Discussion on role of Scope 3 emissions in decarbonization

26/01/2021

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Roundtable on
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Agenda

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Session 1: The importance of Scope 3 emissions

Discuss importance of Scope 3 emissions in different sectors, how they should be treated through voluntary/regulatory instruments, and what role they can play in a period of transition

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Session 2: Methodological issues (definition, measurement, attribution and reporting)

Discuss existing methodological issues related to the defining, measuring and attributing Scope 3 emissions, as well as reporting issues which deserve further consideration and need to be resolved

3

Session 3: Options for incentivizing Scope 3 emissions reductions

Identifying solutions: which options can be considered to incentivize Scope 3 emission reductions. Reflect on potential overlaps and synergies of these options with existing regulations and/or voluntary commitments.

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Objectives

Exploration of the main issues and options regarding how to treat and address Scope 3 emissions, and what role they should play in the transition, with a focus on:

- How reductions can be incentivized for those Scope 3 emissions
- How, these incentives can increase flexibility for those that have existing (Scope 1) compliance obligations
- Address the need to discuss and agree on double counting? ("Someone's scope 3 emissions are somebody else's scope 1 emissions")

Key issues revolving around Scope 3 emissions that were identified:

1. Definition, measurement and attribution
2. Reporting
3. Options for incentivizing reductions
4. Overlap and synergies with existing regulations and/or voluntary commitment

Key issues and underlying questions

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Issue	Questions
Definition, measurement and attribution	• Are there any new or alternative definitions for Scope 3 emissions emerging? • Are there noticeable differences in the definitions used through voluntary standards compared to those set by regulators, where such are in place?
Reporting	• Which companies or sectors are currently reporting on their scope 3 emissions, and in which countries? • Are they doing this on a voluntary basis, or are relevant reporting obligations in place in certain jurisdictions? • How do reporting obligations that are emerging in various jurisdictions differ from one another? • What are the main risks in double counting Scope 3 emissions?

Incentivizing reductions	• Who is best-situated to incentivize reductions?
	• Who should be the subject to the incentive or framework?
	• How can the incentive be provided?
	  • Mandatory, voluntary, soft incentives (e.g. shareholder pressure or ESG)?
	  • Financial or non-financial incentives?
	  • Penalize or reward?
	• What are the currently existing incentives?

Overlap and synergies	• The risk of double counting and other types of overlap with voluntary commitments (e.g. science-based targets) and carbon markets should be assessed and addressed; • Potential impacts, linkages and overlaps with existing climate policies and regulations at different governance levels need to be considered, e.g. with the ETS, ESR, CBAM, consumer charge, circularity contributions, Sustainable Finance Taxonomy and Delegated Act, market for low carbon products, overlap with national obligations, incentives and other climate policies)

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Session 1

The importance of Scope 3 emissions

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Why Scope 3 emissions?

- Reporting Scope 1 and 2 emissions will not suffice to ensure transition to a low-carbon economy and net-zero targets. For certain sectors Scope 3 emissions account for more than 70% of their carbon footprint (Source: GHG Protocol)

- Main legislation which currently governs the EU's climate ambition and corporate compliance are focused on Scope 1 emissions, and to some extent on Scope 2 emissions (e.g. through requirements for energy efficiency improvements or renewable energy targets)

Scope 3 emissions: rising momentum and linkages with climate initiatives

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Companies facing growing pressure from asset owners, employees, lawmakers and activists to reduce emissions across their entire value-chain take environmental factors and risks into account

CDP

Provides companies opportunity to disclose data for all 15 plus two 'Other' up- & downstream categories of Scope 3 emissions and explain process by which their Scope 3 data is collected.

+ 2,800 companies that reported to CDP in 2017 reported scope 3 emissions (SBTi, 2018)

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

If a company's scope 3 emissions account for ≥ 40% total emissions, it should set a target covering scope 3 emissions.

Over a 1000 companies are setting science based climate targets.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Encourages investors and executives to disclose the scope 1 and scope 2 emissions of their portfolios, and scope 3 "if appropriate"

In developing technical thresholds and criteria, the TEG has put a great emphasis on life-cycle considerations in order to avoid errors such as considering sustainable any economic activity that may have negative effects during its upstream or downstream stages

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Discussion questions

- Importance of Scope 3 emissions for different industry sectors
- If they should be treated through voluntary/regulatory instruments (incentives)
- What role they can Scope 3 emissions play in a period of transition, if any

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Session 2

Methodological issues related to:

Definition, measurement, attribution and reporting of Scope 3 emissions

Definition, measurement and attribution

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- Main definition and measurement of Scope 3 by GHG Protocol Corporate Value Chain Standard, WRI and WBCSD
- Scope 3 emissions defined as: *indirect emission that are a consequence of the activities of the company (in the value chain) but occur from sources not owned or controlled by the business*
- Classified into 15 distinct reporting categories
- Calculation methods: supplier specific, hybrid, average data, spend based, for travel (fuel based, distance based), others
- WRI, WBCSD definition not the only one with relevance for Scope 3 emissions, as the latter are also sometimes, e.g. in the context of the Sustainable Finance Taxonomy, equated with the LCA of a product or simply referred to as "indirect emissions" of a company's activities
- Some stakeholders highlighted that under the Sustainable Finance Taxonomy, which is currently under evaluation, the definition of Scope 3 is still not well-defined

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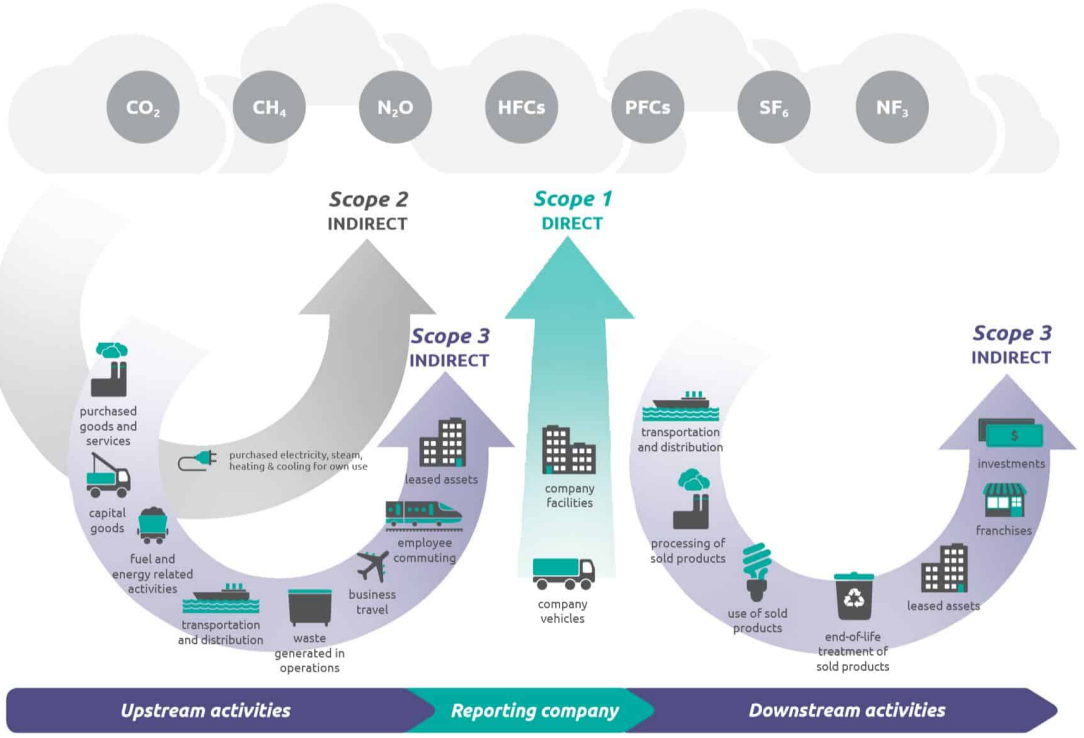
Greenhouse Gas Protocol (WRI, WBCSD)



Scope 3 emissions categories

No.*	Upstream categories	No.*	Downstream categories
3.1	Purchased goods and services	3.9	Downstream transportation and distribution
3.2	Capital goods	3.10	Processing of sold products
3.3	Fuel- and energy related activities	3.11	Use of sold products
3.4	Upstream transportation and distribution	3.12	End-of-life treatment of sold products
3.5	Waste generated in operations	3.13	Downstream leased assets
3.6	Business travel	3.14	Franchises
3.7	Employee commuting	3.15	Investments
3.8	Upstream leased assets		

Source: GHG Protocol Corporate Value Chain (Scope 3) Standard

Reporting

- Study commissioned by DG ENV (2010) highlighting the 30 main GHG reporting methods and initiatives that were in place at that time

- Even though there are many GHG reporting methods and initiatives that include Scope 3 emissions, they are included only as an optional reporting category:
  - UK Streamlined Energy and Carbon Reporting (SECR), extends the reporting requirements of Scope 1 and 2 for all large companies, leaving however Scope 3 as a strongly recommended but still a voluntary category

- At the EU level, new reporting requirements for companies are emerging, for example under the non-financial reporting directive (NFRD)

Global	Europe	North America	Asia-Pacific
• Carbon Disclosure Project (CDP)	• French Bilan Carbone	• US Regional Greenhouse Gas Initiative (RGGI)	• Japanese Voluntary ETS (J-VETS)
• WBCSD/WRI GHG Protocol Corporate Standard	• EU Emissions Trading Scheme (EU ETS)	• US Climate Registry (TCR) General Reporting Protocol	• Japanese GHG Reporting Scheme
• IPCC 2006 GHG Workbook	• UK Department for Environment, Food and Rural Affairs (DEFRA) Guidelines	• USEPA GHG Rule	• Australian Carbon Pollution Reduction Scheme (CPRS)
• ISO 14064: 2006 (Parts 1 and 3)	• UK Carbon Reduction Commitment (CRC)	• US Securities and Exchange Commission (SEC) Guidance	• Australian National Greenhouse and Energy Reporting (NGER) Scheme
• Climate Disclosure Standards Board (CDSB)	• UK Climate Change Levy Agreement (CCLA)	• Californian Climate Action Registry (CCAR)	
• Enterprise Carbon Accounting (ECA)#	• Dutch Energy Covenant	• US EPA Climate Leaders Inventory Guidance	
• International Local Government GHG Emissions Analysis Protocol (IEAP)	• The Carbon Trust Standard (CTS)	• Environment Canada GHG Emissions Reporting Program	
• Global Reporting Initiative (GRI)		• Chicago Climate Exchange (CCX)	
• API/IPIECA GHG Compendium*		• US GHG Protocol Public Sector Standard	
• WBCSD/WRI GHG Protocol Scope 3 Reporting Standard			

Company GHG Emissions Reporting – a Study on Methods and Initiatives (ENV.G.2/ETU/2010/0073) by ERM for EU Commission Directorate-General Environment

Discussion questions

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- Are there any new or alternative definitions for Scope 3 emissions emerging?
- Are there noticeable differences in the definitions used through voluntary standards compared to those set by regulators, where such are in place?
- Which companies or sectors are currently reporting on their scope 3 emissions, and in which countries?
- Are they doing this on a voluntary basis, or are relevant reporting obligations in place in certain jurisdictions?
- How do reporting obligations that are emerging in various jurisdictions differ from one another?
- What are the main risks in double counting Scope 3 emissions?

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Options for incentivizing Scope 3 emissions reductions

Options for incentivizing Scope 3 emissions reductions

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There are many ways imaginable to incentivize scope 3 emission reductions, including but not limited to:

- Including Scope 3 emissions in the EU Emissions Trading System;
- Credits could be issued for Scope 3 emission reduction projects by operationalizing Art. 24a of the EU ETS Directive, which addresses domestic offset projects;
- Create a new market-based instrument in another sector, e.g. waste, which could then be linked to the EU ETS;
- Creating a market for low-carbon products through e.g.
  - Standards for public procurement;
  - Introducing a consumer charge;
  - Providing financial incentives for companies to increase the uptake of low-carbon goods throughout their value-chain;
- Making credit ratings dependent on emission performances;
- Increase companies' reporting obligations;
- Etc.

Discussion questions

- Who is best-situated to incentivize reductions?
  - European Union level, Members States, private companies, credit providers, etc.
- Who should be the subject to the incentive or framework?
  - Consumer, company, investor, territory, etc.
- How can the incentive be provided?
  - Mandatory, voluntary, soft incentives (e.g. shareholder pressure or ESG)?
  - Financial or non-financial incentives?
  - Penalize or reward?
- What are the currently existing incentives?

Overlap and synergies

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Potential overlaps and synergies with existing (voluntary/regulatory) frameworks should be carefully considered:

- The risk of double counting and other types of overlap with voluntary commitments (e.g. science-based targets) and carbon markets should be assessed and addressed;
- Potential impacts, linkages and overlaps with existing climate policies and regulations at different governance levels need to be considered, e.g.
  - Impacts on division and the EU ETS and the Effort Sharing Regulation (ESR)
  - Linkages with e.g. a) Carbon Border Adjustment Mechanism (CBAM), b) consumer charge, c) circularity contributions, d) Sustainable Finance Taxonomy and Delegated Act, e) market for low carbon products
  - Overlap with national obligations, incentives and other climate policies

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Backup slides