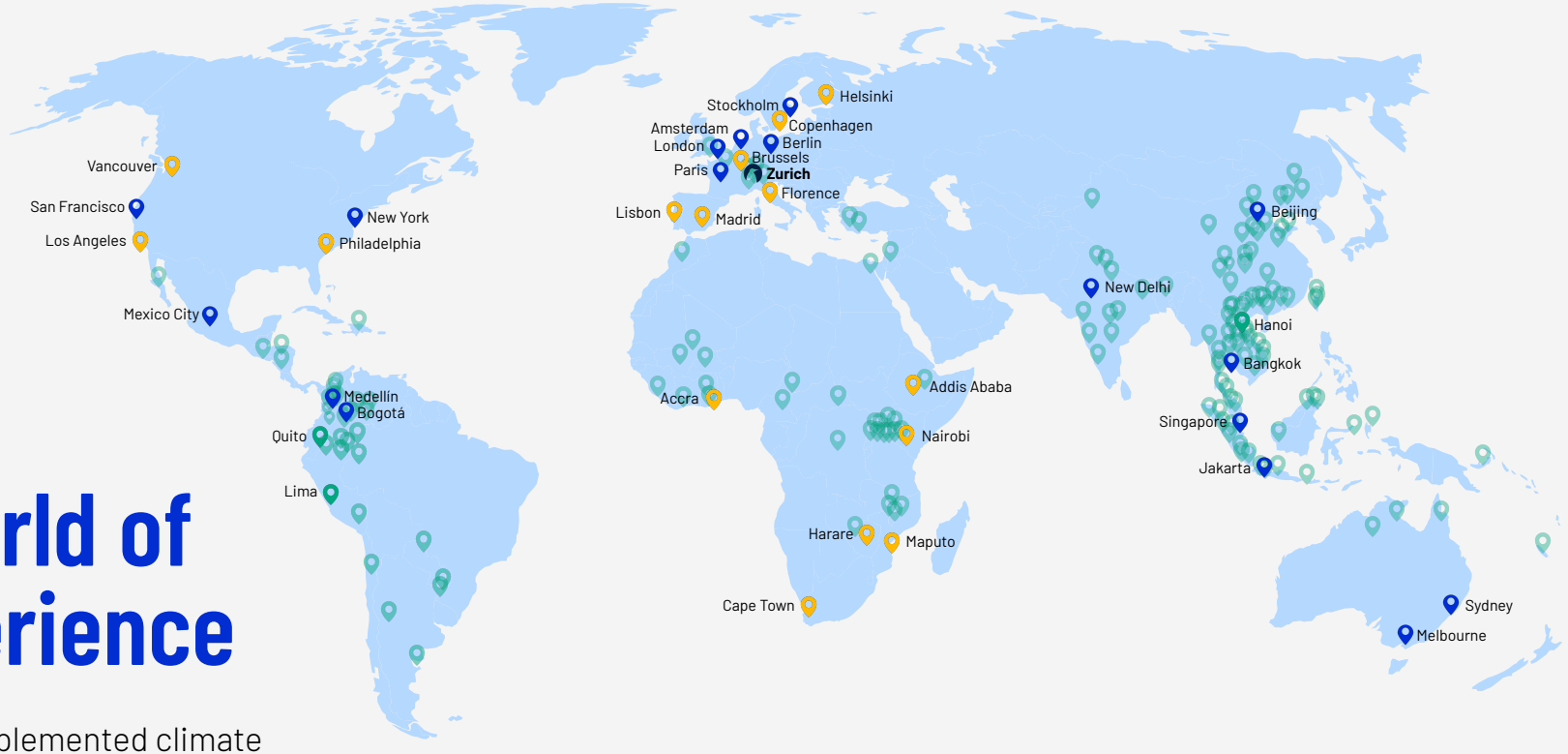
Largest developer of emission reduction, avoidance and removal projects globally

Diverse expertise

Based in 30 offices, our team of 1000+ sustainability advisors, scientists, and engineers are leading experts in their fields

A world of experience

We have implemented climate projects in countries across the world and have over 30 local offices and representations



Overview of South Pole's expert teams

Measuring, reporting, target setting

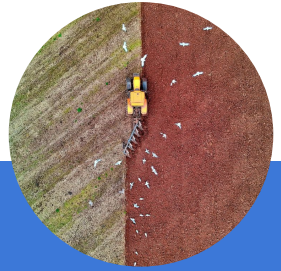
Measure your footprint and risks, set ambitious targets and work with your stakeholders to achieve them.

Renewable energy solutions

Accelerate your transition to renewable energy.

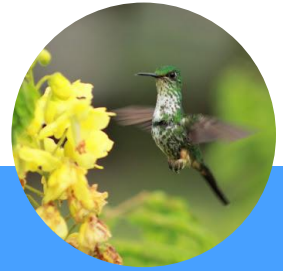
Climate action projects

Engage in beyond value chain mitigation and create climate impact now.



Agricultural value chains & water

Transition your agricultural value chain to sustainability by creating positive impact.



Biodiversity

Understand your impact on biodiversity loss and the risk of ecosystem change to your business.

Circular economy

Measure your plastics footprint and take a first step towards plastic stewardship.

Scope 3 overview and general challenges - deeper understanding

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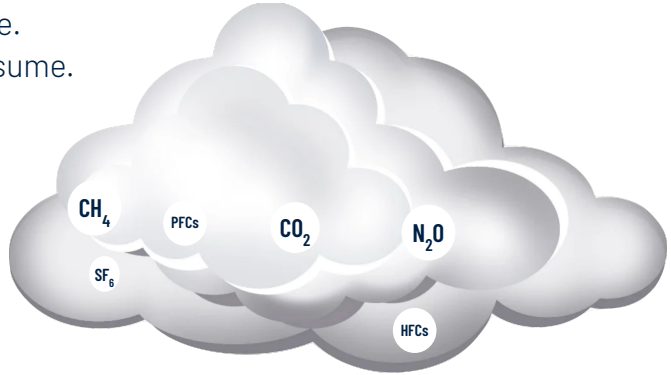
Understanding scope 3 emissions

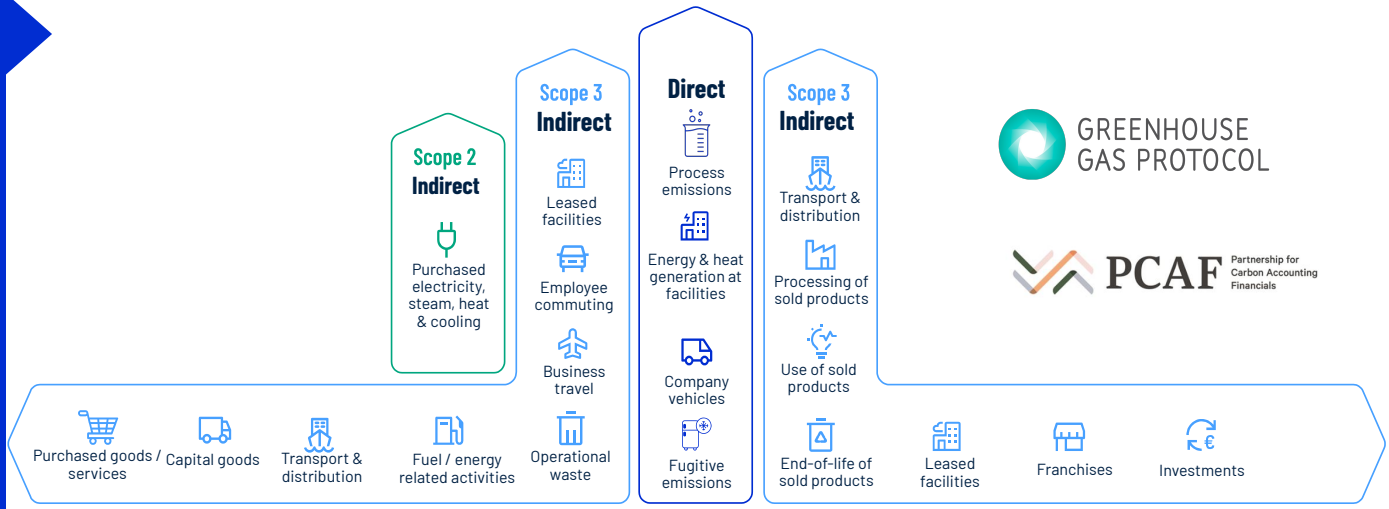
What is scope 3?

The indirect upstream and downstream activities of a company,

The scope 3 is your suppliers and downstream value chain's scope 1 and 2 (and cradle-to-gate emissions in the case of cat 1. and 2.)

Upstream: everything that takes to produce.
Downstream: everything that takes to consume.

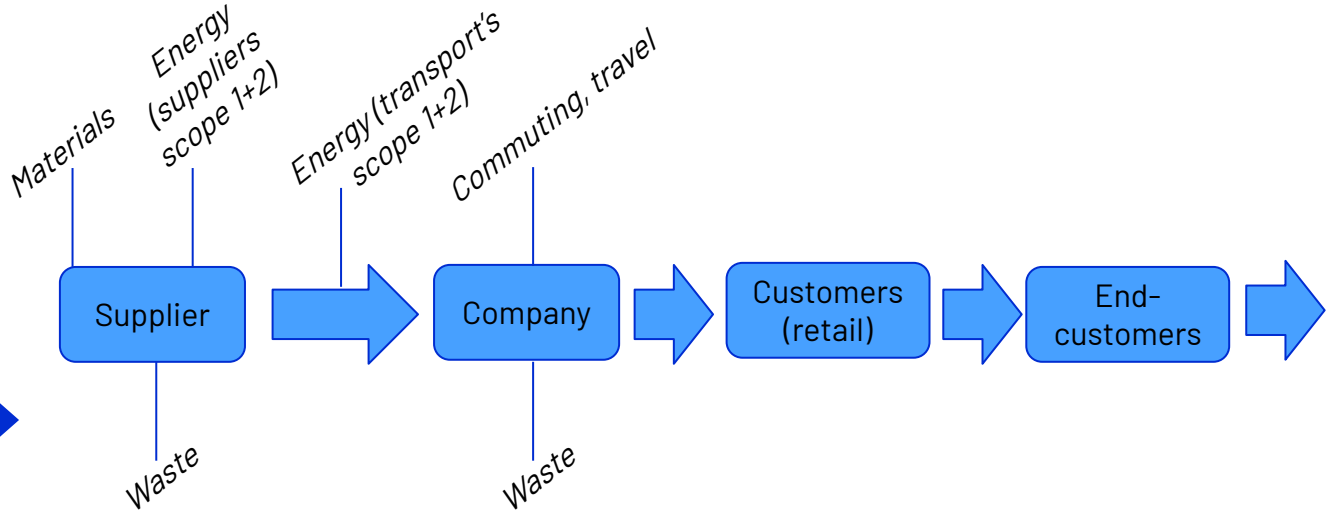




GREENHOUSE GAS PROTOCOL

PCAF Partnership for Carbon Accounting Financials

Company's value chain



- Purchased goods & services
- Capital goods

- Fuel and energy related activities
- Upstream transp. & distribution

- Business travel
- Employee commuting
- Waste

- Upstream and/or downstream transport & distribution

- Processing of sold products
- Use of sold products

- Downstream transport

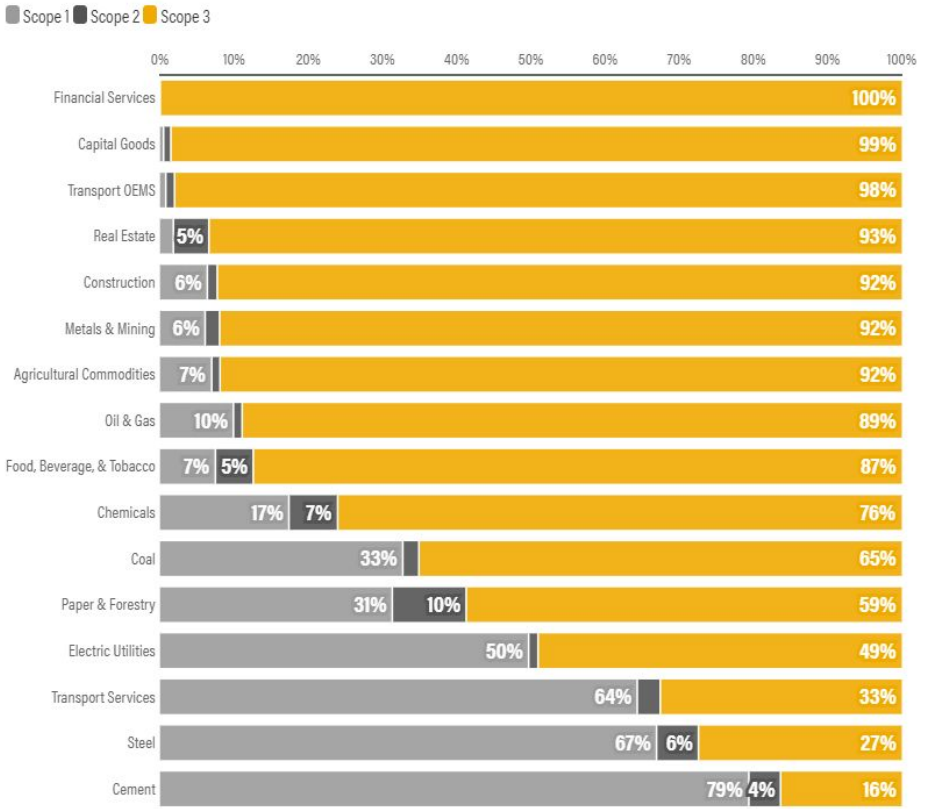
- Use of sold products

- End-of-life treatment of sold products

Share of Scope 3 of total, by sector

Scope 3 emissions typically account for 75% of a company's GHG emissions,

For raw material industries commonly 90-95%.



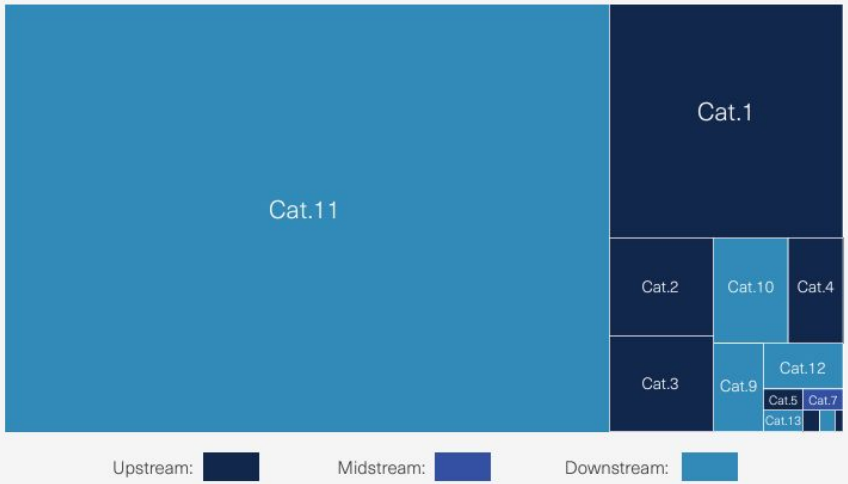
Source: WRI analysis based on CDP data.

The relative size of scope 3 categories

Purchased goods and services and Use of sold products represent 84% of reported emissions. *(CDP data, WRI)*

Figure 4. Scope 3 emissions by category (excluding category 15) [24]

Cat. 1: Purchased goods and services
Cat. 2: Capital goods
Cat. 3: Fuel- and energy-related activities
Cat. 4: Upstream transportation and distribution
Cat. 5: Waste generated in operations
Cat. 6: Business travel
Cat. 7: Employee commuting
Cat. 8: Upstream leased assets
Cat. 9: Downstream transportation and distribution
Cat. 10: Processing of sold products
Cat. 11: Use of sold products
Cat. 12: End-of-life treatment of sold products
Cat. 13: Downstream leased assets
Cat. 14: Franchises



Source: SBTi analysis based on CDP data.

Measuring scope 3 emissions

Why measure scope 3 emissions? 4 reasons...

When SBTi started in 2015, only a handful of companies were tracking their scope 3 inventories and targets.

Today 10-20% of companies measure their scope 3 emissions.

1 We need urgent action

We all have responsibility to act and transition. Only focusing on direct emissions is too narrow if we are to reach the goals of the Paris Agreement. Net-zero economy is an inevitability.

2 Mandated disclosures

Mandated by e.g. the Task Force on Climate-related Financial Disclosures (TCFD) and the European Sustainability Reporting Standards (ESRS). Focus on material emission sources.

3 Risk management

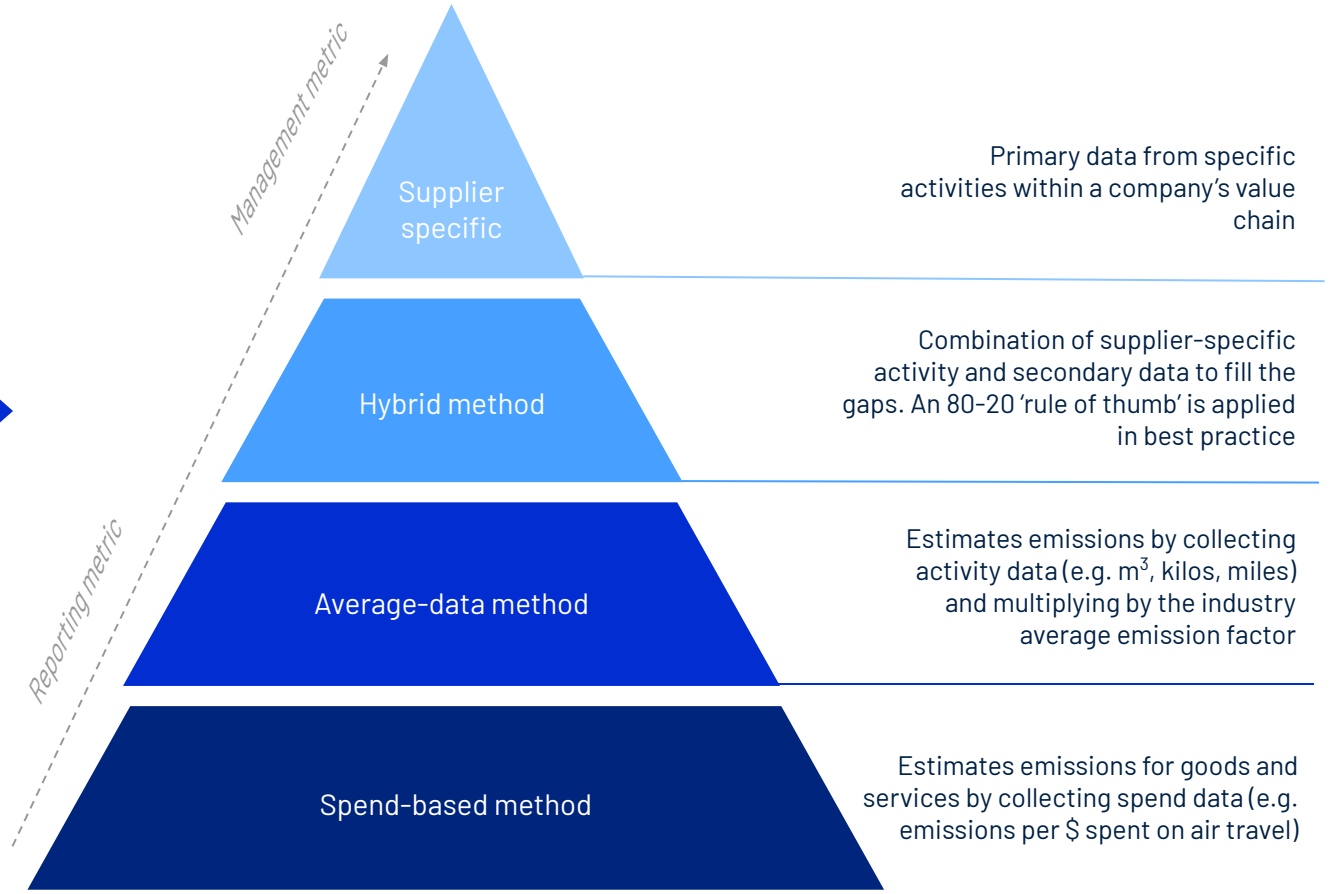
Understanding risks related to the transition: which vulnerabilities are there related to e.g. increasing resource prices, changing regulatory landscape, carbon taxes (e.g. CBAM), efficiency standard. The ability to access debt or equity funding in the future is likely dependent on value chain emissions performance and having a clear path to net zero.

4 Ambition and innovation

Taking scope 3 emissions into account enables companies to identify areas for business innovation and industry and supplier collaboration, leading to transformative change and providing first-mover competitive advantages.

Basics of measuring

Accuracy in accounting (especially scope 3) typically comes from the granularity of the emissions data. The more granular your data, the more your emissions become a management metric rather than a reporting metric.




Break time!
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3 challenges, many solutions

Challenge 1 - Calculating scope 3

- Complex business models and internal data systems.
- Complex value chains.
  - Actual material emission sources may be omitted, e.g. Use of sold products.
- Double counting.
- Methods are not standardized.
- Requires a lot of internal knowledge and capacity.

Discussion questions

Discuss in groups of 4-5 and prepare to share with the whole group.

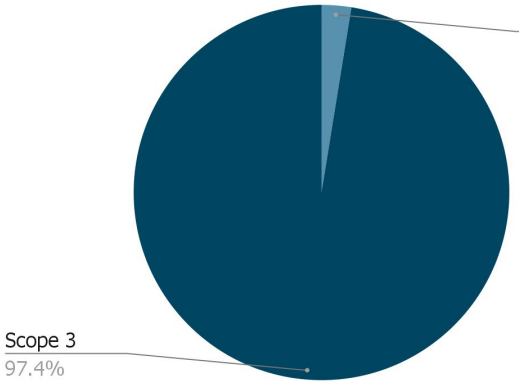
1. What kind of challenges have you encountered with your scope 3 calculations?

2. How have you tried to solve these challenges?

Case study Facility Management company

- Context:
  - Facility management provider in the Nordics
  - Many different service areas
  - Many different suppliers

- Challenge:
  - The company needed a scope 3 inventory for their base year to set Science Based Targets (SBTs).
  - Different data granularities and differing granularity requirements (e.g. SBTi's FLAG requirement)
  - What is a relevant Scope 3 target under these circumstances?



Emission hotspots:

- Food & beverages
- Services (Cleaning & FM)
- Transport

Case study Facility Management company

Food & beverage	Transport	Services (cleaning & facility management)
• Relatively good activity data • Detailed analysis for high impact food categories	• Mix of primary data and spend-data	• Some primary data on products/supplies • Spend-data for external suppliers
• SBTi's FLAG requirement	• Integrate more primary data in the future	• Obtain supplier-specific spend-based • Integrate in internal systems to streamline calculation

Targets:

- Near-term target: supplier engagement target for purchased goods and services and transport
- Long-term target: net zero

Challenge 2 - Data quality

- Many companies do not yet disclose their scope 3.
  - Mounting market pressure to measure, but the process is slow.
- Unreliable value chain data.
  - Complex supply chains, limited accuracy
  - Estimations of estimations.
  - Lack of transparency.
- Resource-intensive.
- Industry averages are essential, but don't give clarity on exact hotspots.
  - Industry average factors: +/- 50% uncertainty.
  - Spend data factors: +/- 100-150% uncertainty.
- Challenge especially for companies with high reliance on scope 3, e.g. financial institutions

Discussion questions

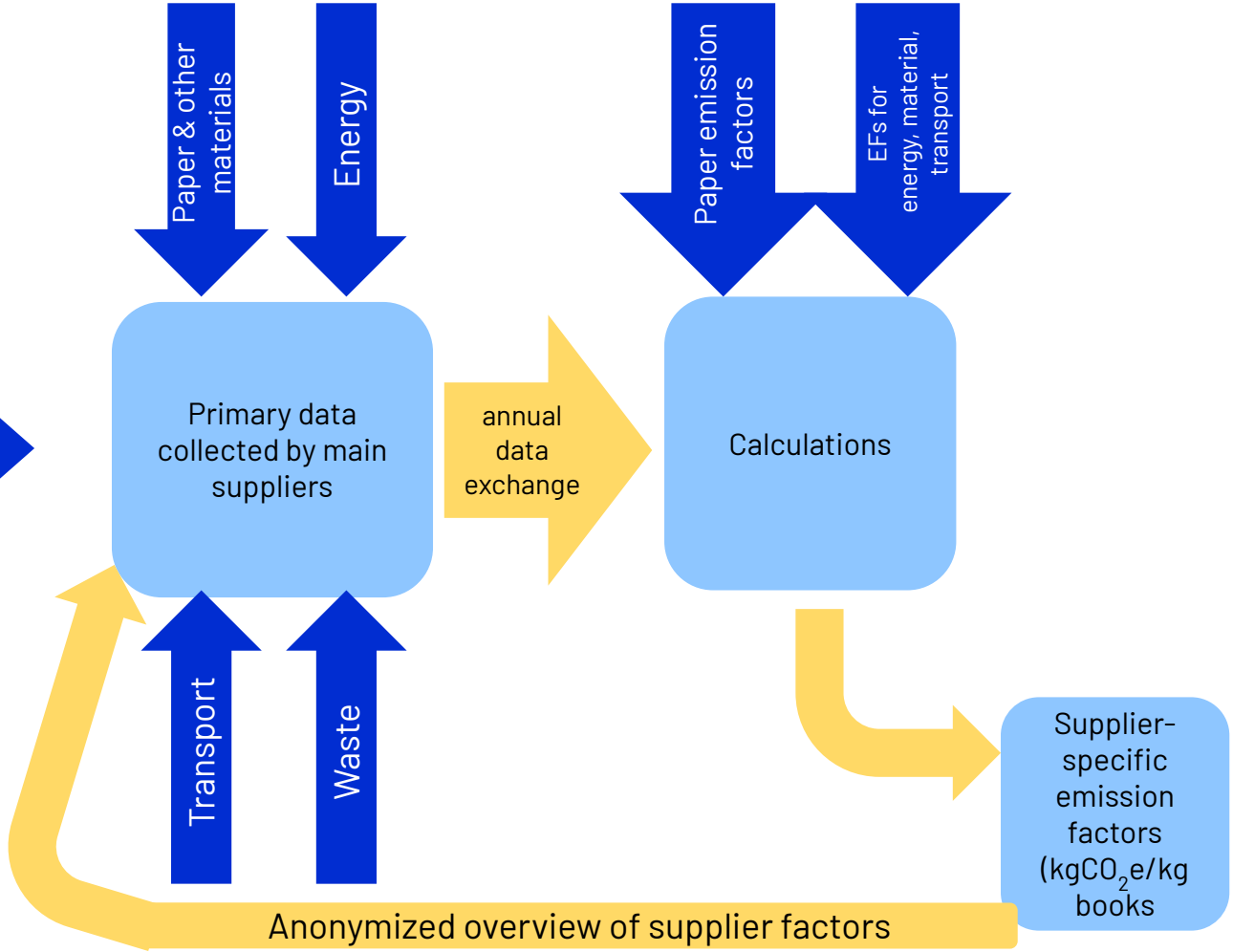
Discuss in groups of 4-5 and prepare to share with the whole group.

1. In what way could your data quality be improved?
2. How could this be achieved?

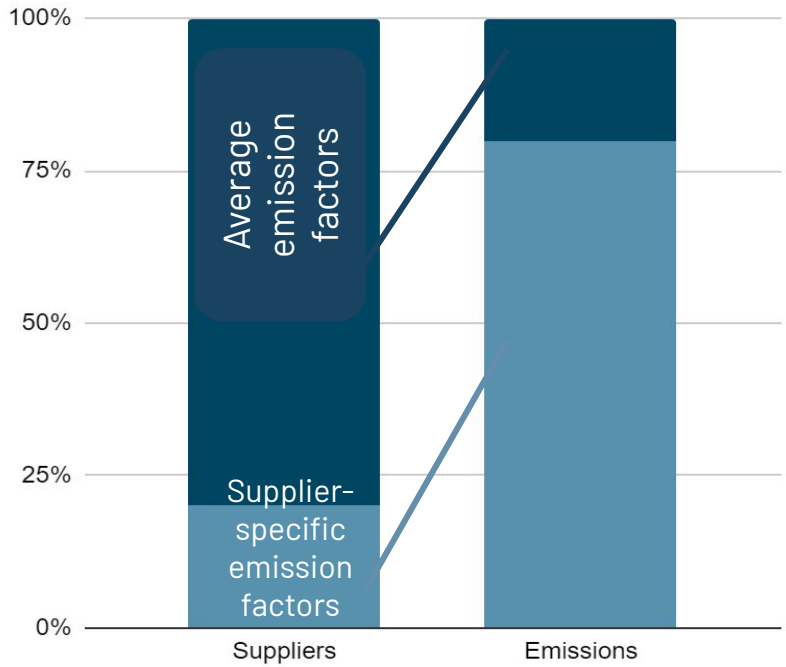
Case study Publisher

- **Context:**
  - Publishing group
- **Challenge**
  - Use many different suppliers to print their books
  - Paper is the main emission hotspot
  - Some suppliers have their own GHG inventory calculations but these do not allow to specify only the emissions related to the publishing group
- **Solution**
  - Develop a calculation approach which allows to track the paper- and supplier-related emissions

Case study Publisher



Case study Publisher



- Annual exchange with suppliers and comparison between suppliers
- Paper-emission factor database → internal use
- Focus on renewable energy (on-site or energy attribute certificates (EACs))
- Future focus: transport emissions

Challenge 3 - Tracking and benchmarking emissions

- Difficult to benchmark against other companies, even in the same industry.
- Sometimes difficult to compare between years (and base year).
- Current knowledge lags behind.
- Where to set a boundary?
- Lots of spend data or industry data used: the decreases in emissions are nearly always due to reduced consumption or country averages.

Practical strategies

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Discussion questions

Discuss in groups of 4-5 and prepare to share with the whole group.

1. **What strategies has your company implemented to reduce Scope 3 emissions?**

Practical strategies

Addressing Scope 3 challenges with targeted strategies

Scope 3 emissions pose various challenges, from complex data collection to managing supplier relationships and procurement practices. To effectively reduce these emissions, it's important to implement targeted strategies that address these core issues. **The following four strategies provide actionable approaches to overcoming these obstacles and drive emissions reductions.**

Supplier engagement: 80-20 focus for maximum impact

Engage key suppliers, using the 80-20 principle, to drive meaningful change where emissions are concentrated.

Optimising procurement policies

Adjust procurement practices to prioritise low-carbon options and enforce sustainability requirements.

Circular economy & Life cycle assessment (CE/LCA)

Use CE and LCA methodologies to reduce emissions across product life cycles, from design to disposal.

Reducing downstream and upstream impact with RECs

Enable customers to lower their downstream emissions by procuring Renewable Energy Certificates (RECs), in line with the SBTi framework, to offset energy use and reduce emissions from the Use of Sold Products, or to reduce life-cycle impact for material reported in purchased goods.

Supplier engagement

Why should you engage with your suppliers?

Benefits of a supplier engagement plan :

1. Collaboration on shared climate goals

Key suppliers for particular industries are often shared across peers. Such collaborations can amplify emissions reductions, e.g. renewable energy solutions, setting SBTs, on farm interventions, etc.

2. Gain insights into your value chain

Gain a better understanding of your value chain emissions, GHG impact of procurement choices - and further sustainability impacts e.g. energy, electricity usage, water, waste.

3. Building strategic partnerships

Build long-term relations with suppliers and enjoy the co-benefits of strong partnerships which are focussed on building resilient value chains for the future.

4. Enhance performance

Incentivise suppliers to perform better through a number of different strategies:

1. Through education
2. Inducing competition among suppliers
3. Enforcing supplier selection criteria
4. Drive continuous improvement

Supplier engagement

Supplier engagement is **suitable when** a large proportion of a company's Scope 3 emissions sit within the upstream value chain, *and* when companies experience challenges in tracking supplier- or product-specific emissions data, which makes them unable to influence emissions reductions measures at supplier level.

Upstream Scope 3 emissions mainly come from

- Category 1 - **Purchased Goods and Services**
- Category 2 - **Capital Goods**
- Category 4 - **Upstream Transportation and Distribution**

Granular emissions data from supply chain is challenging to track, due to

- **Limited access** to primary supplier data resulting in a spend-based calculation for related emissions categories
- **Complex supply chains or product mix**
- Production of **non-physical goods**, resulting in a footprint primarily driven by indirect procurement
- **Specific emission reduction levers** to achieve absolute or intensity-based scope 3 targets are **not yet identified or difficult to implement**

Key stages of the supplier engagement journey

Enabling supplier engagement is a multi-layered effort.

1 Supplier selection

Rank suppliers highest to lowest according to their portion of total emissions, and **select** the total number of **suppliers that cumulatively achieve the desired scope 3 emissions coverage**, e.g by following the 80-20 rule (80% of emissions in a supply chain from 20% of the suppliers).

Other factors to be considered:

- Leverage over suppliers
- Strategic status
- Sourcing/ Procurement trends
- Suppliers' risk levels

2 How to engage

The **Science Based Targets initiative** (SBTi) enables organizations to set **ambitious** greenhouse gas (GHG) emission reduction targets aligned with **climate science**. Engaging suppliers to set their own targets encourages **collective responsibility** for reducing emissions across the supply chain. This **collaboration** can significantly lower overall GHG emissions.

Additional engagement strategies to reduce emissions

- Supplier Training and Workshops
- Collaborative Innovation
- Long-term Partnerships
- Incentive programs

Practical exemplars of supplier engagement

Long-term Partnerships

3 How to engage - deepdive

By collaborating with suppliers, companies can lower the carbon footprint of materials, transportation, and production processes - consequently affection the upstream emission in your value chain.

Investigate material options

- Work with suppliers to explore alternative materials that have a lower emission intensity without compromising quality.

Promote on-site renewables or Power Purchase Agreements (PPAs)/Renewable energy certificates (RECs)

- Encourage suppliers to install on-site renewable energy solutions or invest in PPAs and RECs to reduce their energy-related emissions - this plays into the life cycle impact of the product, from the upstream value chain, consequently enabling you to purchase a lower emitting product.

Optimise transport solutions

- Convince or switch to transport suppliers who use more fuel-efficient transport modes or lower-emission fuels.

Encourage emission calculations and target setting

- Incentivise suppliers to calculate their emissions, set reduction targets, and align incentives on their side to foster long-term commitment to emission reductions.

Procurement policies

Optimising procurement policies

Ensuring that your procurement team are enabled to identify and implement low carbon opportunities

Sustainability metrics in tender documents

Incorporating sustainability metrics in tenders encourages the selection of low-carbon suppliers, this can include:

- **Requesting product carbon footprints**
- Assess availability of **internal carbon pricing**
- Adjust scoring criteria to give greater weight to sustainability factors

Comprehensive procurement guidelines

Clear guidelines ensure consistency in procurement practices across the organization.

- **Define structured procedures** for procurement and tendering
- **Outline roles and responsibilities** to reduce ambiguity
- **Establish criteria** that align with sustainability goals

Business case templates

Standardised templates support informed procurement decisions.

- **Integrate sustainability** considerations as a core component
- Provide a framework for justifying decisions based on environmental impact
- **Include cost-effectiveness metrics** alongside sustainability criteria

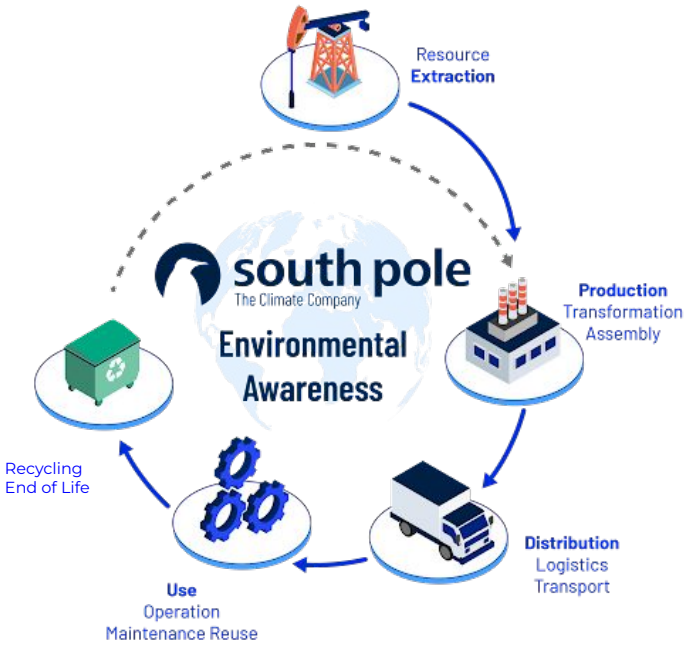
Integration with existing frameworks

Aligning procurement policies with current processes facilitates smooth implementation.

- **Ensure updated documents** fit into established operational workflows
- **Provide training** for teams to adapt to new sustainability guidelines
- **Monitor compliance** to maintain efficiency and effectiveness

Circular economy & Life cycle assessment

Life Cycle Assessment



Life Cycle Assessment (LCA) is a **science-based** method to identify and compare potential **environmental impacts** and resource use along the value chain of a product and services.

Various types of product impact assessments can be conducted such as, screening LCA, ISO-based LCAs, Environmental Product Declarations (EPDs), single-impact assessment, assessing effect of recycling and circular economy initiatives and business intelligence tools.

How can LCAs support emission reductions?

CDP's report shows that Scope 3 emissions make up 86% of emissions reported to CDP (CDP, 2022).
An LCA can be an important step in identifying and reducing those "harder to reach" emissions along their value chains.

General reasons to conduct an LCA

Business goals served by accounting for environmental impacts from products and services

Understanding environmental impacts

- Identify the **hotspots** in terms of environmental impacts associated with manufacturing, distribution, use and disposal (end-of-life) of the product/service
- The product/service can be **benchmarked** against the results from a conventional product/service with similar capacity to show the differences in emissions under the respective life cycle stages.

Support business strategy and R&D

- Identify **opportunities for product/service improvement** and innovation in terms of environmental impacts
- Meet **customers responsible sourcing** requirements
- New product/service **development**
- **Support product/service promotion** and marketing to climate-conscious clients

Managing risks and identifying reduction opportunities

- **Identify and address risks** associated with environmental impacts
- Identify **cost-effective reduction** opportunities
- Setting **environmental sustainability targets** on a product/service level, measuring and reporting progress

Participation in labeling or environmental product declaration programs such as Eco-labelling, e.g. EPD (construction sector), Eco-Score (food sector), Affichage Environnemental, ...

Example of redesign strategies

Recyclability

Product application specificities

Consumer acceptance

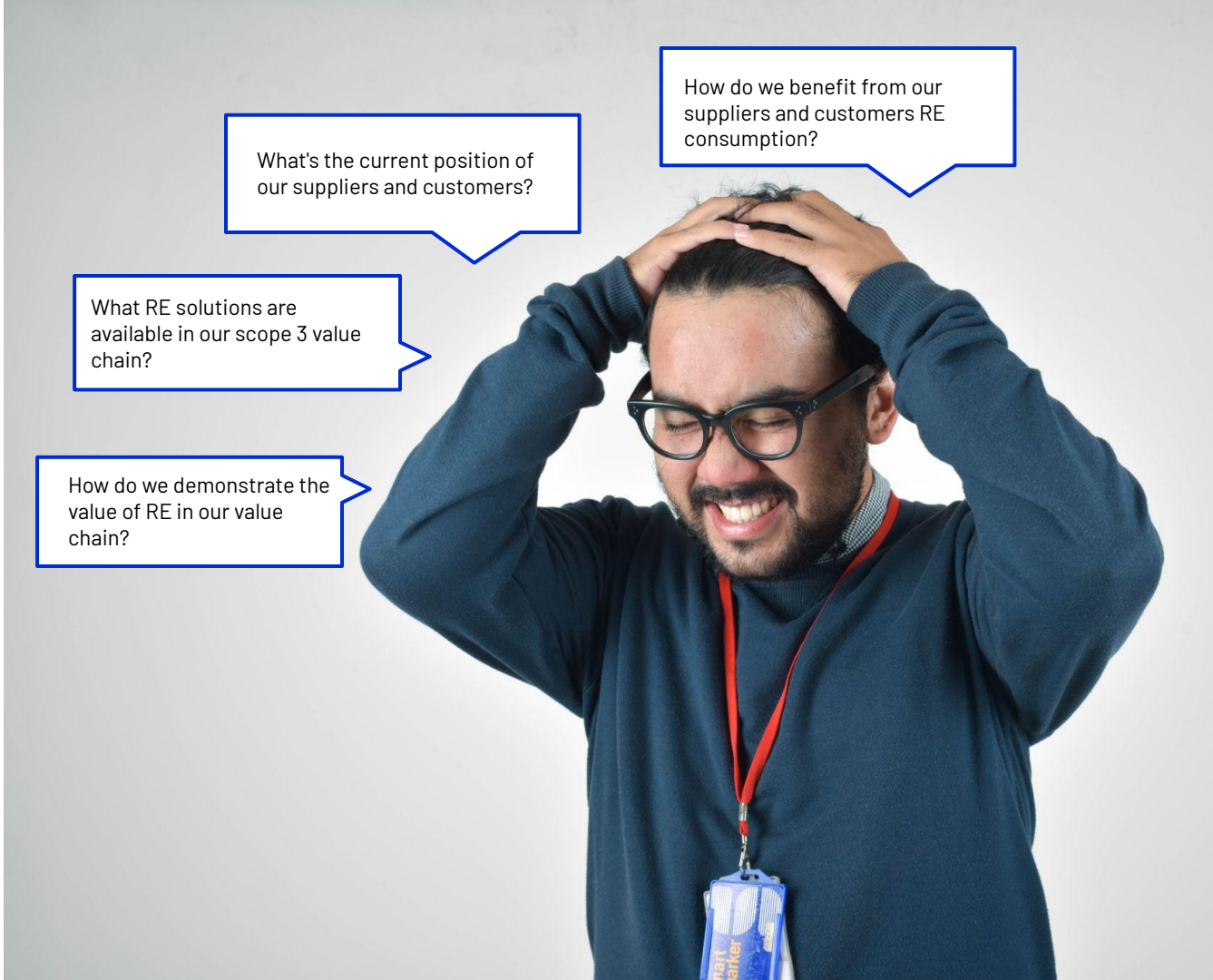
Choosing the right combination of materials

Vision for redesign

- Reduce material diversity
- Easy separation of different materials
- Easy recognition of materials
- Use only materials that are recyclable

Reducing downstream and upstream impact with RECs

What challenges are companies facing?



Customer engagement renewable energy

- **Reduce your scope 3 emissions** by promoting renewable energy usage throughout your value chain.
- Identify areas of high energy consumption where **emissions can be reduced** and develop **a strategy to collaborate with your value chain partners**, upstream and downstream.
- Educate the various stakeholders involved in your value chain about the importance of acquiring renewable energy - **make them part of the journey**.

What are the four main renewable electricity sourcing options?

Businesses typically use a mix of RE solutions

Typically cost saving solutions

Onsite renewable

Renewable solutions installed on rooftops or adjacent land for direct consumption, storage or export

Power purchase agreements (PPAs)

Contract for the purchase of electricity from a specific renewable installation

Unbundled energy attribute certificates (EACs)

Tracking tool certifying that the energy was generated in a specific renewable energy facility purchased separately from the electricity

Green Tariffs

The electricity purchased from the supplier is combined with renewable energy. A tariff where electricity is bundled with EACs

Typically cost premium solutions

Categories that benefit from renewable energy

Category 11 - Use of Sold Products

Category 1 - Purchased Goods and Services

Category 2 - Capital Goods

Categories 4 and 9 - Upstream and Downstream Transportation and Distribution

Discussion questions

Discuss in groups of 4-5 and prepare to share with the whole group.

1. Would any of these strategies benefit your company?

2. Are there other strategies you've implemented that other companies could also benefit from?

Conclusion

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Take home messages

Scope 3 accounting:

- Try to first get an **overview of all of your emission categories and supply chain** before deep diving.
- Focus on **improving the data quality of your most significant and material emission sources** using the 80/20 rule.
- **For less significant categories**, it's acceptable to use more **average factors** in your calculations. Distinguish between monitoring and steering emissions.

Reduction Strategies:

- **Supplier engagement is key to reducing value chain emissions**.
- Focus on engaging with your **top suppliers**.
- Collaborate through setting targets.
- Promote the use of **renewable electricity**.
- **Foster collaboration** in making material choices.


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