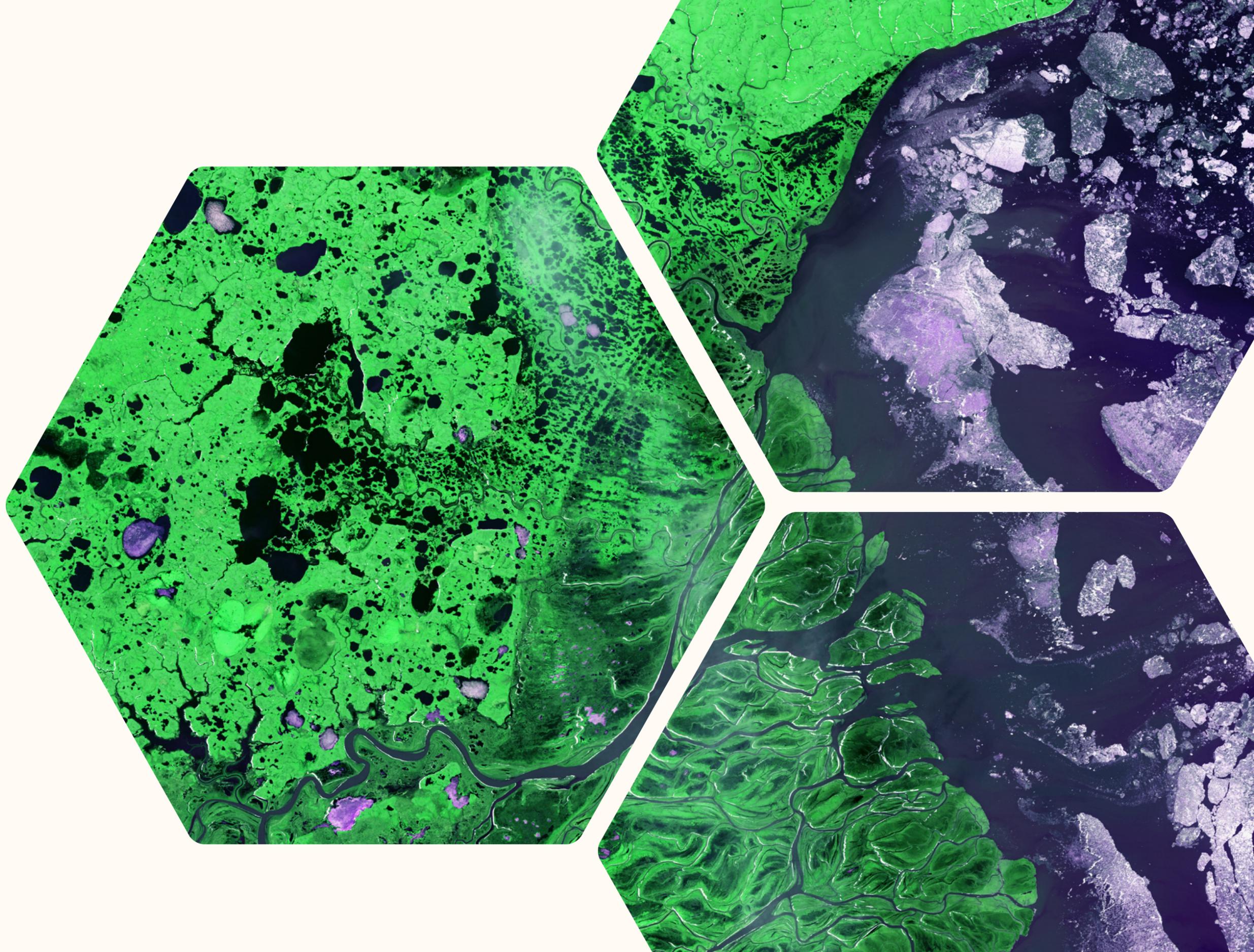


Scope 3 Research Report

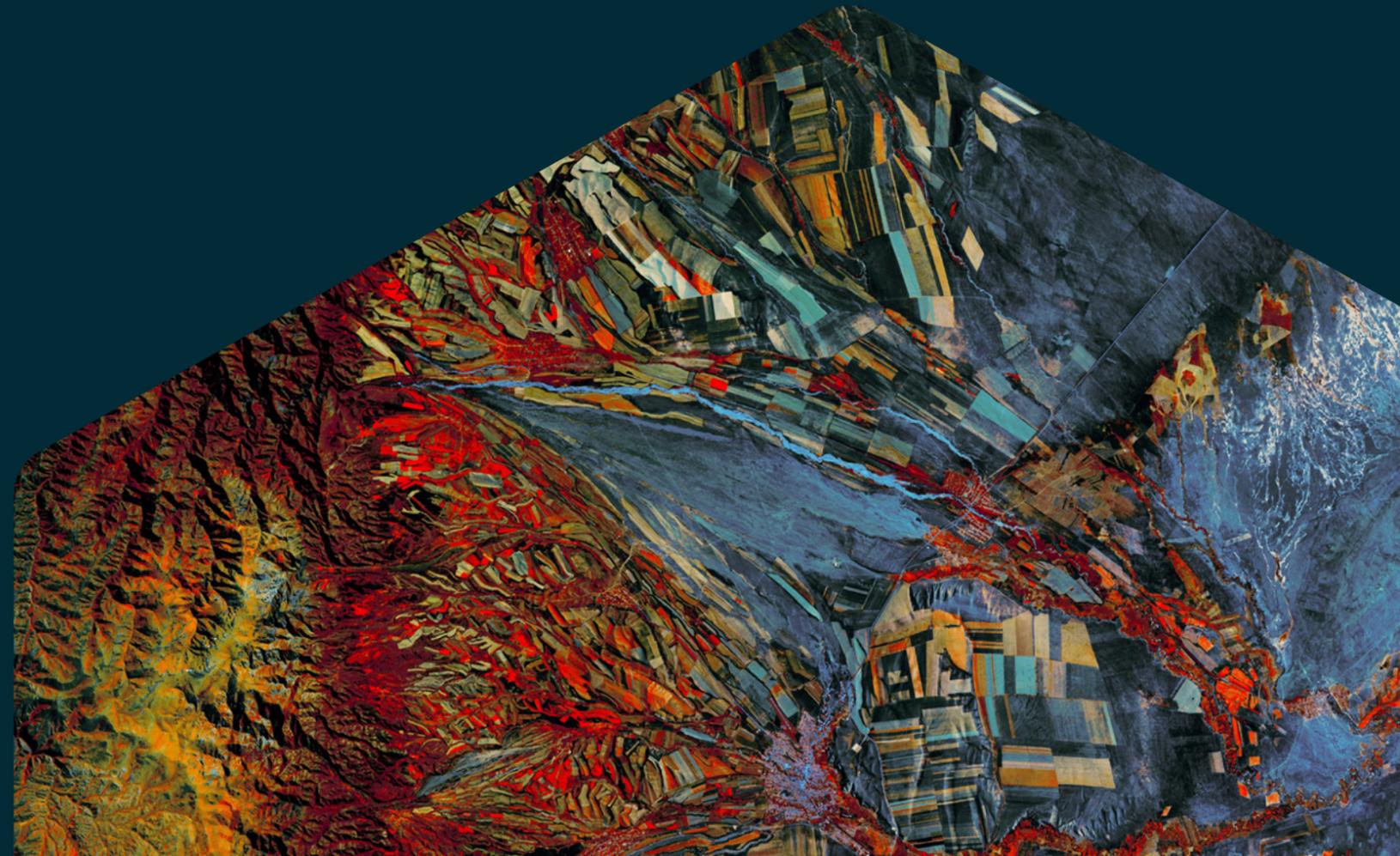
Prepared by Blakeney LAB for



SUSTAINCERT



Contents



Foreword

In 2023 we have experienced June, July and August being Earth's hottest three-month period, ever. According to the UN Office for Disaster Risk Reduction, the number of climate-related natural disasters more than doubled in the last decade, compared to the 1980s. The IPCC's 2023 report stated: "There is a rapidly closing window of opportunity to secure a livable and sustainable future for all."

The science is clear – **we have a climate emergency.**

Scope 3 emissions are where the majority of emissions contributing to climate change are produced – and are the most complex, expensive and unclear to address. Yet we are still not seeing enough action – in both funding and credible progress – in Scope 3 that addresses this emergency.

We commissioned research to understand in 2023 how 500 companies globally, that either are required to by regulation or will soon be required to, report on Scope 3 emissions.

The research explores how they are addressing this and their plans for the future. While many are capturing the data and reporting their Scope 3 emissions, with some using third party verification to bring independent credibility to the results, there remains challenges around gaining investment in Scope 3 projects ('interventions') to reduce and remove emissions.

I would like to thank our Scope 3 experts and clients who shared their further insights to supplement our findings. These are particularly useful for companies looking to start action on Scope 3 emissions.

We are seeing companies increasingly reporting their Scope 3 emissions, driven by ambitious net zero targets and increasing regulation. It is clear that we need more significant, scalable, credible progress on Scope 3 emissions to be able to achieve our net zero ambitions. To deliver this, we urgently need more guidance, best practice and real incentives for businesses to drive change now.



Marion Verles
CEO, SustainCERT

Executive Summary

Research insights

This research, commissioned by SustainCERT, explores the landscape of Scope 3 emissions reporting and reductions projects across 500 large organizations in the US and Europe.

Conducted between August and October 2023, the study combines both quantitative and qualitative methodologies to provide a holistic view of the current state of play, challenges and opportunities within Scope 3 emission projects and reporting.

The research reveals a nuanced outlook for Scope 3 emissions reporting, current levels of investment in projects, or 'interventions', and the role of verification.

Key findings on Scope 3 reporting

- Compliance with laws and regulations is a key driver for many organizations to report their emissions, yet most do not feel prepared for future Scope 3 regulatory changes.
- Most companies currently, or within two years will be, reporting Scope 3 emissions, the majority of these have a science-based target for reducing emissions across Scopes 1-3. Two thirds reported they implement emission reduction projects to achieve targets.
- Third party verification is viewed as important, but it is not universal. This is set to improve in the next three years.

Key challenges identified in taking action on Scope 3 emissions

- Correctly identifying the relevant actors, the roles they play and their methods and approaches for data capture and reporting within highly complex value chains.
- Balancing the risk of double counting or freeriding with improving our understanding of the traceability and linkage between the physical good or the service and the environmental attribute.
- Ensuring accurate and credible data is available and accessible, and overcoming a reluctance to share potentially sensitive information with competitors and collaborate across supply chains and sectors.
- Addressing the tension between increasing investment and balancing financial goals in order to meet environmental objectives.

Executive Summary

Research insights

However, the findings point towards a future where verification plays an increasing role in Scope 3 emissions reporting and reductions. This is to be expected due to growing awareness of the need and benefit of verification for bringing credibility and objectivity to results.

SustainCERT's view on scaling Scope 3 action

In an ever-evolving regulatory landscape, the need for clear guidance and collaborative efforts across actors within the value chain is essential, paving the way for a sustainable and responsible approach to Scope 3 emissions reductions.

Specifically, we need:

- Greater guidance and best practices for businesses and sectors to take Scope 3 action.
- To increase the awareness of the role verification plays in bringing accuracy and credibility to Scope 3 emissions data and project results.
- Stronger incentivization for businesses to make the investment case to address complex, expensive interventions that reduce or remove emissions.

Introduction to Scope 3 emissions

What is Scope 3?

Key definitions

Scope 3 emissions

All indirect emissions (not included in Scope 2) that occur in the value chain of a reporting company, including both upstream and downstream emissions. [GHG Protocol Corporate Standard]

Interventions

Projects, programs, and business decisions that can be used by companies to resolve some of the issues they face in Scope 3 decarbonization. Interventions are aimed at directly reducing or removing emissions in a company's GHG inventory; they reward past and existing good practices and provide a way of measuring changes in emissions to show year-on-year progress. [SustainCERT]

History of Scope 3 emissions

The concept of Scope 3 emissions was first introduced in the Greenhouse Gas Protocol (GHG Protocol), published jointly by the World Resources Institute and the World Business Council for Sustainable Development in 2001. [Terrascope, 2023]

Throughout the 2000s, research groups began to turn their attention to investigating the varying impact of carbon emissions at different stages of the supply chain. For example, research by Suh (2006) and Nansai et al. (2009b) found that if the entire supply chain is considered, i.e. Scopes 1, 2 and 3, the emissions intensity of services is significantly higher compared to if only Scope 1 emissions are considered. Additionally, the GHG Protocol was revised during this decade, providing further guidance on Scope 3 emission categories and leasing.

With the 2010s came greater recognition from businesses and governments of the importance of tracking emissions throughout the supply chain. For instance, the fifth assessment report (AR5) of the Intergovernmental Panel on Climate Change (IPCC), published in 2014, was the first time that Scope 3 emissions were taken into account in the analysis of drivers and trends of carbon emissions on a national level.

In 2015, the signing of the Paris Agreement created a legal commitment by the leaders of 196 countries to take decisive action on reducing their GHG emissions, including national Scope 3 emissions. In doing so, the GHG Protocol was broadened again to create standards and tools for governments and cities to track climate action. Furthermore, the Paris Agreement established the Task Force on Climate Related Financial Disclosures, which provides a framework of recommendations on the types of emissions information that companies should disclose to investors. [EPA, 2022]

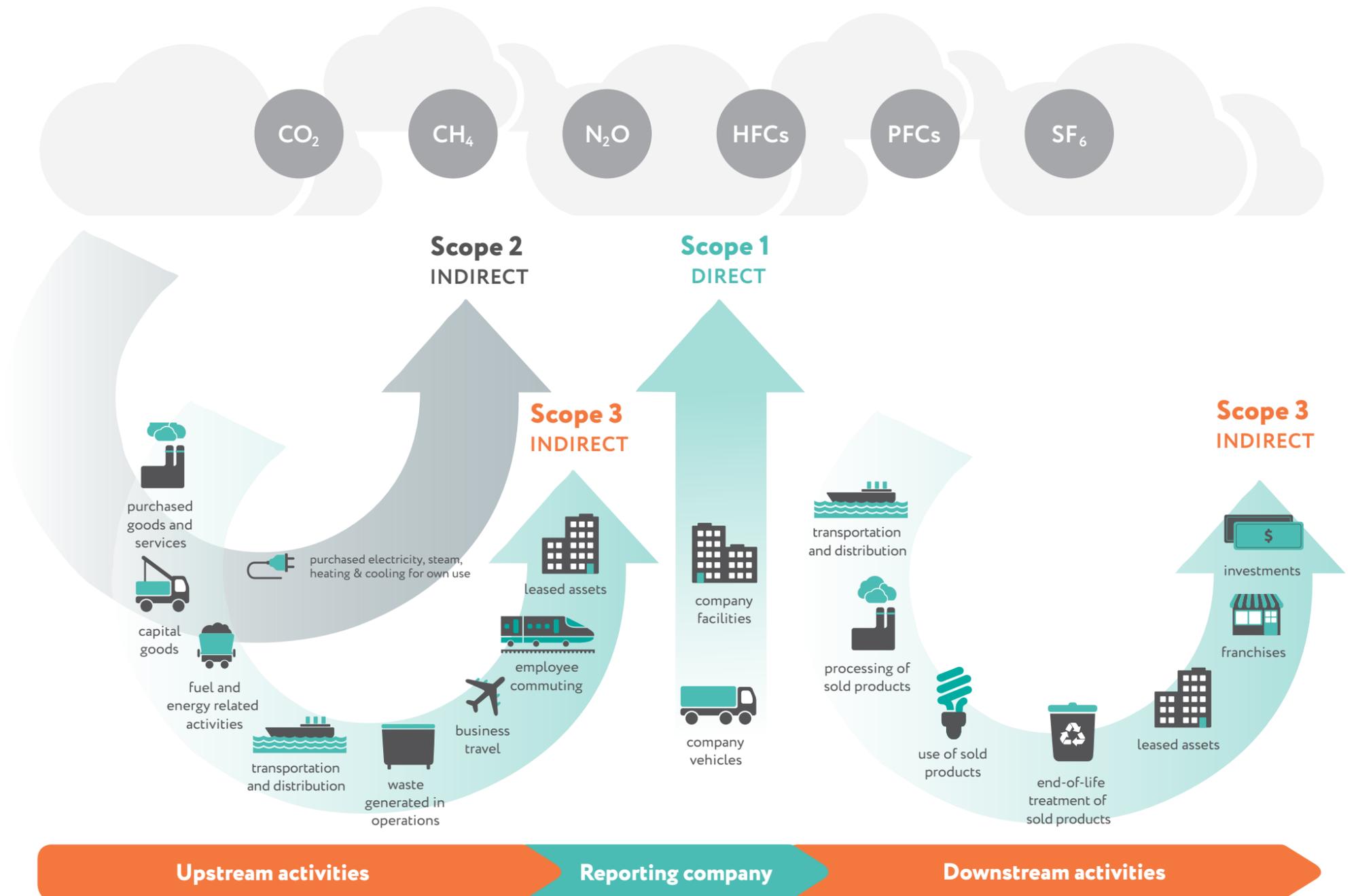
Recognition from governments and business-leaders of the importance of accounting for GHG emissions throughout the supply chain has grown exponentially since the idea of Scope 3 emissions was first developed in the 1990s. In the 2020s, governments across the West have worked on developing and introducing regulations for businesses that cover corporate financial disclosure requirements, including Scope 3 emissions, and the use of accounting protocols to meet their net-zero targets.

What is Scope 3?

However, much work is still needed to reduce global Scope 3 emissions.

Value chain decarbonization represents one of the most significant opportunities to catalyze system-scale transformation towards a net-zero economy. On average, Scope 3 emissions represent around 70% of corporate greenhouse gas inventories. [Science Based Targets Initiative]

The lack of clear guidance and rules around claiming, the complexities of having many supply chains, and the challenge of collecting on-the-ground data are just some of the issues preventing the acceleration of value chain decarbonization to date.



GHG Protocol, Scopes 1, 2, and 3 emissions. Adapted by Blakeney

Quantitative Research

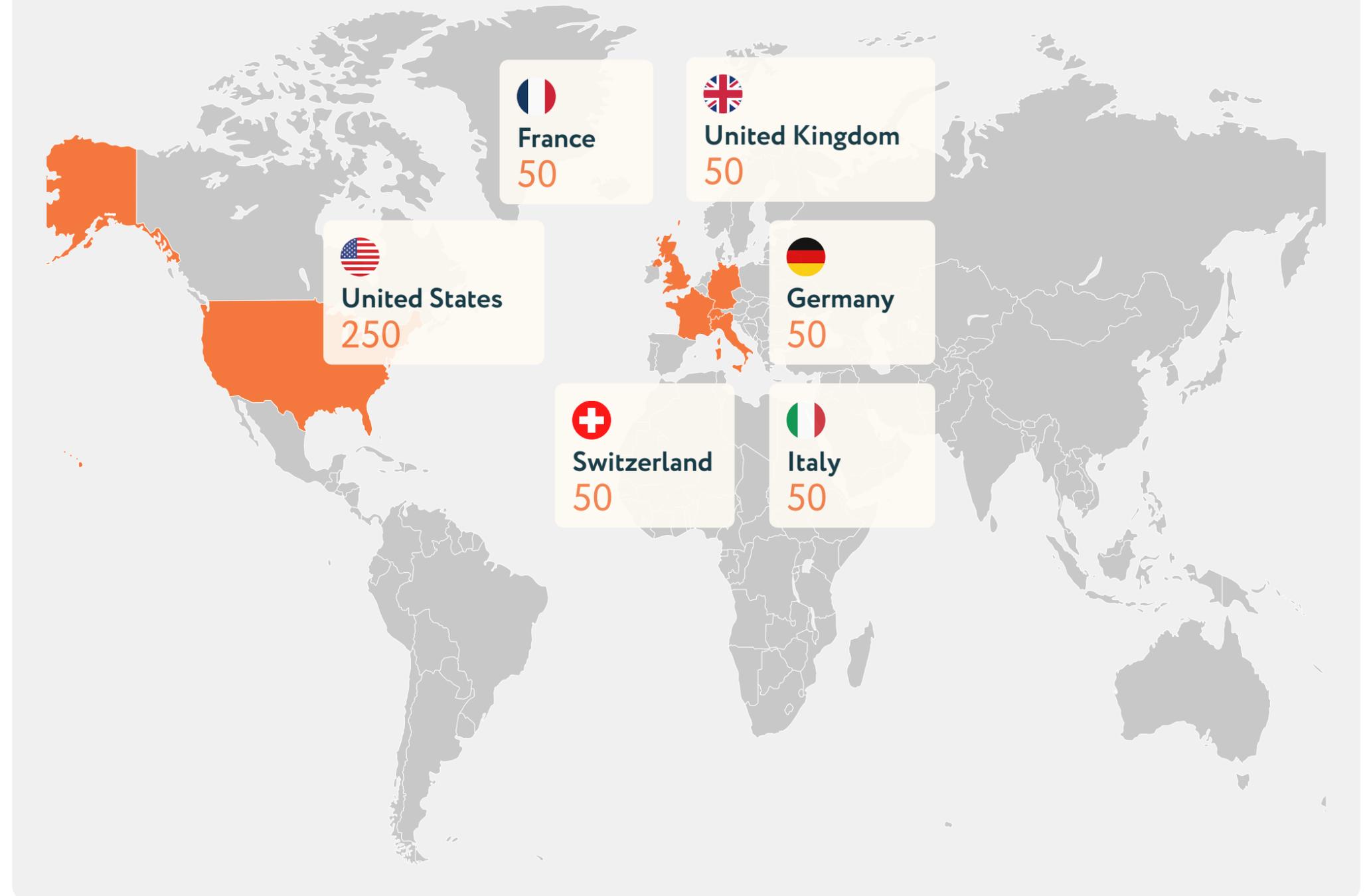
Overview and Key Findings

Executive Summary

This research was commissioned by SustainCERT to understand the extent to which large organizations report their Scope 3 emissions, how many are investing in projects to reduce or remove emissions, and the use or intention to use third party verification. It was conducted with 500 organizations across the US and Europe in August 2023.

Due to their size, large organizations are more likely to be investing in and reporting on Scope 3 emission interventions, and the survey found that almost all were aware of their responsibility to report on current Scope 3 emissions. Across the surveyed markets, there was also an awareness of the value and benefits of obtaining verification for interventions, particularly from an objective third party. The results found an awareness of the need to expand verification of projects in the future, but only around half feel fully prepared for regulatory changes that will make this a requirement.

Sample size per market



Key Findings

Theme 1 Implementation is not consistent

Across the surveyed markets, 69% of organizations are currently reporting their Scope 3 emissions and a further 22% are planning to start reporting within the next 12 months.

Of the companies that do report their Scope 3 emissions, 88% have a science-based target for reducing emissions across Scopes 1 to 3. Furthermore, 68% of companies that report Scope 3 emissions say they have implemented emissions reduction interventions to meet their company targets. A further 24% of these organizations are planning to implement similar interventions in the next 12 months.

A key challenge in the consistency of Scope 3 reporting was that greater focus is generally given to reporting of Scope 1 and 2 emissions, compared to Scope 3. Specifically, 39% of surveyed organizations considered Scope 1 and 2 emission reporting to be more important than Scope 3 reporting for their business.

Despite this challenge, the survey revealed that many organizations that report Scope 3 emissions do have a long-term view and ambition which is guiding their business's future.



Key Findings

Theme 2 Third party verification is considered important, but it is not universal

The survey revealed that 82% of organizations that implement Scope 3 interventions currently obtain some level of third-party verification of interventions. Though, on average businesses are only verifying these interventions through a third party 57% of the time.

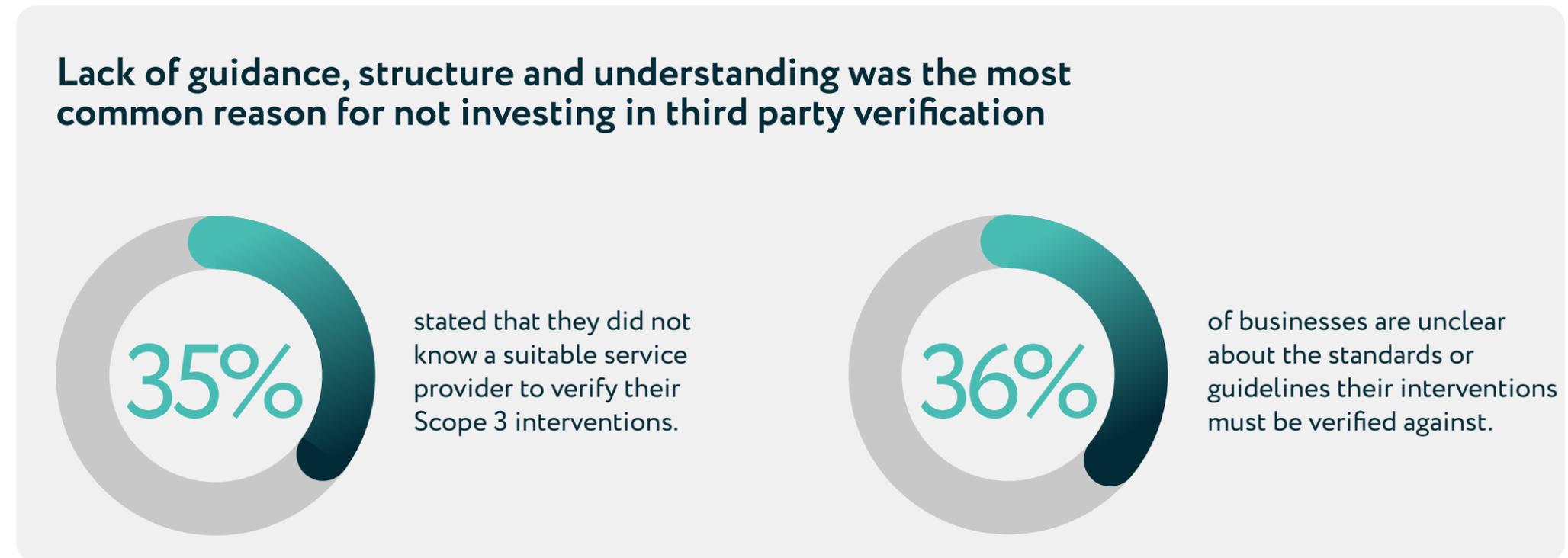
However, the importance of third-party verification for the future is clear. Regardless of whether third-party verification is currently obtained, 84% of all surveyed organizations expect to see an increase in the number of interventions verified by a third party over the next three years.



Theme 3 Clarity and guidelines are required to demystify the process

There is a lot of complexity surrounding the roles and requirements of third-party verifiers which can impact the investments that organizations are willing to make.

It is evident that while legislative changes may foster uncertainty around the future of third-party verification of Scope 3 interventions, businesses can benefit financially from obtaining verification as it would appeal to both their customers and investors.



Key Findings

Theme 4 The outlook and opportunity for investment

We know that large organizations exist in a rapidly changing context and regulatory environment.

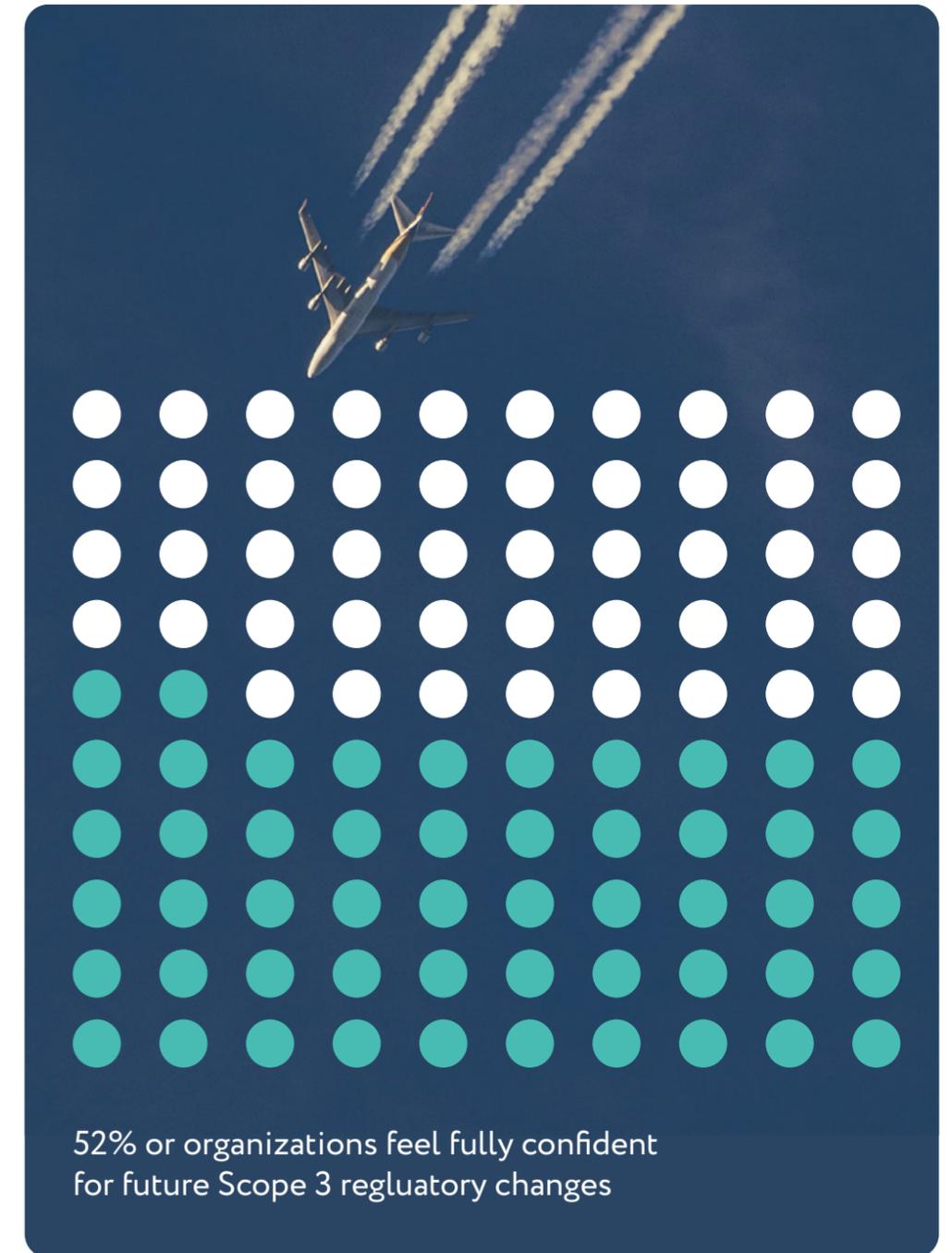
Our research found that compliance with laws and regulations was a key driver to seek third-party verification for 43% of businesses that are already using third-party verification. Respondents believed that changes to the legal environment will have implications for how their businesses ensure their interventions have accurate and credible results.



A further 43% of businesses obtain third-party verification because their investors require it, with 40% doing so because their customers require it. In addition, 57% of businesses that obtain third-party verification for their interventions do so independently of their customers' and investors' requirements, suggesting a positive future for third-party verification.

However, just 52% of all organizations surveyed, regardless of whether third-party verification is currently obtained, felt fully confident that their organization is prepared for future regulatory changes related to Scope 3 emissions.

It is therefore evident that, while legislative changes may foster uncertainty around the future of third-party verification of Scope 3 interventions, businesses can benefit financially from obtaining verification as they would please both their customers and investors by doing so.



Qualitative Research

Executive Summary

As part of an ongoing research program aimed at understanding the barriers and opportunities for digital verification in Scope 3 emission reporting, SustainCERT conducted a number of in-depth interviews with customers and internal experts to explore their perspectives and insights.

The research navigates six core challenges that can impact reporting, action and implementation of Scope 3 interventions:

1. Identifying all relevant actors in the value chain to obtain accurate data
2. The risks of double counting, double claiming, and freeriding
3. The reliability and credibility of data
4. The high costs associated with carbon reduction and/or removal projects
5. The lack of a clear bridge between data from interventions and the datasets used in many Scope 3 reports
6. The lack of clear guidance

Contributors



Andrew Voysey
Chief Impact Officer,
Soil Capital



Conor McMahon
Global Net Zero and
Nature Lead, Nestlé



Sally Flis
Director of
Sustainability Program
Management and
Outcome Design,
Nutrien Ag Solutions



Pierre Bloch
Director – Scope 3
Climate Methodology,
SustainCERT



Silvana Paniagua
Director of Value
Change Initiative,
SustainCERT

Key findings

01

Identifying all relevant actors in the value chain to obtain accurate data

As sustainability policies become increasingly embedded, organizations recognise a need to have “that discussion about sustainability and all the terms that are circling around out there; sustainability, regenerative agriculture, Scope 3, carbon.” By addressing, “what does it all mean? Why should they care? What parts do they really need to understand and be able to explain, to help them be involved in a program that can have benefits beyond” [Sally Flis, Nutrien Ag Solutions], you can bring people along the journey.

There is a key challenge for organizations in correctly identifying the relevant actors, the roles they play and their methods and approaches for data capture and reporting within highly complex value chains. The globalized nature of many businesses today means that “the guy in the UK is doing it one way and the lady in Philippines is doing it another way and they have different numbers. That's not good for us. We want a bit more consistency between how people are doing similar things in different parts of the business.” [Conor McMahon, Nestlé]

Thus, devising and implementing a universally agreed-upon approach is a challenge for collaborators within an organization, which only becomes more complex when external parties are involved.

02

The risk of double counting, double claiming, and freeriding

The consequences of inaction far outweigh the risk that another actor or company within the supply chain could claim the same outcome or benefit. It's important to realize that the broader aim and ambition of these projects can be lost when we reach a point where “we're worrying about double counting, and we're worried about it so much that we don't [do anything] then there's nothing left to count and we don't actually start the project in the first place.” [Conor McMahon, Nestlé]

However, fears of double counting or freeriding can help us understand “the traceability and linkage between the physical good or the service and the environmental attribute [which] is paramount.” [Pierre Bloch, SustainCERT] This traceability demonstrates the value of a more objective, digital solution.

It is not easy to mitigate these risks and fears, but “the biggest risk is that we don't do anything and we're completely frozen because we don't have clarity, and someone else could claim [the benefit or mitigation] so we actually don't even take the first step.” [Conor McMahon, Nestlé] When organizations are avoiding taking action on the first step it is likened to, “fighting over the biggest slice of cake” [Conor McMahon, Nestlé], when the focus should be on collaboration and working together to make a “bigger cake.”

03

Ensuring data is reliable, credible and consistent

A well understood challenge is ensuring accurate and credible data is available and accessible, with key barriers across this being a reluctance to share potentially sensitive information with competitors and supplier-specific approaches to data collection. Undeniably, these are complex issues and there is an understanding that “it takes time to have everyone following a formula and have everyone doing proper quality checks of the data.” [Conor McMahon, Nestlé]

Key findings

Lack of available data, or the ‘right’ data, is experienced across many actors within the value chain and, even if the data is available, there are numerous considerations such as, “where is it stored? [Do] they have digital data? Do they even know how to get to it and share it with us? Are we able to easily get that digital data into our platforms? [Is it the right] volume of data?” [Sally Flis, Nutrien Ag Solutions] Incomplete datasets also present a unique set of challenges, where “they may not have all the pieces that we really need.” [Sally Flis, Nutrien Ag Solutions]

This ladders up more broadly to the barriers of reporting and quantifying the benefits of these types of interventions through data – specifically in terms of data quality issues, data consistency and capability and accessibility across the value chain.

04

High costs associated with carbon reduction/removal projects

Many of the interviewees recognized a tension between increasing investment to address environmental objectives and the balancing of financial goals, which underpinned their organization’s decision-making processes. Striking the right balance has never been more pertinent, given the “rough economy for everybody right now.” [Sally Flis, Nutrien Ag Solutions] Continued investment is important, but the reality is that “it’s not increasing as much as it would have if things were more like they were in 2022. But [investment is] continuing to increase incrementally over what we've done in past years.” [Sally Flis, Nutrien Ag Solutions] Movement is improvement, but the goals must be realistic.

In addition to this challenging external context, organizations must juggle the demands of investors who can heavily impact the decisions made around costs. Investors want organizations to achieve environmental and financial objectives, often simultaneously. Investor intention and support levels can shift due to a number of factors and often organizations are waiting to see “if our investors are happy for us keep to going in this direction. We need to finance the transition. And that means putting money on the table.” [Conor McMahon, Nestlé] How organizations navigate this relationship can have a significant impact on investment from a financial perspective and in terms of perceptual ‘buy-in’ across Scope 3 priorities.

An approach for overcoming these barriers is the reminder that while “this [intervention, project or activity] is voluntary, it will soon be regulation. So, telling the corporate actors, it's not a cost, it's investment” [Pierre Bloch, SustainCERT] can reframe these perceptions for key stakeholders.

Key findings

05

No clear bridge between data from improvements (Interventions) and average datasets used in many Scope 3 reports

Across complex supply chains it is often necessary for businesses to use secondary or sector-average datasets to help calculate Scope 3 emissions. Using these datasets also helps organizations to manage and control their data by “quantifying the benefits of the project and reporting the benefits at a project level.” [Conor McMahon, Nestlé] While this can mitigate some risk by demonstrating improvements, there are often challenges surrounding the “capacity of our partners to be able to do that robustly and data quality issues.” [Conor McMahon, Nestlé]

Successfully leveraging existing relationships within supply chains can help to bridge the gap between data from a business’s interventions and secondary data, where being “so tight with our relationships with the downstream [data providers], means that [demonstrating improvements] hasn't been a big challenge because we're reporting those emission factors or project outcomes directly to the downstream [data providers] that are involved in our projects and interventions.” [Sally Flis, Nutrien Ag Solutions]

06

Lack of clear guidance

Collaboration in value chains for Scope 3 emission reductions remains a relatively new concept and one that is impacted by a “jungle of emerging regulation and voluntary standards, which creates this guidance universe which needs harmonization.” [Andrew Voysey, Soil Capitol] There is a lack of guidance surrounding how to track, measure and account for supply chain interventions and outcomes in Scope 3 inventories as part of a joint claim or action between collaborators within a value chain.

Even those with existing knowledge and responsibility within their organizations understand that “the rules aren't black and white. They're constantly evolving with many gray areas and gray areas don't help when you're trying to instill confidence in the team to do things the right way.” [Conor McMahon, Nestlé]

A need for clearer, more simple guidance also extends to regulation of the industry. Currently, the verification process and working with verifiers can feel like it is based on “personal opinion”. Objective third parties could help when organizations are selecting partners as “nobody [is currently] saying okay, this is a good verifier this is a bad verifier, you should use this person, you should avoid that one.” [Sally Flis, Nutrien Ag Solutions]



The path forward

How SustainCERT is positioned to help

The path forward

SustainCERT's purpose is to bring credibility to climate action. It believes that corporations need stronger guidance on how to approach taking action in their value chains to remove emissions. Importantly, these research findings support the view that there is not enough incentivization for businesses to make the significant time and cost investment to do this.

Verification plays a key role in ensuring data is accurate and can be trusted. Credible, reliable results are key to the integrity of reporting and action that businesses invest in.

Finally, collaboration is essential for businesses to make progress on addressing the most complex and costly area of emissions. Collaboration across the sustainability ecosystem to develop the guidance and framework, collaboration within sectors to identify best practices and collaboration between businesses and civil society to ensure that frameworks, regulation and incentivization work for both decarbonization and clear returns on investment for corporations.

SustainCERT launched its new digital verification solution for decarbonization projects in 2023. Their solution offers clients the opportunity to achieve digitally supported validation and verification of intervention projects in their value chain, as well as credible claiming and transfers of GHG emission reductions and removals from interventions. This can be shared across the supply chain for the first time and integrated into Scope 3 inventory reporting.

During the validation stage, SustainCERT's team of experts audits the intervention's design, ensuring that it is in line with relevant standards and guidelines and that it will deliver credible emission reductions. SustainCERT verifies the performance of these interventions and confirms if the GHG emissions have been reduced or removed. This ensures that the reported outcomes associated with an intervention are high quality and can be trusted by those seeking to understand how their company is contributing to decarbonization.

SustainCERT's validation and verification teams combine climate expertise with proficiency in organizational accounting, and are recognized for their deep Scope 3 knowledge and unique auditing skills. Their validation and verification work is underpinned by leading climate science and builds on industry-leading Scope 3 best practice guidelines and standards.

In addition, SustainCERT is the co-founder of the Value Change Initiative. The Value Change Initiative is a multi-stakeholder forum which brings together some of the world's largest companies, leading civil society actors and internationally recognized frameworks to collectively define how to address and account for greenhouse gas emission reductions across global value chains.

SustainCERT works with industries – currently Food, Agriculture & Beverages and Apparel & Textile, to go beyond theory and focus on learning, testing, and co-creating consensus-driven guidance to drive down Scope 3 emissions, following best practice.

About SustainCERT

SustainCERT, a global leader in climate impact verification, has developed a pioneering digital solution that will accurately verify and track the decarbonization impact of Scope 3 projects (interventions).

SustainCERT provides impact validation and verification services for carbon markets and value chains. Founded as an independent standalone organisation in 2018 by Gold Standard, SustainCERT's approach aligns with and contributes to leading international sustainability frameworks – including the Greenhouse Gas Protocol, the UN Sustainable Development Goals, Gold Standard and Science Based Targets Initiative (SBTi).

In 2023 SustainCERT has previewed the world's first software platform for digital verification and management of climate claims across carbon markets and value chains. Verifying against globally recognized standards, the digitization of this process will accelerate the speed, accuracy and quality of data measurement used for carbon credits and GHG impacts.

SustainCERT is also the co-founder of the Value Change Initiative, a multi-stakeholder forum bringing together some of the world's largest companies, leading civil society actors and internationally recognized frameworks to collectively focus on defining best practice for Scope 3 emission reductions at scale.

For more information, please contact our business development team by visiting www.sustain-cert.com



Appendix

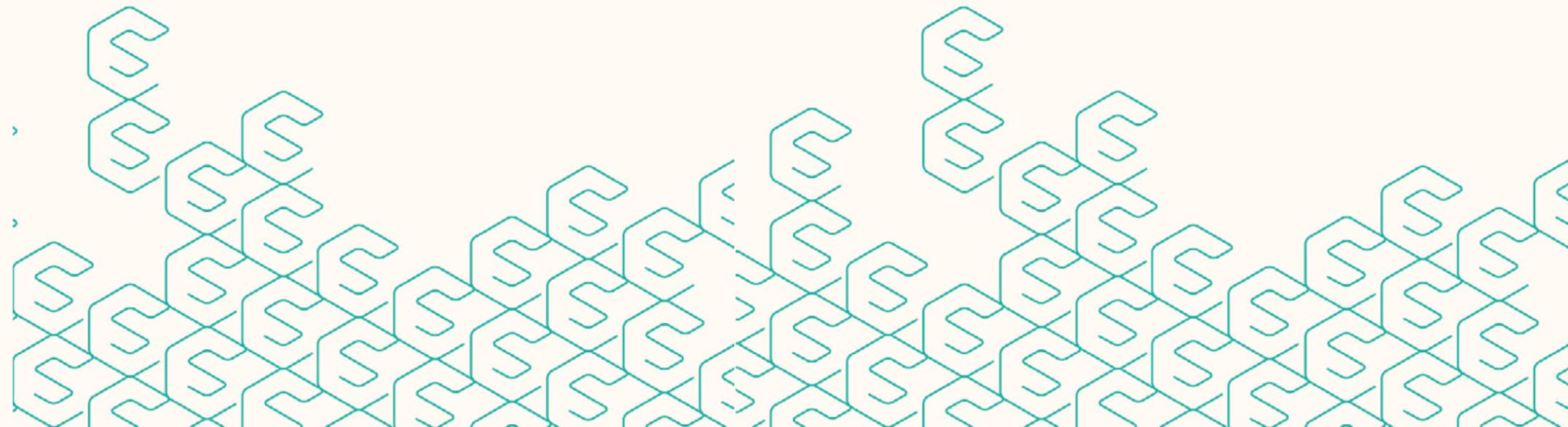
Quantitative Research Methodology

SustainCERT and Blakeney worked with strategic insight agency Opinium to survey some of the largest companies across six geographic markets (US, UK, Germany, France, Italy and Switzerland). In total, 500 people completed the survey; 250 respondents were based in the United States and the remaining 250 were equally spread across the United Kingdom, France, Germany, Italy and Switzerland. The survey was conducted in August 2023.

We know that larger organizations are more likely to have implemented Scope 3 emission reduction projects, therefore only respondents with decision making responsibilities in sustainability and Scope 3 who worked at organizations with more than 500 employees and had an annual turnover of £10 million or more (or equivalent currency) were included.

Qualitative Research Methodology

Blakeney LAB hosted 5 in-depth interviews with three SustainCERT customers and two SustainCERT employees. A discussion guide was developed from findings in the quantitative stage of the research programme, with topics focused on understanding the barriers and opportunities associated with Scope 3 emission reduction reporting.



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