

Scope 3

Supply Chain UK & WW

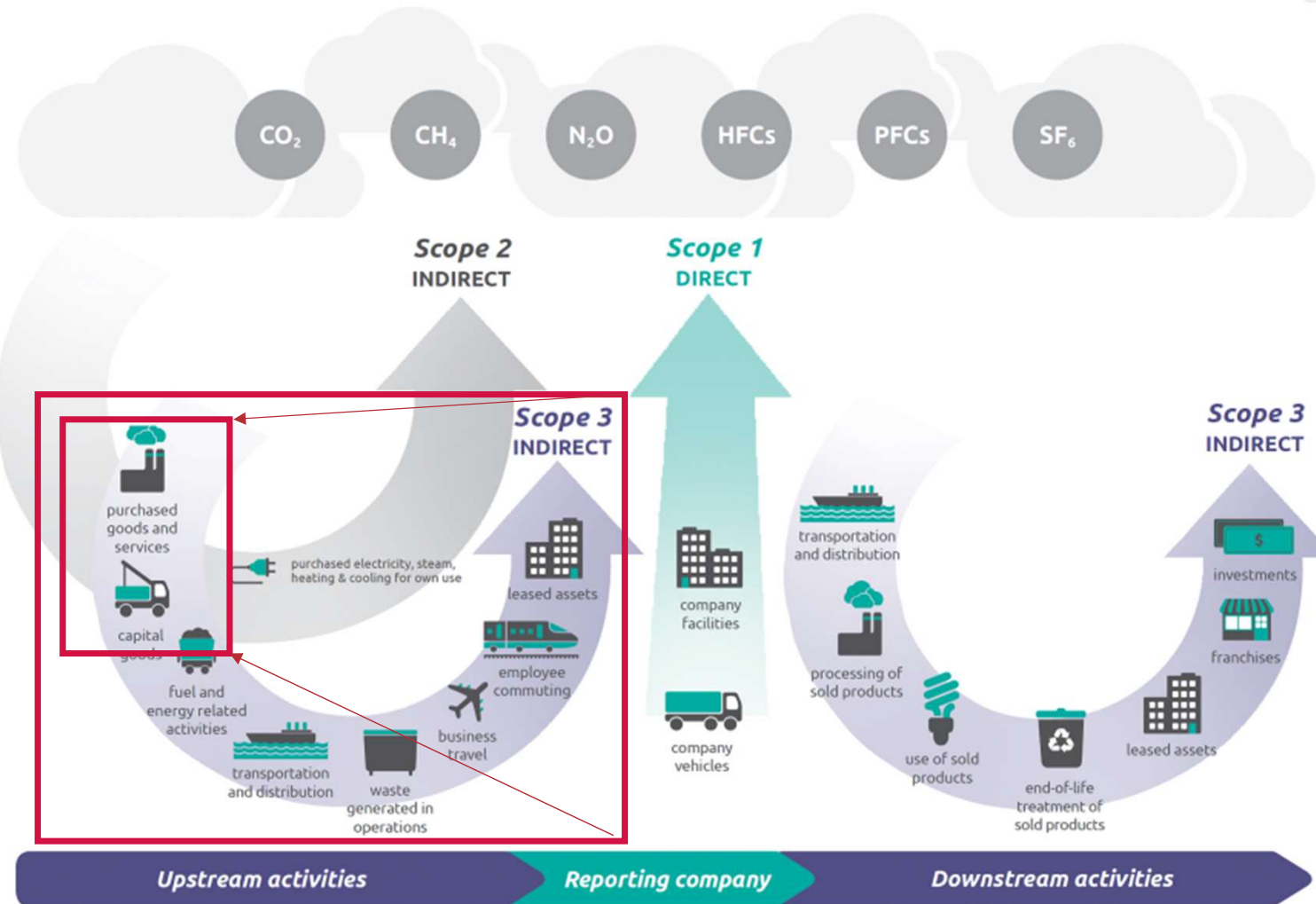


Agenda



- ▼ Introduction to Scope 3
- ▼ What is the data telling us?
- ▼ Target setting and scope 3
- ▼ Approaches: Utilising primary data
- ▼ Product level data
- ▼ Challenges and solutions: Supplier support and procurement
- ▼ CDP Supplier Engagement Rating update
- ▼ Final note: SMEs and supplier finance

Scope 3 Emissions Protocols

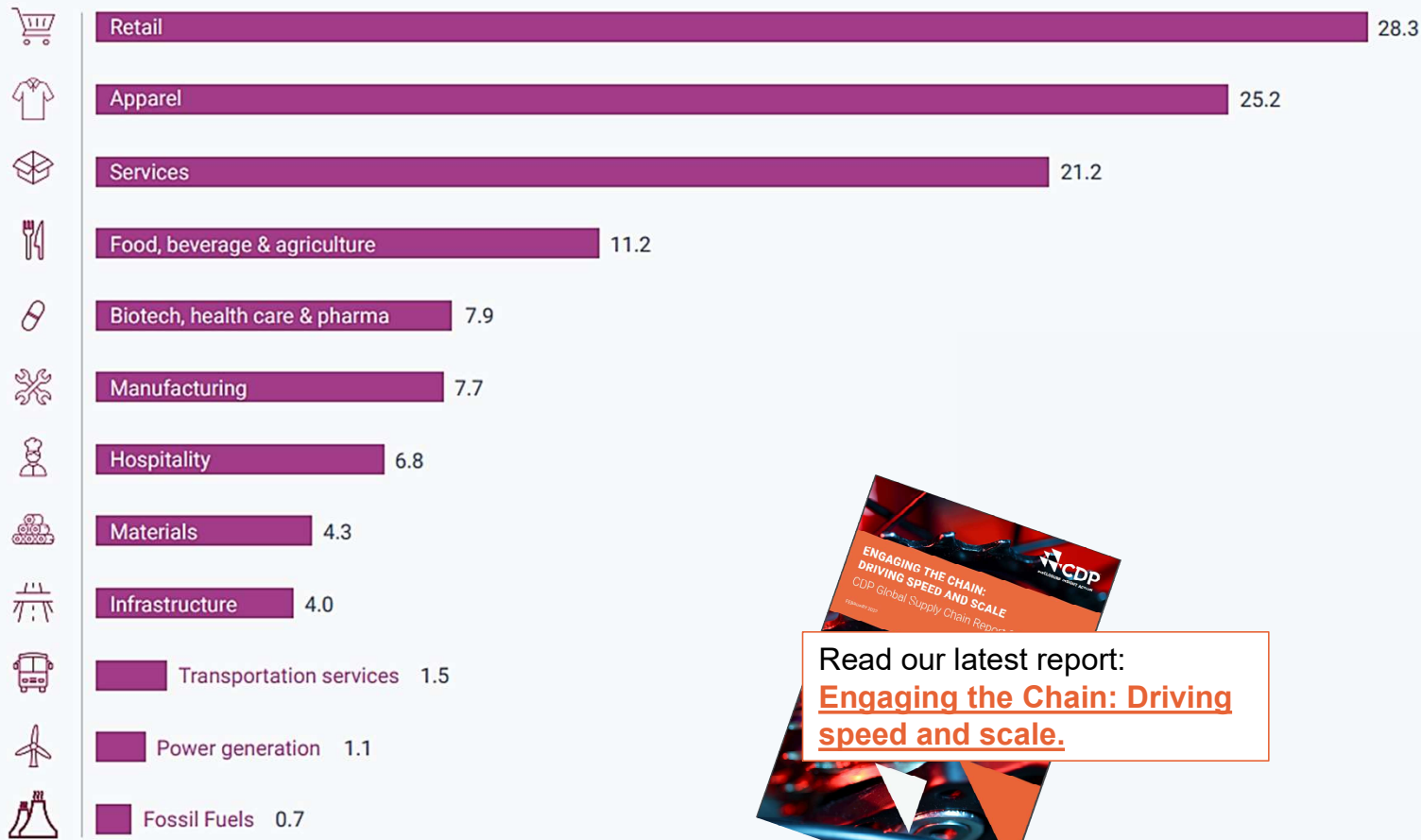


GHG Protocol have excellent documents freely available.

- <https://ghgprotocol.org/standards/scope-3-standard>
- https://ghgprotocol.org/sites/default/files/standards/Scope3_Calculation_Guidance_0.pdf

WHERE DOES YOUR BIGGEST IMPACT LIE?

Supply chain emissions are significantly higher than direct operations emissions



Read our latest report:
[Engaging the Chain: Driving speed and scale.](#)

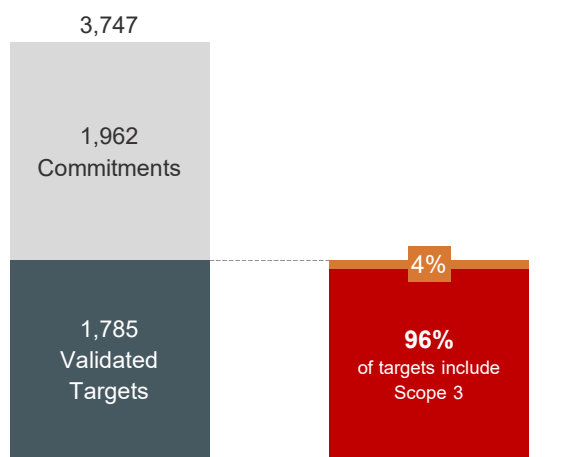
Source :CDP Global Supply Chain Report 2020



On average,
supply chain emissions are
11.4x higher
than operational emissions

SCOPE 3 TARGET-SETTING IS CRITICAL TO ACHIEVE SYSTEM-WIDE DECARBONISATION

Significant progress on Scope 3 emissions, regulators and governments to push for SBT setting to tackle wider GHG



Number of companies as of October 2022

Home > News
 > ISSB unanimously confirms Scope 3 GHG emissions disclosure requirements with strong application support, among key decisions

21 October 2022

ISSB unanimously confirms Scope 3 GHG emissions disclosure requirements with strong application support, among key decisions

Montreal, Canada—The International Sustainability Standards Board (ISSB) of the IFRS Foundation has made significant progress refining its first two proposed sustainability-related disclosure standards—[draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [draft] IFRS S2 *Climate-related Disclosures*.

At its October meeting, following careful analysis of the feedback on its proposed standards, the ISSB voted unanimously to require company disclosures on Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions^[1], applying the current version of the GHG Protocol Corporate Standard. As part of these requirements, the ISSB will develop relief provisions to help companies apply the Scope 3 requirements. This relief will be decided at a future meeting and could include giving companies more time to provide Scope 3 disclosures and working with jurisdictions on so-called 'safe harbour'^[2] provisions.

Related information
 International Sustainability Standards Board

Followable tags

- IFRS
- Sustainability Standards
- development
- Media

[Source](#)

NOVEMBER 10, 2022

FACT SHEET: Biden-Harris Administration Proposes Plan to Protect Federal Supply Chain from Climate-Related Risks

BRIEFING ROOM | STATEMENTS AND RELEASES

Proposed rule to improve efficiency and reduce financial risks from climate change

Today, the Biden-Harris Administration is taking historic action to address greenhouse gas emissions and protect the Federal Government's supply chains from climate-related financial risks. In support of President Biden's Executive Orders on *Climate-Related Financial Risk* and *Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability*, the Administration is proposing the *Federal Supplier Climate Risks and Resilience Rule*, which would require major Federal contractors to publicly disclose their greenhouse gas emissions and climate-related financial risks and set science-based emissions reduction targets.

[Source](#)

NOVEMBER 17, 2022

CEQ Launches Global Net-Zero Government Initiative, Announces 18 Countries Joining U.S. to Slash Emissions from Government Operations

CEQ | NEWS & UPDATES | PRESS RELEASES

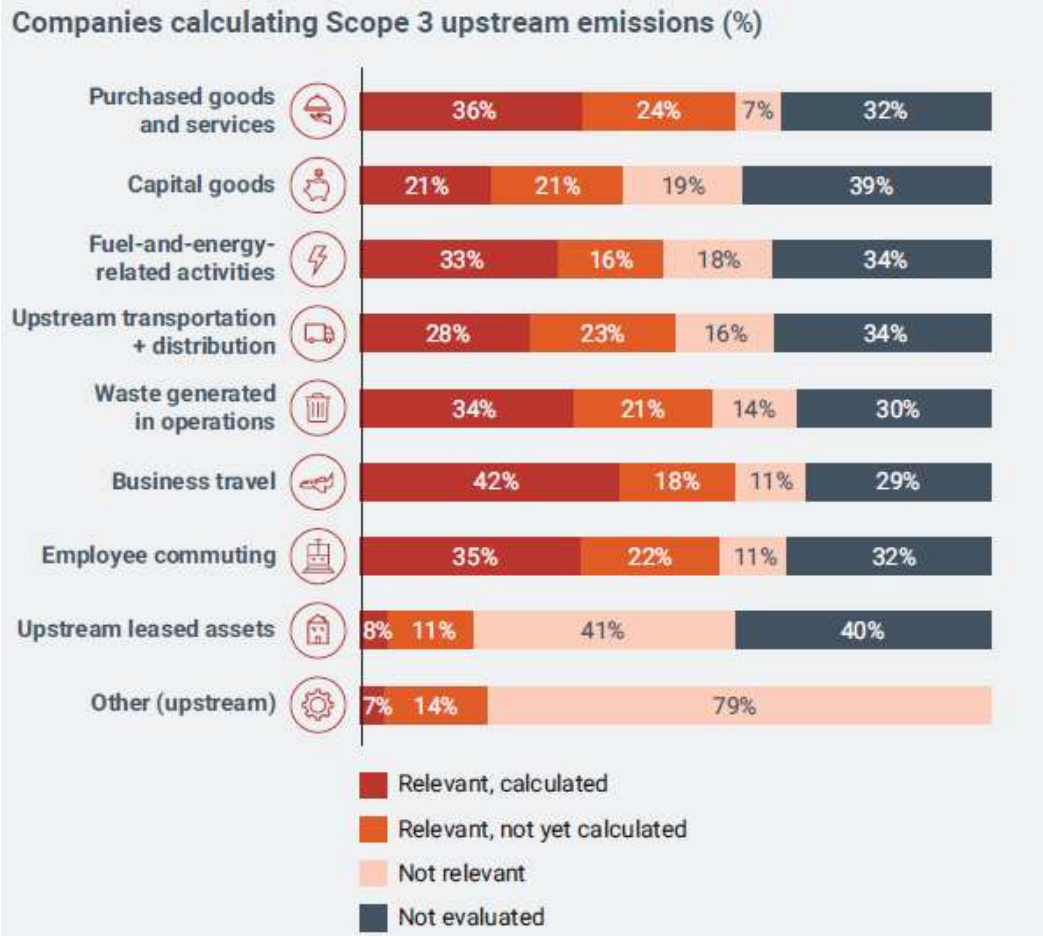
At the 2022 United Nations Climate Change Conference of the Parties (COP27), the United States launched the Net-Zero Government Initiative, inviting governments to lead by example and achieve net-zero emissions from national government operations by no later than 2050. During a COP27 event with partner nations, Council on Environmental Quality Chair Brenda Mallory and U.S. Special Presidential Envoy for Climate John Kerry announced that 18 countries have joined the United States in this new Initiative.

Countries joining the United States in committing to net-zero government emissions include: Australia, Austria, Belgium, Canada, Cyprus, Finland, France, Germany, Ireland, Israel, Japan, Korea, Lithuania, Netherlands, New Zealand, Singapore, Switzerland, and the United Kingdom.

[Source](#)

What is the data telling us?

Climate Deep Dive: Scope 3 Emissions



Identifying and calculating emissions in all relevant Scope 3 categories is crucial to understand what your real carbon footprint is.

- 36% of companies reported their Purchased Goods and Services emissions, *which are relevant for almost every sector.*
- Despite this, they made up the largest proportion of Scope 3 emissions (43%) reported.
- A total of 39% of companies have indicated that this major contributor to Scope 3 emissions is 'not relevant' or 'not evaluated,

Climate Deep Dive: How are companies influencing scope 3 emissions through engagement?



Supplier engagement



For companies that are engaging – how many suppliers do they engage on climate change?

The average respondent engages 34% of its suppliers, which represents:



of procurement spend, and



of supplier-related Scope 3 emissions.

For companies that are engaging their suppliers – what do they engage on?

use engagement and incentivization activities



to support supplier behavior change; this is a year-on-year increase from one in every 25 companies to one in every 20 companies offering educational programs to their suppliers – the most common such activity.

use innovation and collaboration activities



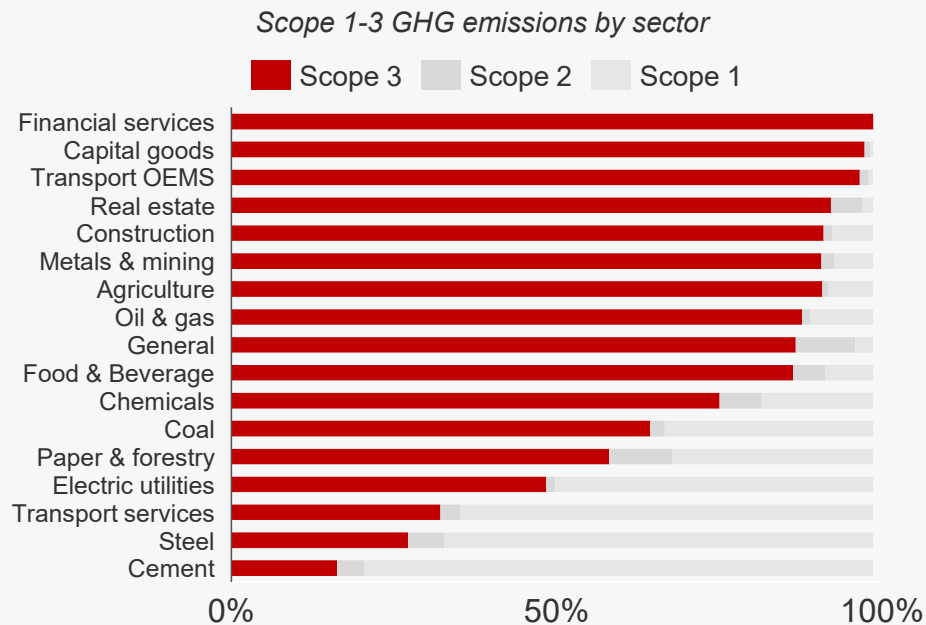
to support market behavior change, up from 9% last year. 57% of those activities were campaigns to encourage innovative ideas for reducing climate impacts of products and services.

Target setting and Scope 3

SCOPE 3 TARGET-SETTING CRITICAL TO ACHIEVE SYSTEM-WIDE DECARBONISATION

70% of corporate GHG footprint and core to SBTi's theory of change

Scope 3 is significant across most sector...

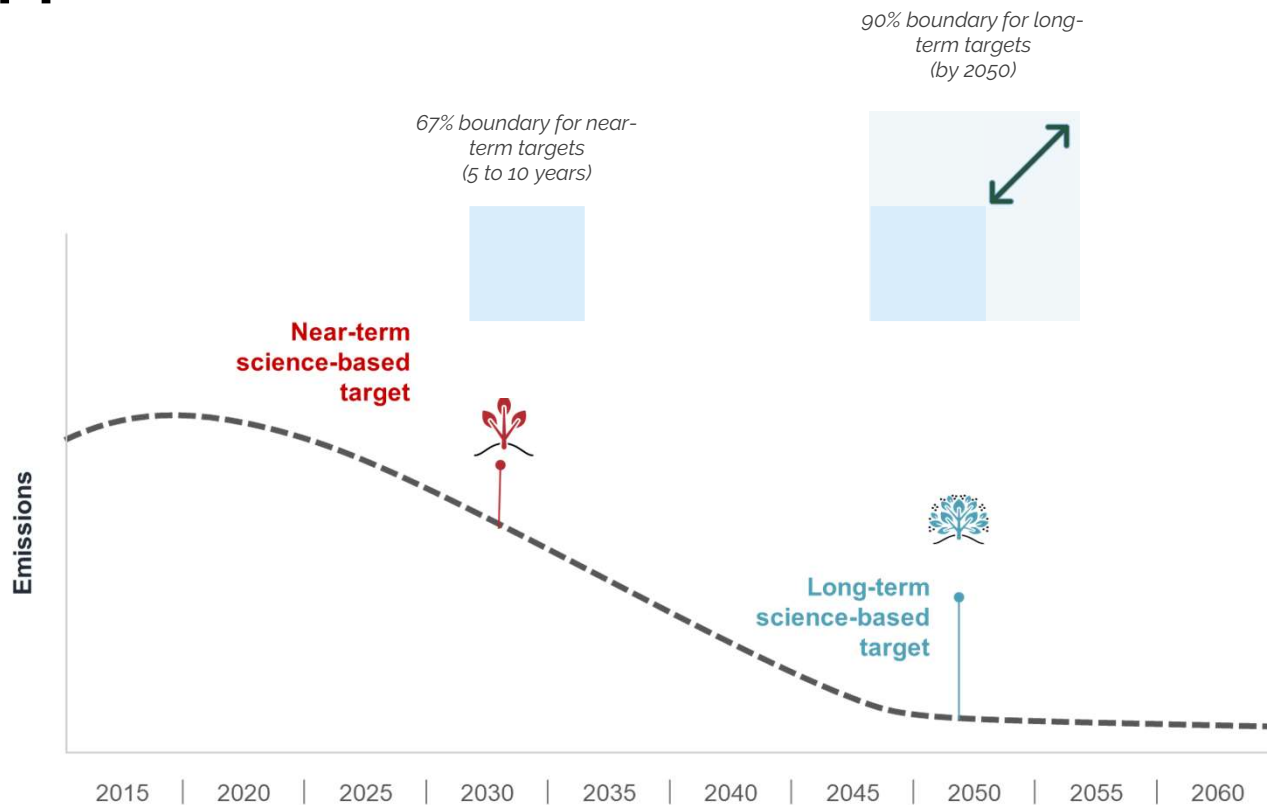


Source: CDP Supply Chain Report: Changing the Chain, 2019; CDP Climate Change Questionnaire April 2022

SBTi's theory of change

- Achieving a net-zero economy requires a fundamental transformation of the economy, which can only be achieved by **aligning incentives and eliminating barriers to GHG reduction**
- SBTi believes in the importance of value chain action and builds on attributional accounting to make shared **cross-value chain responsibility** between actors explicit
- By requiring economic actors to set targets not only on their direct emissions, but also on emissions in their value chain, the **SBTi seeks to align all actors behind a common goal**

Acknowledging challenges with Scope 3, the Standard is following an expansive boundary approach



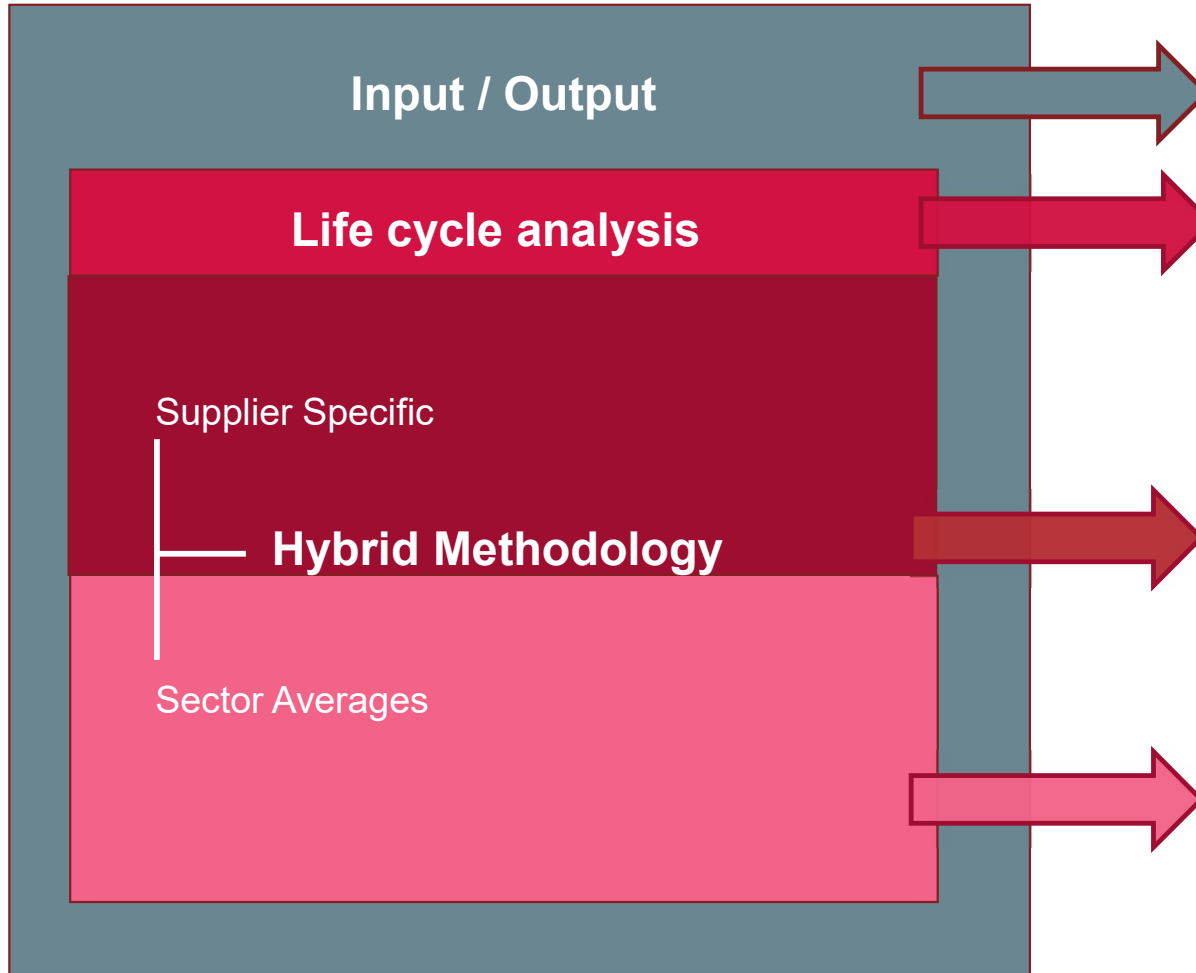
A comprehensive target boundary is necessary for companies to make credible net-zero claims. However, acknowledging the challenges with Scope 3 data, **the Net-Zero Standard is following an expansive boundary approach.**

This gradual increase in ambition:

- Provides opportunities to **collaborate across the whole value chain** to support suppliers and customers to decarbonize
- Allows companies to focus now on making steep cuts in their **most material emissions**
- Affords **time to work through the complexity** of scope 3

Approaches

Methodologies to match goals



- 100% of Scope 3 Upstream
- High level overview
- Show categories that matter
- Great for small # of high intensity goods
- Accurate, Good data available
- Cradle-to-cradle
- Supplier data + Industry Averages
- Operational Emissions of Suppliers
- Most recent + most granular
- Known data quality issues
- Suppliers upstream emissions (PG&S)
- Suppliers calculate own scope 3

Hybrid Method

Primary data + Industry Averages



1. Select suppliers
2. Review quantitative data
 - ▼ Allocated Emissions
 - ▼ Emissions intensity
3. Choose primary data or sector average
4. Add emissions or multiply by spend (allocated vs. intensity)
5. Scale up to 100% of spend

- ▼ Cover high % of spend
- ▼ Include suppliers in high impact sectors
- ▼ Direct + Indirect
- ▼ PG&S Category

How does your scope 3 data needs inform your supplier list process?

Hybrid Method

Primary data + Industry Averages



1. Select suppliers
2. Review quantitative data
 - ▼ Emissions intensity
 - ▼ Allocated emissions
3. Choose primary data or sector average
4. Add emissions or multiply by spend (allocated vs. intensity)
5. Scale up to 100% of spend

3 Potential Intensity Values:

- ▼ Self-Reported (C6.10) & (Upstream C6.5/SC0.1)
- ▼ Manual $((C6.1 + C6.3) / (SC0.1))$ & (Upstream C6.5/SC0.1)
- ▼ Industry Average (Calculated by CDP)

Allocated Emissions

- ▼ MT CO₂e attributed to Customer

Which type of data does your company use? Why?

Hybrid Method

Primary data + Industry Averages



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2. Review quantitative data
 - ▼ Emissions intensity
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Multiply supplier intensity value by your spend with each supplier

$$\text{MT CO2e Emitted per supplier} = \text{Customer Spend (\$)} \times \text{Supplier Emissions Intensities (MT CO2e)}$$

Add metric tons of emissions per supplier

- ▼ Results from intensity values approach or;
- ▼ Allocated emissions from suppliers

Don't forget for PG&S or CG you must include suppliers upstream scope 3 intensity or the industry average

Hybrid Method

Primary data + Industry Averages



1. Select suppliers
2. Review quantitative data
 - ▼ Emissions intensity
 - ▼ Allocated emissions
3. Choose primary data or sector average
4. Add emissions or multiply by spend (allocated vs. intensity)
5. Scale up to 100% of spend

Scale emissions to 100% of spend

$$\text{Total PG\&S (MT CO2e)} = \frac{\text{Emissions from requested suppliers (MT CO2e)}}{\text{Total Spend with requested suppliers (\$)}} \times \text{Total Customer Spend (\$)}$$

Product level data

What is a Product Carbon Footprint (PCF)

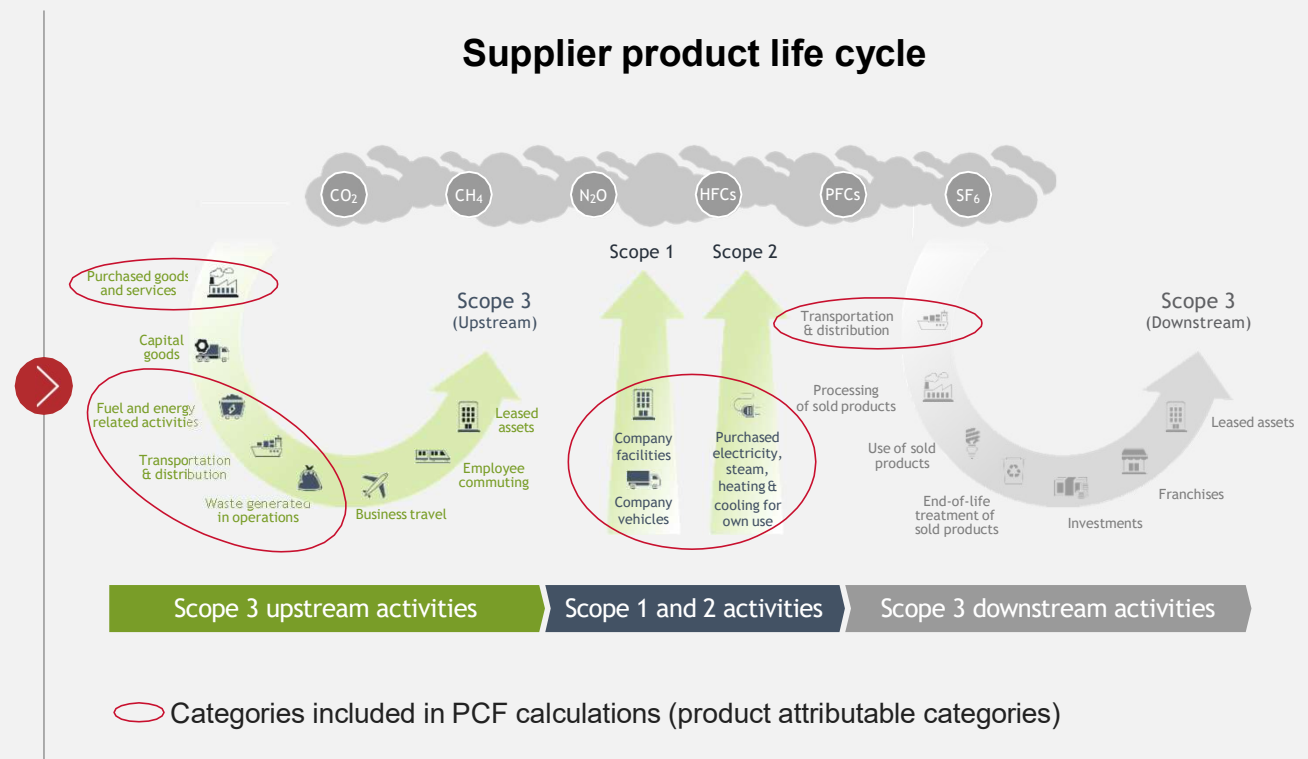


PCF measures the carbon equivalent **emissions attributable to a product**

It estimates the total emissions of greenhouse gas (GHG) associated with a specific product throughout its life cycle

PCF accounts for:

- Product related emissions of scope 1, 2
- Select product attributable S3 emission¹
- Product related Transport & Distribution emissions (S3 downstream) to client facilities



What is the CDP data telling us?

A key enabler to ensure environmental action is supply chain product-level data however, only few suppliers are providing it (CDP data)

66%

of CDP Supply Chain members believe that product Life Cycle Analysis will be a key future trend for driving sustainable supply chains

BUT

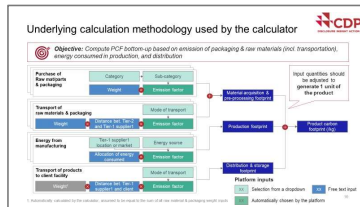
Only 2%

of members' suppliers are providing the desired product level Life Cycle Analysis data

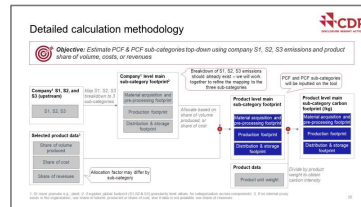
Don't let perfection get in the way of action



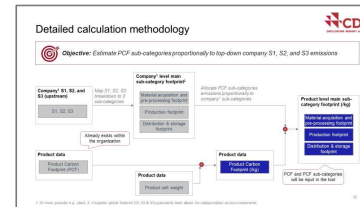
Beginner



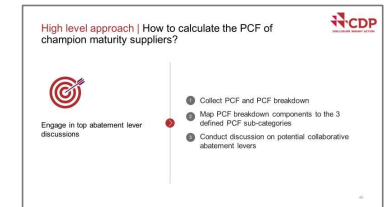
Developing



Mature



Leadership



- Studied product cradle-to-gate info : bills of material, packaging, energy consumed & distribution

- Scope 1,2 & 3 (upstream) footprint
- Required products volume or costs share (revenue share if not available)

- Scope 1,2 & 3 (upstream) footprint
- Studied product PCF

- Studied product PCF
- Product PCF sub-categories breakdown



- PCF bottom-up estimate
- PCF sub-categories breakdown

Use of the self-assessment calculator feature

- PCF top-down estimate
- PCF sub-categories breakdown (if sufficient data granularity)

- PCF sub-categories breakdown (if sufficient data granularity)

- PCF sub-categories breakdown
- PCF CDP module 4 categories breakdown (if relevant¹)

1. Meant only for suppliers already familiar with CDP module 4 questionnaire, no specific guidance provided

Product level data



(SC4.1) Are you providing product level data for your organization's goods or services?

- ▼ To support with the exchange of product-level data, CDP in partnership with BCG, has developed the CO2 AI Product Ecosystem.
- ▼ The CO2 AI Product Ecosystem enables companies to collaborate on—and accelerate—their emissions optimization journeys by enabling the sharing of product-level sustainability data in a secure, auditable, and action-oriented manner.
- ▼ Includes calculator to support suppliers.
- ▼ Supplier can enter data on company, PCF, LCA and detailed LCA level.
- ▼ For more information, please reach out to your AM and see our [website](#)

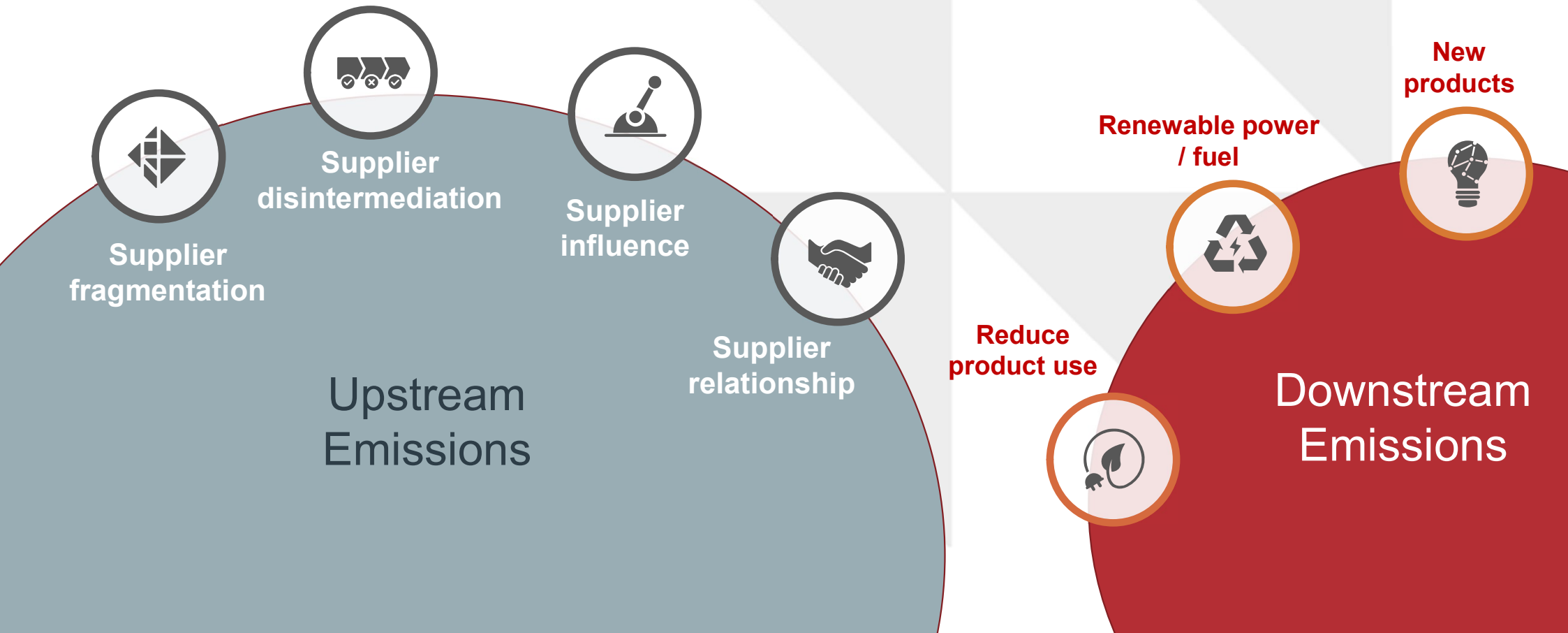


 **CO2 AI** PRODUCT ECOSYSTEM

Challenges and solutions

INFLUENCE

81% of respondents believe limited influence over supply chains is a barrier to delivery



TRACKING PROGRESS

Respondents may have limited influence over supply chain decarbonization



Supplier specific emissions factors not available (63%)

Tier 2 emissions factors are unknown (42%)

Supplier emissions factors are often not robust or verified (61%)

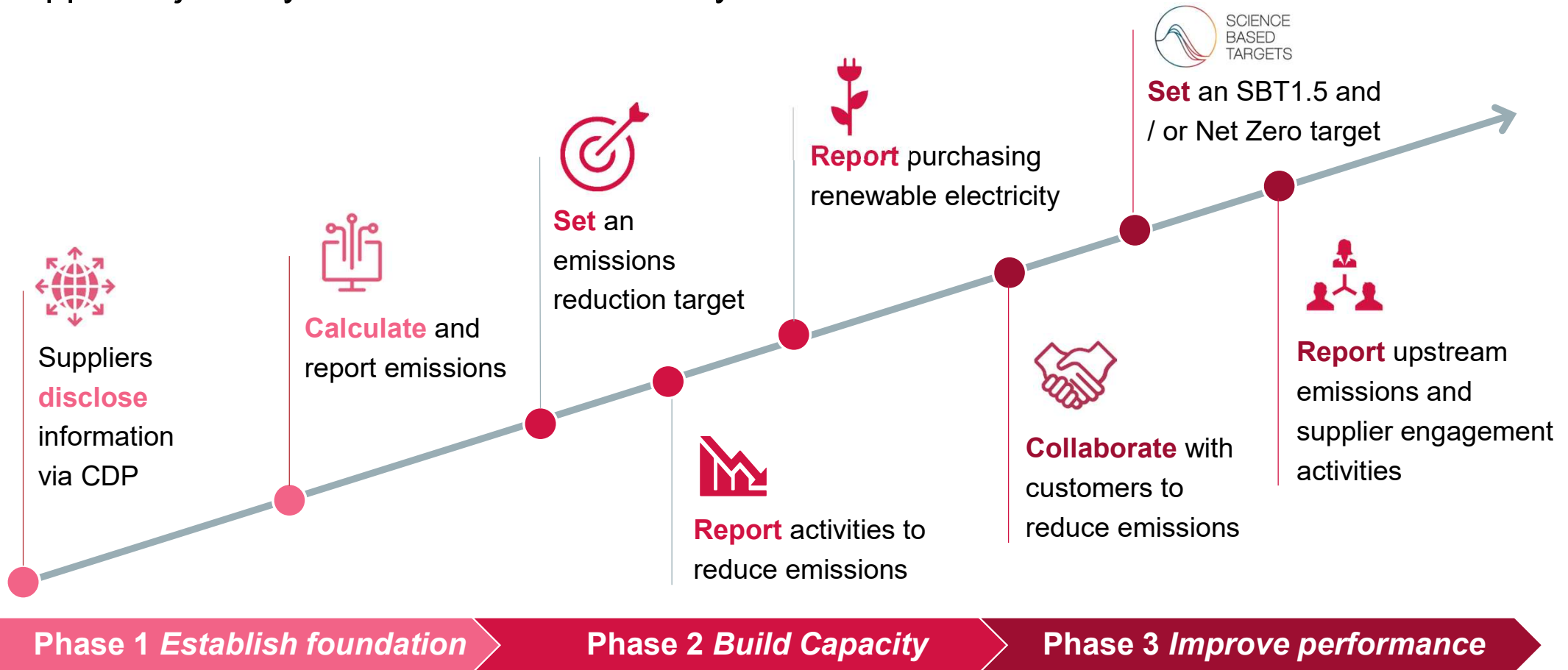
Use of sold product emissions are at best rough estimates (24%)

Hard to recognize the impact of actions with average factors (58%)

Harder to identify and prioritize opportunities to act

SUPPLIER ROADMAP

Supplier's journey to a low carbon economy



Supplier engagement

- ▼ **Foundation:** Key suppliers, using spend analysis to identify high impact suppliers.
- ▼ **Practice:** Initiate a general programme of engagement.
- ▼ **Embed:** Implement targeted engagement programme. With feedback loops between supplier and procurement.
- ▼ **Enhance:** Target key suppliers for intensive development and supply chain improvement programmes.
- ▼ **Lead:** Agree on KPIs with suppliers, reward progress and ensure C-suite engagement



CDP DATA ENABLES SUSTAINABLE PROCUREMENT PRACTICES



75%
of CDP supply chain member companies reported including environmental metrics alongside cost and quality when conducting supplier appraisals

Update on the Supplier Engagement Rating (SER)

What is CDP Supplier Engagement Rating (SER)



✓ Background

- CDP research shows that supply chain carbon emissions are approximately 11.4 times greater than a company's own operations.
- Only 43% of companies responding to CDP's climate questionnaire in 2021 have engaged with suppliers on greenhouse gas management and climate strategy.
- To encourage more companies to engage with suppliers on climate change, CDP launched the Supply Chain Engagement Rating (SER) in 2016.

✓ Objectives

- Establish a system for evaluating supplier engagement practices and best practices
- Motivate organisations to engage in supplier climate negotiations and gain recognition

✓ Business Coverage Assessment

- Approximately 8,200 companies that responded to the full version of the CDP Climate Questionnaire in 2022 received a SER rating based solely on their responses to the Climate Questionnaire.

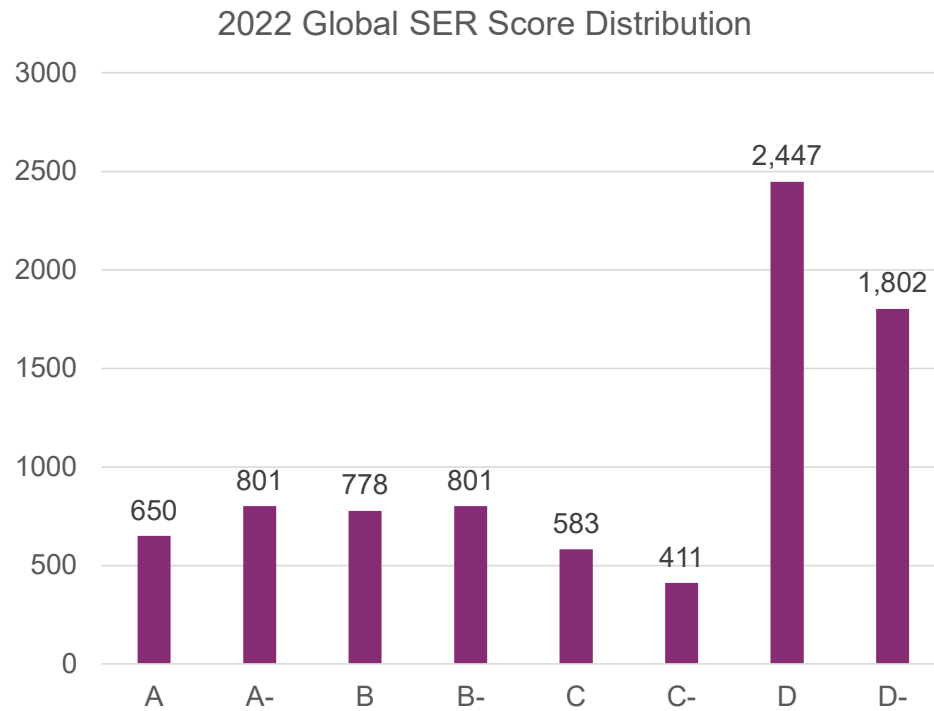
✓ Rating Distribution

- CDP only publishes the list of companies that received an A in the SER, the [Supply Chain Engagement Rating Leaderboard](#), on its website. **In 2022, 650 companies made the Supply Chain Engagement Rating Leaderboard, representing 8% of the total number of responding companies.**
- Supply Chain members can see how their suppliers are managing their upstream emissions by downloading the report and seeing their suppliers' SER scores.

In short, CDP SER is an indicator that assesses the commitment of a company's supply chain to climate change issues and promotes cooperation between companies in the supply chain.

Company efforts are evaluated based on their responses to questions in the four areas of CDP's Climate Change Questionnaire (Governance, Goals, Value Chain (Scope 3), and Value Chain Engagement) and their assessment of the Climate Change Questionnaire as a whole.

Allocation of 2022 SER scores



2023 Scoring Methodology



SER Scoring Category	Weight	Corresponding Questions and Background
Governance	20%	<ul style="list-style-type: none"> (C1.3) Does the organization have climate-related management incentives in place for the procurement department or all employees? (C1.3a) Are procurement managers, procurement directors, or CFOs incentivized for: <ul style="list-style-type: none"> Managing climate-related issues; Incorporating environmental standards into procurement or supply chain management as incentivized metrics, or increasing the level of value chain visibility. (C3.1) Does the organization's business strategy include a transformation plan consistent with a 1.5°C future? CDP believes that developing a climate transformation plan is essential to ensure that the company's procurement priorities and supply chain management are integrated into a net-zero economic business model.
Targets	15%	<ul style="list-style-type: none"> (C4.1a,b) Has the organization's emission reduction target been approved by the Science-based Targets Initiative (SBTi) or meets the leadership scoring requirements of CDP? (C4.1a,b/C4.2) Has the organization set targets for "Scope 3 Category 1 - Purchased Goods and Services", other upstream emissions in Scope 3, and/or supplier engagement?
Scope 3 Emissions Calculation	20%	<ul style="list-style-type: none"> (C6.5) Has the organization included "Category 1: Purchased goods and services" in its scope and calculated the emissions, and provided the emissions and calculation methods? (C6.5) Has the organization evaluated and reported upstream emissions in other Category 3 emissions? (C10.1c) Has the organization undergone external verification of its Category 3 emissions?
Supplier Engagement	35%	<ul style="list-style-type: none"> (C12.1a) Has the organization disclosed the scope of its supplier engagement (e.g. procurement spend or proportion of Scope 3 emissions) and the methods it uses for supplier engagement, including information gathering, communication and incentives, innovation and collaboration? (C12.2a) Has the organization integrated climate issues into its procurement process or supplier compliance mechanism? For example, are climate-related requirements included in supplier contracts or are supplier emission reduction targets included in supplier performance evaluations?
CDP Climate Change Questionnaire Scoring	10%	<ul style="list-style-type: none"> CDP believes that organizations that demonstrate strong management capabilities in their overall climate impact are best positioned to exercise leadership when engaging with suppliers.

Final note: SMEs and also supplier finance

Introducing 2023 SME Questionnaire



A CLIMATE DISCLOSURE FRAMEWORK
FOR SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)

[Source: CDP - SME Climate Framework](#)

[Source: CDP - SME Questionnaire & Reporting Guidance 2023](#)

- ▶ In November 2021, CDP published a framework to guide SMEs towards best practice climate disclosure.
- ▶ Key findings included the need for brevity of questions, simple language and a modest assumed level of prior sustainability reporting experience.
- ▶ CDP has turned this advice into a quick and simple-to-navigate ~40 data point Questionnaire & Guidance, which is available exclusively through the Banks Program 2023.

PREPARING YOUR CDP RESPONSE	5
CDP disclosure support materials	5
Important notes for completing your disclosure	5
SME0 INTRODUCTION	7
Midsize Overview	7
Pathway diagram – questions	7
(SME0.1) Give a general description and introduction to your organization	8
(SME0.2) Does your organization have an ISSN code or another unique identifier (e.g., Ticker, CUSIP, etc.)?	8
(SME0.3) State the end date of the twelve-month period for which you are reporting data.	9
(SME0.4) Report the total number of employees in your organization, based on staff headcount.	9
(SME0.5) What is your company's annual revenue for the stated reporting period in USD?	9
(SME0.6) What is your organization's Activity/Sector, broken down by % of revenue?	10
(SME0.7) Report the countries/regions in which your organization operates, broken down by % of revenue.	11
(SME0.8) Select the option that describes the reporting boundary for which climate-related impacts on your business are being reported. Note that this option should align with your chosen approach for consolidating your GHG inventory.	11
(SME0.9) Does your organization break down its electricity consumption by country/region?	12
(SME0.9a) Report your organization's consumption of purchased or acquired electricity in MWh, broken down by country/region.	12
(SME0.9b) Report your organization's consumption of purchased or acquired electricity in MWh.	14
SME1 REPORTED EMISSIONS & TARGETS	15
(SME1.1) Do you evaluate your organization's GHG emissions?	15
(SME1.1a) Select the name of the standard, protocol, or methodology you have used to collect activity data and calculate emissions.	16
(SME1.1b) Why do you not evaluate your organization's GHG emissions?	16



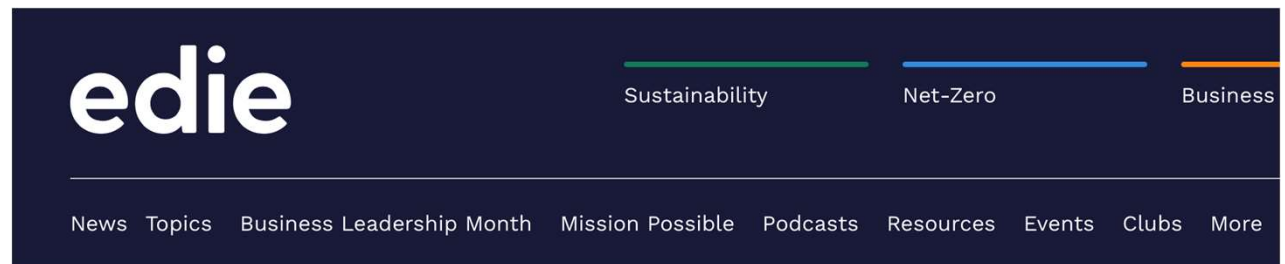
Potential SME Criteria

- Revenue
- No. of employees
- Subject to localized definition

Sustainable Supply Chain Finance



- ▼ There is a gap between what is needed for the transition, and the finance required.
 - ▼ Banks are expanding supply chain financing offerings.
 - ▼ Triggering a collaboration between our Capital Markets and Supply Chain programs.
-
- ▼ Water, forests, nature, biodiversity?



Vodafone gives preferential financing rates to suppliers disclosing carbon emissions

Vodafone has partnered with CDP and Citi to enable suppliers preferential financing rates if they disclose their greenhouse gas emissions and otherwise prove they are improving their environmental credentials.

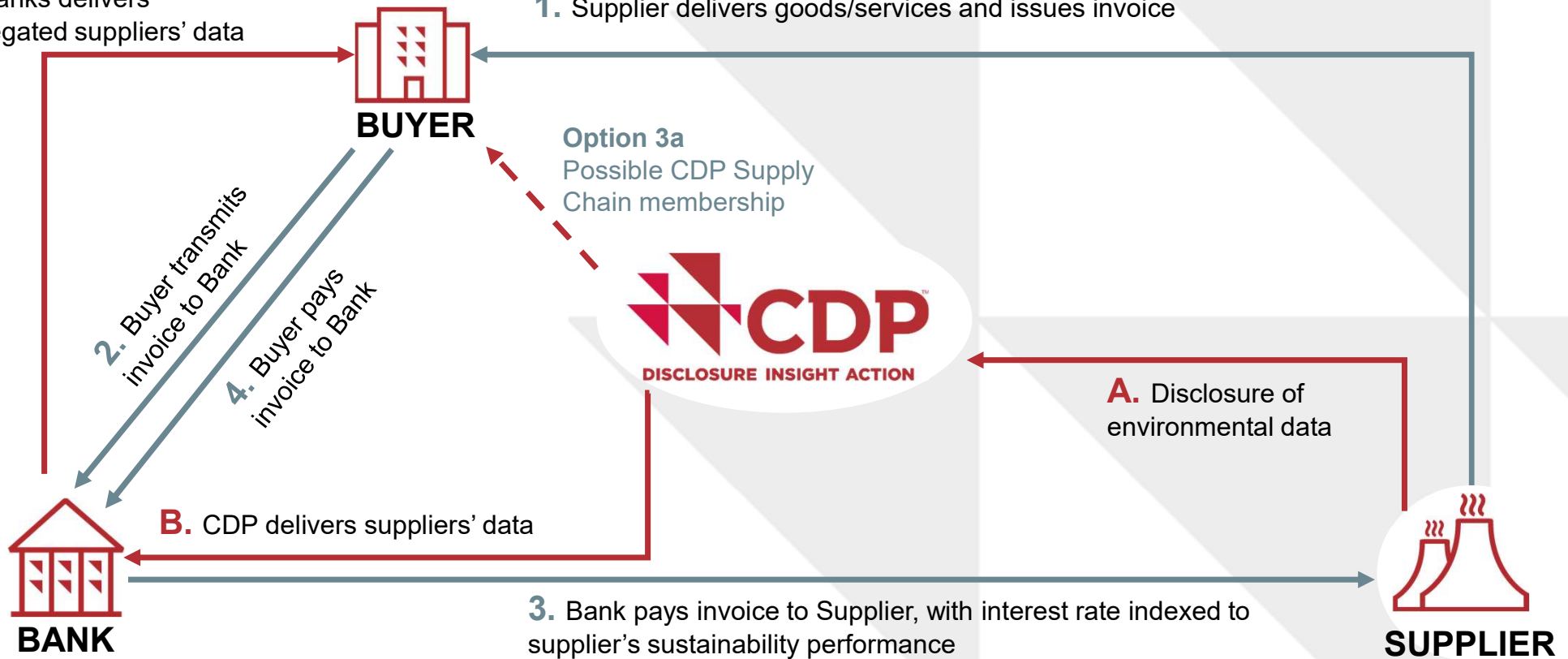
[CLIMATE & NATURE](#) [FINANCE](#) [TECH & INNOVATION](#)

Sustainable Supply Chain Financing



C. Banks delivers aggregated suppliers' data

1. Supplier delivers goods/services and issues invoice



Note: Option 3a where the Buyer has an existing CDP supply chain membership – CDP can offer advisory services to leverage received data into a successful SSCF arrangement.