Polishing the Lens:
Solutions for Scope 3 Emissions

Verra has recently launched a new initiative to better understand how their carbon offsetting expertise could support scope 3 emissions accounting. (Read more about that here). Since Scope 3 emissions is something I have a particular interest in, it seems an opportune time to articulate some of my thoughts around this critical, but often neglected, aspect of emissions.

Let's start with a summary of the Scopes of emissions:

- **Scope 1 emissions** refer to direct emissions from controlled sources
- **Scope 2 emissions** refer to indirect emissions from the use of energy (electricity, heating and cooling etc.)
- **Scope 3 emissions** are all indirect emissions that result from activities of assets not controlled by the organization i.e. within its value chain.
- **Scope 4 emissions:** A new emerging scope, **engage with XMS to find out more…**

Scope 3 emissions include both upstream emissions which are embedded in a product and downstream emissions which can be considered as latent in a product. Organizations obviously have more influence on scope 1 and 2 emissions and according to GHG corporate protocol are only required to report on these. Theoretically this should be sufficient as an organization's scope 3 emissions are someone else's scope 1 and 2, therefore if everyone focused on their scope 1 and 2 emissions then scope 3 emissions would not be an issue – however the industry is far from this ideal state, making it necessary to tackle challenges around scope 3 emissions.

Without an understanding of scope 3 emissions an organization cannot appreciate the full GHG impact of their operations.
This is because scope 3 emissions account for a majority of an organization's footprint. An SBTi survey of 100 companies found that scope 3 emissions accounted for 66% of their total GHG emissions. Furthermore, according to the WEF, 50% of the world's carbon emissions are within 8 supply chains.

The current reluctance to integrate scope 3 emissions into decarbonization plans is based on the belief that such emissions are beyond a company's control and can only be broadly estimated. However, it is possible for companies to exert significant control over their scope 3 emissions through the enlistment of professional 3rd parties to carry out assessments on their supply chain in a consistent, standardized and accurate manner.

As more stakeholders (including regulators) buy into a net zero transition, the climate-related risk exposure posed by scope 3 emissions increases. These risks to an organization are push and pull factors in the form of mandated regulations or end-product market demand. Investment portfolios are currently exposed as they do not fully understand their scope 3 emissions and therefore do not know their true carbon footprint.

Scope 3 emissions are relatively more complex due to the inherent risk of double counting. Double counting is the attribution of the same GHG emission or reduction to multiple parties, and is a result of the interconnected nature of global supply chains. Double counting can occur along supply chains or across supply chains, within an investment portfolio or across the entire economy. From a carbon footprint perspective, double counting within supply chains is not necessarily a bad thing as it allows for a conservative representation of carbon emission exposure.

Furthermore, many market participants argue that the scale of the issue remains small as long as portfolios do not include entire supply chains. However double counting across supply chains and within a carbon-offsetting context is more problematic. Therefore, double counting is more a transparency, equity and standardization issue around offsetting than an impediment to net-zero around the calculation of carbon footprints.

The SBTi have set criteria for the identification (supply chain mapping) and quantification of scope 3 emissions, which can be used along with free scope 3 evaluation calculators provided by the GHG Protocol and other bodies as a first step to the measurement and management of scope 3 emissions. Emissions can be arrived at using spending-based approaches, industry averages and where available supplier specific data. Once established, companies should improve the accuracy of their scope 3 inventory by applying iterative strategies over time, policy makers could further contribute to this by mandating data accuracy. Target emissions should be intensity based rather than absolute targets, which will allow for more control.

> Scope 3 considerations should be incorporated into organizations' procurement practices through purchasing and project design decisions.

Collaboration is essential for the management of scope 3 emissions and can be in the form of co-operative approaches such as incentivising suppliers and / or non-co-operative approaches such as penalizing suppliers through in-setting or establishing an internal carbon tax as is done within departments at Microsoft.

In summary. Scope 3 emissions are the most significant source of emissions and therefore effective decarbonization strategies are not possible without an understanding of these emissions. Reliable scope 3 data is possible, however it will take a concerted effort from all stakeholders in order to push and pull industries to higher standards and better practices. This is an evolving space and as we grapple with the complexity of scope 3 emissions, we brace ourselves for the emergence of **scope 4 emissions**, in the ever-dynamic ESG ecosystem.
XMS can help your firm navigate through the ESG ecosystem with impact and agility, creating value and making a difference. Contact us to ensure you are proactive and stay ahead the curve.

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SOURCES

https://www.msci.com/www/blog-posts/scope-3-carbon-emissions-seeing/02092372761

Stanford Sustainable Finance Initiative, Precourt Institute for Energy: Scope 3 Emissions: Measurement and Management, Working Paper

Technical Guidance for Calculating Scope 3 Emissions Supplement to the Corporate Value Chain (Scope 3) Accounting & Reporting Standard, Greenhouse Gas Protocol

The Abdullah Bin Hamad Al Attiyah Foundation: Information Note on Scope 4 Emissions (Including Definitions of Scopes 1, 2 & 3)