REUTERS EVENTS™

# Tackling Scope 3

How to engage with Scope 3 and stay ahead of the decarbonisation curve

**https://events.reutersevents.com/sustainable-business/net-zero-usa**

# Measuring and Tackling Scope 3 Emissions


## SUMMARY

With the risk of regulations and stakeholder pressure rising, companies should begin to measure and tackle their Scope 3 emissions now.


## WHY IT MATTERS

In the wake of increased climate threats as a consequence of global climate change, organizations' emissions are more consistently viewed as a risk for investors. Consequently, regulatory introductions such as those proposed by the Securities and Exchange Commission (SEC) mandate further disclosure requirements from companies on emissions and clearly state their reduction plans.

Companies wishing to have better visibility into their emissions are encouraged to increase their engagement with their Scope 3. Scope 3 typically makes up the largest proportion of a company's emissions. The breadth and size of Scope 3 makes it an exciting opportunity for innovation and leadership aimed at reducing environmental impact.

## ACTIONABLE INSIGHTS:

Key takeaways from this piece include:

- With the risk of regulations and stakeholder pressure rising, companies should begin to measure and tackle their Scope 3 emissions now. While proxy measures are a sound introductory step, more accurate measures – such as life cycle assessments – will be needed as reporting becomes more advanced and targeted.
- Identifying the largest areas of emissions first will allow companies to utilize the most appropriate channels for reduction. Companies may also wish to tackle a specific product line's emission through multiple approaches to magnify the effects.
- Internal strategies, including policy changes relating to activities such as travel, as well as product innovations, can have a large impact on Scope 3 emissions, particularly for smaller businesses or those with less influence.
- External engagement will play a key role for larger companies to reduce their scope 3 emissions. Upstream engagement with supplier could help drive industry shifts, while downstream engagement with consumers can ensure product innovations are producing the desired outcome.

## ANALYSIS

Scope 3 emissions refer to a company's indirect emissions from both up and down the value chain. The GHG protocol defines 15 categories for what should be included in a company's Scope 3 emissions, including, but not limited to, the emissions associated with purchased good and services, transportation and distribution, those generated in the use and end of life treatment of sold products and even investments. As a result of the breadth of Scope 3, it typically makes up the largest proportion of a company's emissions profile. The Carbon Disclosure Project (CDP) estimates that Scope 3 emissions account for an average of 75% of emissions.

In the 2022 Reuters Insight Sustainable Business survey, 615 senior business leaders actively involved in their organizations' ESG strategies were surveyed between August and October. In this survey, engaging was defined to mean "requiring disclosure of / actively measuring / working with Scope 3 partners". Of our respondents 43% say that they are engaging with Scope 3, while 44% of those who are not currently engaging say they plan to engage within the next 24 months.

For those who are neither already engaged nor plan to engage, Reuters Insight collected qualitative responses on why. Irrelevance to business activity and lack of familiarity with Scope 3 were both cited. However, despite perceptions, Scope 3 is relevant and growing in importance for businesses across industries.

By 2025 certain companies in the European Union will be required to report their Scope 3 emissions under the introduction of the Corporate Sustainability Reporting Directive (CSRD). In the U.S. the introduction of new Regulations by the SEC will also require the disclosure of Scope 3 emissions for companies where this information has a material impact on investors. As regulations that elevate the level of scrutinized reporting come into effect, companies will be faced with large challenges for collecting, reporting and tackling their Scope 3. Companies should strive to make early progress in this area to maximize their transition time, minimize disruption and better position themselves for future requirements in Scope 3 reporting and reduction.

Effective measuring and reporting is the first step that an organization can take to understand their emissions and focus their efforts. Following measurement and reporting, companies can use a range of strategies including internal policy innovation, supplier engagement, product innovation and consumer engagement to reduce their Scope 3 emissions.

## EFFECTIVE MEASURING AND REPORTING

Measuring Scope 3 is an essential step for companies to understand the full impact of a product, as for the majority of companies Scope 3 makes up the largest component of emissions impact. However, although 48% of Reuters Insight Sustainable business survey respondents said that they reported on greenhouse gas (GHG) emissions, just 20% of respondents are reporting on Scope 3.

Driving greater Scope 3 engagement is essential. Although fundamental, reporting on Scope 1 and 2 emissions does not fully enable companies to practice agile carbon management. Comprehensive reporting across all three scopes allows enhanced understanding and transparency of a company's climate related financial risks for all stakeholders and ensures greater responsibility for these risks. Without end-to-end tracking, companies miss out on opportunities to drive long-term change to their operations' ecological impacts.

There are multiple ways for an organization to calculate their Scope 3 impacts. As discussed in 'Assessing the ways of measuring Scope 3', organizations will typically start by using a proxy measure (environmentally extended input-output ((EEIO)) models) to get a general understanding of their largest emissions sources before transitioning to more accurate supplier sourced data as their Scope 3 engagement becomes more advanced and targeted.

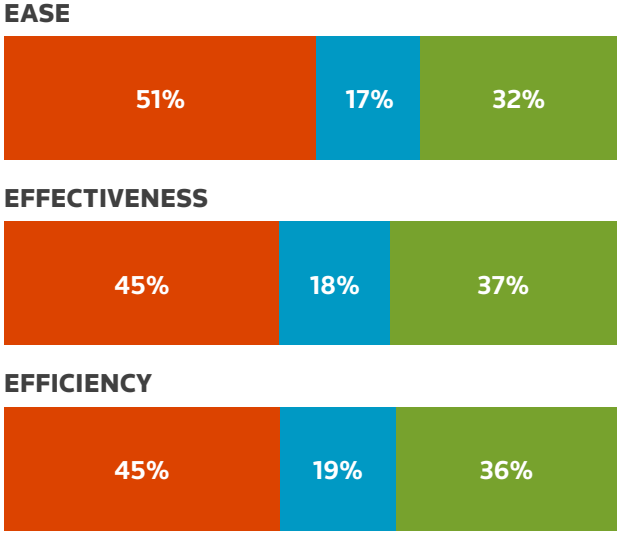
Life Cycle Assessments (LCA) are another method of measuring the Scope 3 emissions of specific product lines. An LCA is used to calculate the impact of a product over its entire 'lifespan'. From the emissions created in the production of the raw materials to the emissions generated in end-of-life treatment for example recycling or landfill. In many cases emissions will be quantified as CO2e per functional unit of product. This is calculated by dividing the total number of emissions by the number of units per lifespan of product, for example a television's emissions intensity metric would be calculated as kg CO2e/hour of viewing.

CO2e is a common metric used when discussing emissions. It simply means the amount of carbon dioxide (CO2) or equivalent (e) in other greenhouse gasses. This measure is used as different greenhouse gasses have different levels of atmospheric impact. For example, Nitrous oxide (N2O) has 290 times the Global Warming Impact (GWP) of CO2, thus 1kg NO would be presented as 290kgCO2e. This unit allows emissions to be easily comparable.

Due to the potentially large number of actors involved, calculating emissions across Scope 1, 2 and 3 requires large quantities of data. Storing, managing and appropriately presenting this data is no easy task. The ability to manage and report data accurately will also become increasingly important as environmental regulations and legislations broaden. There are frameworks that can be used as tools to guide reporting however, while framework selection can help direct which method is used to calculate and report scope 3, companies will also need to assess which data management systems are most appropriate for their needs.

Reuters Insight's survey found that a plurality of respondents rate their company's environmental data management as poor for 'Ease', 'Effectiveness' and 'Efficiency'. With almost half of respondents rating their data handling as poor across these metrics, many companies have a long way to go before they are confident in their data handling.

**HOW WOULD YOU DESCRIBE YOUR COMPANY'S EXPERIENCE MANAGING SCOPE 3 DATA?**




*Source: Sustainable Business Survey 2022*

When the topic of data management systems was discussed at Reuters Events' Transform Supply Chain USA 2022 event, Elizabeth Geller Director of Energy and Climate Practice at Three Degrees Group, argued that Excel is a great starting system for companies beginning their Scope 3 journey as there is little to no learning curve and in many cases, there is no additional subscription cost.

But while Excel data management can be implemented with little disruption, it may prove to be burdensome in the long run. With an increase in the volume of data required for comprehensive reporting manual programs are at greater risk from human errors in input and calculation. Katya Hental, Head of Global Sustainability at ConAgra Brands disclosed that ConAgra currently uses Excel as the use of proxy data allows the production and ownership of all data to be in-house. However, Hental said that the transition to a supplier-based approach will likely require the adoption of a more sophisticated system to streamline the process.

In light of further scrutiny of reporting, companies should strive for robust data handling systems that allow the flexibility needed to produce each of the required outputs. Speaking at Reuters Events Data Integration webinar, Mark Evans and Sean Daley from ESG risk management software provider Sphera discussed the use of external platforms as a way to reduce the burden of producing LCAs. They argued that by investing in a bespoke data management system and capturing product carbon footprint data via an integrated life cycle assessment, companies can handle their Scope 3 data more efficiently and effectively.

> ***"EXCEL IS A GREAT STARTING SYSTEM FOR COMPANIES BEGINNING THEIR SCOPE 3 JOURNEY AS THERE IS LITTLE TO NO LEARNING CURVE AND IN MANY CASES, THERE IS NO ADDITIONAL SUBSCRIPTION COST."***

**INTERNAL POLICY INNOVATION:**

Despite Scope 3 referring to external emissions, through measuring and understanding companies can increase awareness of the impacts that their internal decisions have. Those developing strategy can then assess which policies and guidelines can be implemented in-house in order to affect Scope 3. For example, the implementation of travel policies to reduce Scope 3 emissions, wherein prioritizing direct flights over multiple short hauls and using alternative means of transport such as trains where feasible can have a large impact on a company's overall emissions.

This is demonstrated by the changes made to accounting firm PwC's travel policy. Business travel is PwC's largest emissions source, with air travel accounting for 68% of its total emissions. However, between 2007 and 2022 PwC reduced its carbon emissions from business travel by 61% while experiencing growth as a business. This reduction translates as an 84% fall per employee.

A huge influence in this reduction was the introduction of remote working infrastructure as a result of the Covid-19 pandemic, which reduced the necessity of frequent business travel. The company also ran a multi-phased campaign aiming to reduce unnecessary journeys and make better use of technology-based alternatives.

Another form of business travel where companies such as PwC aim to reduce their Scope 3 is commuting. By engaging with employees and understanding their commuting habits, companies can focus their efforts to educate and incentivize less emission-intensive routes to work. Many companies in the UK have signed up to the government's Cycle to Work Scheme, which offers tax incentives for the lending of cycling equipment. Similarly, installing bike racks and having access to showers can make cycling to work more convenient and appealing.

**SUPPLIER ENGAGEMENT:**

Businesses often face difficulties with visibility on their value chain beyond their tier 1 or 2 suppliers. As a result, attempts to understand supply chains can be beset by a lack of information and data, which poses significant risk to businesses. By mapping Scope 3 and understanding emissions sources companies can improve their visibility of the supply chain and identify key areas for action. Furthermore, by engaging with suppliers companies can strengthen their influence and collaborate with supply partners to implement policies and changes to target emission sources.

At Reuters Events' Transform Supply Chain USA 2022 event, the discussion into supplier engagement hit upon three key foundations to improve engagement and produce better outcomes.

Firstly, shared values were identified as fundamental to good engagement. Duncan Scott, SVP of Strategic Sourcing and Quality at New Balance explained "Everything starts with your company philosophy and company values and you want to choose suppliers that are aligned with those values." By partnering with companies with similar values each company can be confident that they are striving towards similar goals and thus will work together to achieve these goals with minimal resistance.

Secondly, cross functional alignment can strengthen your narrative. By clearly communicating your aims and what is going to be needed to achieve them, suppliers will feel more secure in their understanding of what you are asking of them.

> ***"WHEN ROLLING OUT NEW POLICIES WE HOLD WEBINARS AND ELABORATE WHAT IT MEANS FOR OUR SUPPLIERS, INCLUDING WHAT THE EXPECTATIONS ARE. WE USUALLY DO THE SAME WITH OUR MERCHANTS"***

Jennifer DuBuisson, Senior Director of Sustainability at Levi-Strauss, explained how the company holds annual and bi-annual meetings with suppliers. "When rolling out new policies we hold webinars and elaborate what it means for our suppliers, including what the expectations are. We usually do the same with our merchants, we do a briefing in at the beginning of the year or season about requirements, changes and big asks."

Levi-Strauss then uses these meetings to inform a road map for a three-to-five-year horizon for investments, identifying interventions by cost and impact. These meetings allow Levi and its suppliers to work together to build common mechanisms and ensure all parties understand the direction of progression. It also allows for the identification and discussion of any potential challenges.

Partnerships both with suppliers or competitor companies can take many forms and each have their own advantages. Long term partnerships can be great for fostering deeper relationships where both parties grow to understand the other and what they need from the partnerships, however, new partners can help introduce new ideas and drive change. Meanwhile, pre-competitive partnerships and collaboration can help accelerate progress.

**CONCEPTUAL DESIGN CHANGE AND CIRCULARITY:** As a product's emissions are generated over its entire life cycle, changing one aspect of design can have a large impact. Enacting conceptual design changes such as changing the materials used or the origins of the materials, companies can dramatically influence Scope 3 emissions. For example, at Reuters Events' Transform Supply Chain USA 2022 events, Katya Hantel, Head of Global Sustainability at ConAgra foods reported a reduction of 9.8% on their Scope 3 emissions as a result of increasing their plant-based protein and reducing their meat-based protein in their products.

> ***"IT'S NOT JUST FARM TO CLOSET, BUT IT'S FARM TO CLOSET TO CLOSET TO CLOSET TO CLOSET. AND THAT COMES BACK THROUGH US AND HAS A TREMENDOUS IMPACT"***

Another example came from Jeff Frye, Head of Sustainability Innovation and Global Procurement at Kontoor Brands. In their denim production Kontoor used preexisting technologies in an innovative way to transition from ring spun to open spun yarn, thereby reducing energy requirements by 40% while maintaining product aesthetic and performance. An additional benefit was that this move also lowered costs by 30%, highlighting the positive effect engaging with Scope 3 can have on the bottom line.

The life cycle of a product continues to contribute to GHG emissions even after it has been sold. Landfill gas (LFG) is a natural byproduct of the decomposition of organic material in landfills. LFG is composed of roughly 50% methane, 50% carbon dioxide (CO2) and a small amount of non-methane organic compounds. Municipal Solid Waste (MSW) landfills are the third-largest source of human related methane emissions in the U.S., making the development of end-of-life solutions that reduce the volume of waste per product essential.

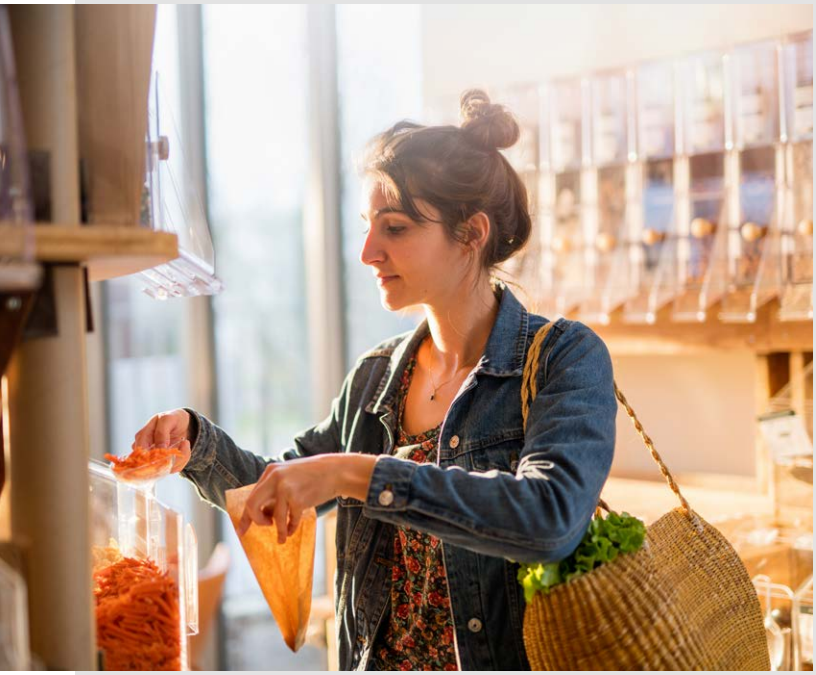
Colgate-Palmolive, one of the leading toothpaste vendors in the U.S., has used existing packaging materials in an innovative design to develop a recyclable toothpaste tube. This design was then shared with peer companies to make recyclable toothpaste tubes the norm.

The circular economy is a systems solution framework that aims to reduce the intensity of production, consumption and disposal of products to minimize use of the world's resources.

Within the apparel industry circularity can be increased through innovative uses of materials and developing new end of life solutions. While Bella Hadid's spray-on Coperni dress was a headline-grabbing showcase in this new wave of circular fashion, some mass market apparel companies are finding ways to make circularity more widely accessible.

Crocs, a well-known plastic shoe brand, uses a bio-based resin that is produced from by-product from other industries. This approach has several advantages from an emissions management perspective. By using a waste material Crocs reduced the Scope 3 waste emissions of that sector while also reducing purchased goods Scope 3 emissions. Additionally, using one material for both the sole and the upper part of the shoe reduces waste during the manufacturing process. By focusing on the durability of the materials and design Crocs was able to create a product with a longer lifespan, therefore reducing consumption and further lowering emissions.

The apparel industry is also seeing huge growth in the adoption of "recommerce", this shift to secondhand marketplaces is one area that looks to extend the life of garments. Vanessa Barboni-Hallik, CEO of Another



Tomorrow, argued the need to factor the extended product life into the design stage. "It's not just farm to closet, but it's farm to closet to closet to closet to closet. And that comes back through us and has a tremendous impact on reducing the impact of garment." When asked if it concerned her that this recommerce would mean that multiple users of the item would not be buying products directly from the company, Barboni-Hallik spoke positively of the movement citing its reduced capital intensity and resulting potential for increased profit margins.

Further highlighting the increasing salience of this strategy, eBay partnered with UK reality TV show Love Island to inspire shoppers to consider 'pre-loved' clothing first. Following the resulting advertising campaign, eBay saw a 1600% rise in searches for 'pre-loved clothes' on the previous year as well as a 24% increase in the amount of new circular fashion businesses that joined the online marketplace in that same time frame.

**CONSUMER ENGAGEMENT:**

The impact of Scope 3 down the product life-cycle means that empowering consumer behavior change is a crucial step in tackling emissions and advancing towards a more sustainable future. The attitude-behavior gap is a major challenge in the sustainable transition. However, the implementation of educational campaigns can both inform and motivate consumers to make environmentally conscious decisions.

Companies like apparel manufacturer Patagonia have sustainability build into the company ethos. Patagonia report that 86% of their emissions come from their raw materials, and as a consequence a large focus is to facilitate more circular actions by promoting sustainable consumption patterns through education and programs. Patagonia's Worn Wear program encourages consumers to repair not replace, as by sending in their Patagonia items for repair if they get damaged consumers can reduce their waste impacts. Nine months of use reportedly reduces the carbon footprint of a garment by 30%., highlighting the importance of extending product life-spans for reducing emissions.

Another channel for influencing consumers is through partnerships. Procter & Gamble's detergent brand, Tide, launched a 'Turn to Cold' campaign with the U.S. National Football League (NFL), aimed at promoting the economic and environmental benefits of washing clothes on a cold cycle. Using a cold cycle can reduce energy consumption by up to 90% per wash. Aiming to reduce Scope 3 emissions by 5.6 million metric tons annually, Tide partnered with 16 NFL teams to convince them to turn to cold washes for their laundry operations and inspire fans to do the same. The campaign's success reportedly inspired 80 million households of NFL fans to join the "cold movement" during the 2021-2022 season.

A well-executed educational campaign can foster a culture of sustainability, compelling consumers to adopt environmentally responsible practices and cause meaningful change.

**NEXT ACTIONS:**

For more information on managing Scope 3, explore some of our other pieces below.

- For more examples of consumer engagement read Reuters Insights Article Addressing Scope 3 emissions through empowering consumer behavior change.
- For those starting out on their Scope 3 journey Reuters Insights article Assessing the options for measuring Scope 3 emissions explains the methods of measuring and the importance of capturing Scope 3 data.
- For more information on the importance of supplier engagement and the benefits of accurate Scope 3 reporting read Reuters Insights article, How to improve the quality of Scope 3 emissions data and reporting.

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# NET ZERO USA 2023

2-3 October, 2023 **New York**

**#NetZeroUSA**

## Decarbonizing Corporate America

## Key metrics:

| 250+ | 60+ | 20+ | 22+ |
|---|---|---|---|
| **Attendees** | **Expert Speakers** | **Sessions** | **Hours Of Networking** |

## Leading Net Zero speakers attending in October...

**Monique Oxender**
*Chief Sustainability Officer*

Keurig DrPepper

**Chris Fox**
*Chief Sustainability Officer*

HANES Brands SUSTAINABILITY

**Caitlin Leibert**
*VP Sustainability*

WHOLE FOODS

**Niki King**
*VP Sustainability*

The Clorox Company

**Elizabeth Small**
*Head of Policy and General Council*

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