Addressing the Scope 3 Inventory According to WRI/WBCSD's New Value Chain Reporting Standard

Extended Abstract #5

Lisa Nelowet Grice
Principal, Sustainability Practice Director
ENVIRON
303 E. 17th Avenue
Denver, CO 80203

INTRODUCTION

For ten years companies have completed greenhouse gas (GHG) inventories according to the World Resources Institute and World Business Council on Sustainable Development's GHG Protocol Corporate Standard (GHG Protocol).[1] Most inventories included emissions described as "required" by the GHG Protocol, namely Scope 1 (direct) and Scope 2 (indirect primarily from electricity purchase) emissions. Scope 3 (all other indirect emissions) were not commonly included. In the fall of 2011 WRI and WBCSD will release their Scope 3 Accounting and Reporting Standard. Already road tested by 60 companies the Scope 3 standard (and companion Product Lifecycle Accounting and Reporting Standard) will likely become the de facto standard for accounting for GHG emissions upstream and downstream of a company's own operations.

This presentation will overview the Scope 3 Standard, describing the 16 new Scope 3 sources addressed by the Standard, challenges in data collection and computation, and issues around data confidentiality and quality. Additionally, the presentation will engage the audience to consider which Scope 3 reporting drivers might apply to their organizations, and how to leverage Scope 3 reporting to optimize both environmental and business performance. The presentation will include case studies highlighting why and how companies include Scope 3 emissions in their GHG reporting.

BODY

The process to create the GHG Protocol Scope 3 Standard was launched in 2008. Overseen by a 25-member Steering Committee, first drafts were developed in 2009 by Technical Working Groups consisting of over 160 members. These first drafts were then road tested by over 60 companies, feedback from whom was used to then inform the second drafts. Members of a 1,500 participant Stakeholder Advisory Group provided feedback on each draft of the standards. Final drafts of the Standard will be released in the fall of 2011.

Key to the Scope 3 Standard is the establishment of 15 Scope 3 categories. These upstream and downstream categories are shown in Table 1.

[1] The GHG Protocol Initiative Corporate Standard, website http://www.ghgprotocol.org/standards/corporate-standard

Table 1 Scope 3 Categories

UPSTREAM
1. Purchased Goods & Services 2. Capital Goods 3. Fuel- and Energy- Related Activities (Not Included in Scope 1 or 2) 4. Upstream Transportation & Distribution 5. Waste Generated in Operations 6. Business Travel 7. Employee Commuting 8. Upstream Leased Assets
DOWNSTREAM
1. Downstream Transportation & Distribution 2. Processing of Sold Products 3. Use of Sold Products 4. End-of-Life Treatment of Sold Products 5. Downstream Leased Assets 6. Franchises 7. Investments

Each of these presents challenges in data collection and computing. In most cases, data is required from 3rd parties in order to calculate Scope 3 emissions. In some cases these third parties are eager to support the effort. Such cases may be vendors enthusiastic to improve their relationship with customers. In other cases public or proprietary data sets can be used to estimate category emissions. Such is the case for Category 1, emissions from purchased goods and services, which may be estimated using economic input output data bases or process lifecycle inventory databases in conjunction with purchasing records. In addition to the challenge of securing data is the challenge of ensuring the quality of data. Eager vendors may not necessarily ensure data quality for submitted upstream data. Allocating emissions to a single product or process in a complicated facility is not a simple exercise; furthering the likelihood that third party provided data may be fraught with error. And finally, third parties may feel that requests for GHG information may risk confidential data, typically related to resource or energy use; and therefore refuse to provide the data. Opportunities to manage these challenges are primarily in thoroughly mapping data source options, considering data sampling rather than comprehensive data collection, creating efficient data collection tools, and establishing processes to protect confidential data.

Motivations for reporting Scope 3 vary. It's critical for each reporter to consider their objectives in reporting Scope 3, and then prioritize the inventory effort to achieve those objectives. Drivers might include:

- Identify operational efficiencies and cost-saving opportunities in the supply chain

- Identify opportunities to differentiate products, and leverage new market opportunities or regulatory incentives
- Identify carbon-related vulnerabilities in the supply chain
- Redesign products to:
    - strengthen brand image regarding sustainability
    - enhance employee retention and recruitment resulting from pride in product stewardship
    - improve stewardship by reducing carbon emissions.
- Respond to customer requirements
- Improve customer, government, community, consumer, or investor relations

Once reporters have identified their drivers for Scope 3 accounting and reporting, the next step is to leverage that accounting and reporting to optimize both environmental and business performance. For example if a company has a large volume of purchased goods and relatively few capital goods, and their Scope 3 objective is to identify operational efficiencies in the supply chain, it behooves them to focus data collection and reporting efforts on Category 1, Purchase of Goods and Services rather than Category 2, Capital Goods. Instead consider the same scenario, but add that consumers have the perception that the capital goods are energy intensive to create and build. This concern might drive the reporter to consider the driver of consumer relations, and therefore include a robust treatment of Category 2, Capital Goods in their Scope 3 inventory.

SUMMARY

Companies can enhance business performance through Scope 3 accounting and reporting. Key to leveraging that opportunity is to clearly delineate individual objectives for that accounting and reporting, then designing the inventory to target those objectives. While data collection and management from third parties is burdened with greater challenge than in-house data use, those challenges can be overcome with a carefully planned data collection and management process.