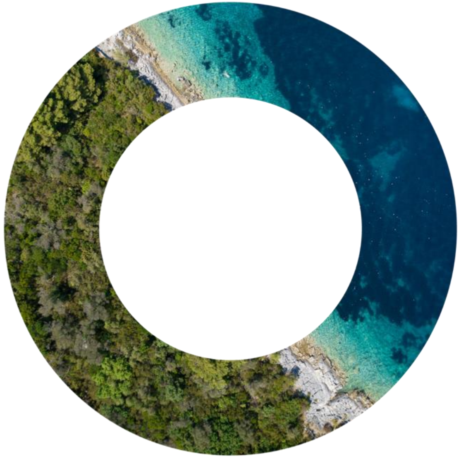
Incentivizing Scope 3 emissions Reductions



Webinar ERCST
Role of Scope 3 missions in decarbonization

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Context

- To date, companies have assessed their GHG emissions using a similar approach adopted by States focusing on monitoring and managing their direct emissions. Indeed, countries carry out their national GHG inventory on their direct emissions.
- The increasing consideration of Scope 3 by companies is related to a broader view of their responsibility on GHG across their value chain beyond their direct ownership or operational control (suppliers and customers).
- If regulations are very specific on monitoring obligations for direct emissions, on indirect emissions today companies are incentivized to consider their scope 3 through the pressure of investors, voluntary reporting frameworks, consumers and civil society.

GHG monitoring and reporting obligations for corporates mainly focused on direct GHG emissions

- Until recently, main mandatory corporates GHG monitoring, and reporting regulations consider mainly direct GHG emissions sources :
  - In UK or in France, the specific mandatory monitoring and reporting regulation specifies that considering scope 3 emissions will continue to be voluntary.
  - The EU ETS covers only direct GHG emissions in ETS sectors.
- However, new climate-related disclosures regulations increasingly consider indirect GHG emissions – in sectors in which scope 3 emissions are significantly material.
  - In France, with the Low-Carbon Transition Law – article 173, since 2017, companies must include in their carbon reporting, their significant indirect GHG emissions across the entire chain of value (scope 3).

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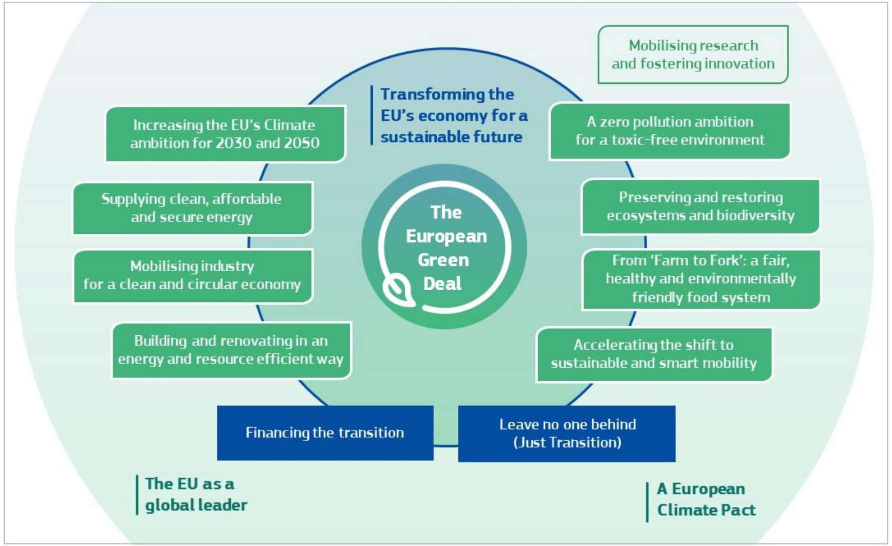
Future GHG monitoring and reporting obligations extensions to cover scope 3

- There is a growing interest to implement or to extend new climate-related disclosure regulations on scope 3 emissions.
  - For investors : e.g. : the EU Green Taxonomy
  - For corporates : e.g. : the revision of the non-financial reporting directive in 2021 ; carbon border adjustment mechanism.
  - For products : e.g. : the future French law on product carbon footprint label or the launch the Pilot Phase of the EU Green Consumption Pledge in 2021.



Considering scope 3 emissions brings many benefits to companies

Assessing Scope 3 emissions brings many benefits to companies.

- Improve risks and costs management
- Respond to investors requests and pressures
- Anticipate future regulatory developments
- Unlock business innovation and support products opportunities
- Create a dialogue with suppliers and consumers

For 5 to 10 years, several voluntary incentives have provided clear motivations to consider scope 3

- On reporting > CDP survey : specific questions addressed on scope 3 emissions
  - Companies are already demonstrating that it is possible to address scope 3 emissions.
  - Over 2,800 companies that reported to CDP in 2017 reported scope 3 emissions, and 26.7% of these companies calculated emissions for all categories they consider relevant.

- On standardisation >
  - PAS 2060 is a specification standard detailing how to achieve carbon neutrality through the quantification, reduction and offsetting of greenhouse gas (GHG) emissions : all Scope 3 emissions which contribute more than 1% to the total footprint must be included.
  - ISO standard 14 068 > under definition. Scope 3 inclusion is under negotiations.

CDP DRIVING SUSTAINABLE ECONOMIES

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

carbon footprint standard Carbon Neutral PAS 2060

ISO International Organization for Standardization

SBT initiative has recently included scope 3

- Companies must set a target on at least 95% of 1 + 2 scopes and complete a screening for all relevant Scope 3 categories.
- If a company's Scope 3 emissions are 40% or more of total emissions, a Scope 3 target is required.
- Scope 3 target(s) must cover at least 2/3 of total Scope 3 emissions.
- Moreover, 368 companies publicly listed scope 3 emissions reduction targets and over 150 companies have had their targets approved as 'science-based' by the Science Based Targets initiative (90% of which had scope 3 targets).

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Companies can activate themselves several options to manage their scope 3

- Putting an internal carbon price to fund actions to reduce scope 3 emissions:
  - It creates a financial incentive that can be used to collect fees that can then be reinvested in new low-carbon activities, products and services.

- Funding insetting carbon projects at local and international levels :
  - This is an option to develop carbon offset projects within a company’s own supply chain in order to reduce emissions across corporates values chains and to promote sustainable practices.
    - E.g Many carbon insetting projects are agroforestry related.
    - E.g In France, the low-carbon label provides opportunities to develop local carbon projects.
- Developing and selling low-carbon products : avoided emissions
  - This is an option to contribute to reduce emissions through the use of a particular product or service.

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Take-aways messages

- Voluntary initiatives on climate reporting, targeting and standardization have played a key role to incentive compagnies to extend their operational control beyond their direct emissions to assess their indirect emissions.
- There would be of interest to drawn lessons from experiences and outputs of those voluntary initiatives to help a new generation of climate-related regulations : benefits, challenges, costs, etc..
- Some questions to address:
  - Valorization : financial valorization, economic monetization, market shares, communication to skateholders.
  - Disclosures : which point of regulation for scope 3 reporting : companies, investors ? Which sectors ?
  - Regulatory or mandatory ?

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Thank you. Questions ?

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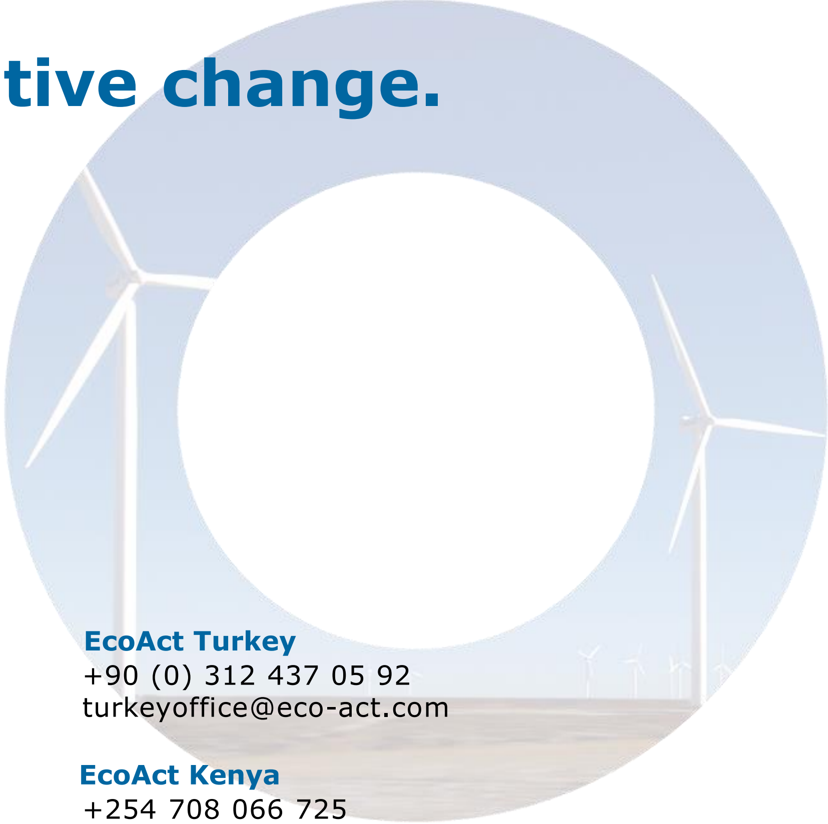
Your climate experts.
Your partners for positive change.



EcoAct, an Atos company, is an international advisory consultancy and project developer that works with clients to meet the demands of climate change. We work with many large and complex multinational organisations to offer solutions to their sustainability challenges.

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