GEMI
Global Environmental Management Initiative

Building a Scope 3 Program

A GEMI Quick Guide

www.gemi.org

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Contents

The GEMI Scope 3 Quick Guide is not intended to be a comprehensive review of all available challenges and opportunities relating to Scope 3 solutions, nor a guide for selecting a particular solution or approach, but rather GEMI has developed this Quick Guide to promote dialogue around potential solutions. This Quick Guide is intended as a guidance and solutions document, it is not prescriptive on what or how a company should address Scope 3 issues. Each company must determine how and if they will utilize and apply the Quick Guide, in any way, for the use of their company consistent with their own policies, legal and business procedures relating to their value chains.

This Quick Guide was produced through a collaborative process by the GEMI Scope 3 Work Group, directed by Natalie Pryde (natalie.pryde@gmail.com).

GEMI Members included:

- American Chemical Council
- Bristow Group Inc.
- ConocoPhillips
- CSX
- CC Industries
- FedEx
- Food Marketing Institute
- Gannett Fleming
- Henry Crown Companies
- Plastics Industry Association
- SLB
- SEE
- Smithfield
- Tyson Foods
- Verdesian
- WM
- Woodard & Curran

***About the Author**: Natalie Pryde has been providing direct corporate and consulting for environment, health, safety and sustainability leadership for over 25 years. She focuses on integrating compliance and sustainable solutions at the strategy and operations level. She has led teams engaged in the development and implementation of critical global programs for corporate clients. Her process knowledge has been instrumental in helping clients develop ESG strategies and understand materiality critical for applying practical sustainable solutions. Critical to her success is her ability to establish strategic direction and guide teams to successfully implement complex programs while maintaining strong communication with key clients and corporate leadership. Natalie has deep experience working in multiple regulatory jurisdictions and frameworks from the local to global level. She has successfully developed programs that allow businesses to be compliant and competitive, meeting both sustainability goals and overall business objectives. Notably, she has played an active role in advancing sustainability through her involvement with the Sustainability Accounting Standards Board (SASB) and engagements with organizations like the Michigan Department of Environment, Great Lakes & Energy and the American Chemical Society. She founded PrydesGroup LLC to help individuals and companies build resilience, and to live and operate for the wellbeing of people and planet. As an Integrative Health Practitioner, she coaches individuals and companies on wellbeing for people and planet.*

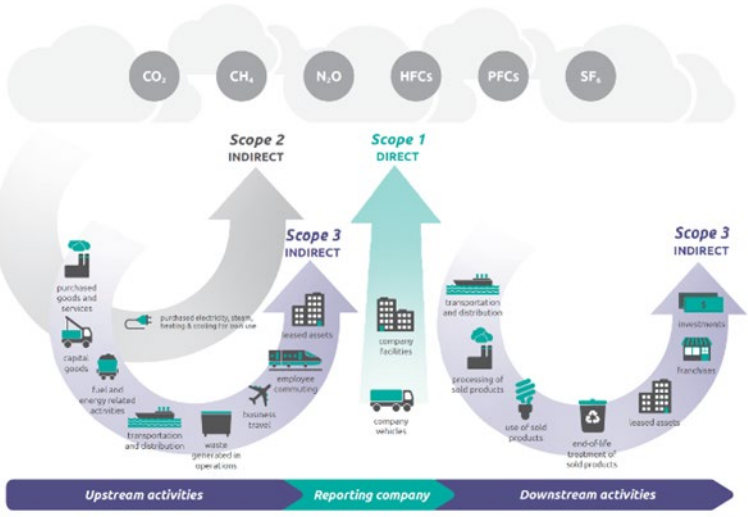
I. Executive Summary

The reduction of greenhouse gases (GHGs) is a primary focus for businesses with increased pressure to disclose GHG emissions, set reduction targets, and implement actions to meet reduction goals. GEMI, in collaboration with GEMI Scope 3 Work Group members, has created this quick guide to help companies develop a Scope 3 program addressing supplier and value chain emissions.

This guide is intended to inform professionals within a company's internal functional areas who are impacted by or have influence over Scope 3 emissions reduction goals or measuring and monitoring tasks. Table 1 provides a list of Scope 3 categories to assist with identifying stakeholders.

The guidelines discussed align with the US EPA's Scope 3 Inventory Guidance and the GHG Protocol. Links to these sources are provided in the resource section.

Figure 1. Overview of GHG Protocol scopes and emissions across the value chain



Source: Scope 3 Standard, page 5.

A first step in determining a company's Scope 3 impact typically begins with a materiality assessment to determine which, if any of the Scope 3 categories highlighted to the left, are significant contributors to GHG emissions. Once completed, Scope 3 categories considered relevant to value chain emissions are tracked for measurement and reduction targets are established.

An effective Scope 3 program includes elements for stakeholder engagement, collaboration along the value chain, emission reduction strategies and actions with a focus on continuous improvement. These are very action-oriented steps with broad participation across many groups.

Scope 3 governance is important for assurance and validation of reported results as well as making sure the program is sufficiently resourced and supported by executive leadership.

Finally, an effective Scope 3 program is best supported by data driven Scope 3 systems and services.

II. Framework for a Scope 3 Program

Assessment and Baseline Measurement

Scope 3 emissions are divided into upstream scope 3 emissions (emissions associated with material acquisition and pre-processing) and downstream scope 3 emissions (related to distribution, storage, use, and end-of-life).

Step 1: Conduct a comprehensive materiality assessment to identify all relevant scope 3 emissions sources and categorize them according to the Greenhouse Gas Protocol's Scope 3 categories. Methods commonly used to support this task include:

- Use technology solutions like climate management and accounting platforms to identify categories and measure emissions. (more about how these platforms help with management, reduction, and reporting further in the guide)
- Map the value chain to understand where the upstream and downstream emission sources are impacting Scope 3 emissions. Suppliers and customers may be part of gathering data for measurement purposes.
- Consider both level of influence and level of impact concerning carbon emissions in the value chain when determining which categories are material and relevant for inclusion in the Scope 3 Program.

Step 2: Establish a baseline to quantify the current Scope 3 emissions for each category identified in Step 1 above. This baseline will serve as a reference point for setting goals, establishing priorities, and driving future improvements. This step is quite time and resource intensive. Using tools and collaborating with others is recommended.

Good practices: *Although there is some expense to licensing or developing a technology solution for climate management and accounting, the time savings and increased accuracy make these platforms an excellent choice. Recently industry groups have begun to collaborate using a single technology solution creating efficiencies for the value chain and leveraging reduction strategies across industry group members.*

Case Study 1: *Identifying Material Scope 3 Categories and Calculating Baseline Carbon Emissions found on the following page.*

Case Study #1: Identifying Material Scope 3 Categories and Calculating Baseline Carbon Emissions
A tailored, comprehensive approach for defining the material Scope 3 categories and calculating an emissions baseline.

Executive Summary:
A major manufacturing company in the transportation industry conducted an initial Scope 3 emissions analysis exercise to arrive at a preliminary calculated baseline for selected categories of Scope 3 which were most important to the company at the time of the study. The goal of the process was to focus on the categories with the most significant impact on the company, both in terms of emissions and financial spending data. To achieve this, they engaged an expert third party consultant and employed the International Greenhouse Gas (GHG) Protocol as the guiding framework.

Methodology:
Working with an expert third party, the approach involved a systematic evaluation of all 15 categories of Scope 3 emissions as defined by the GHG Protocol. They applied two primary criteria to select the categories for our initial exercise:

- Categories in which they could exert significant influence through reduction targets and tactics (i.e., Waste Management).
- Categories that were most "material" to the company, using the criteria of financial spend and total life cycle emissions (i.e., Capital Goods).

After careful consideration, they narrowed down their focus to a final list of 5 categories. To estimate emissions within these categories, they collaborated with the financial planning and decision-making teams to gather data on spending for the previous year. The expert third party guided them through the process, ensuring compliance with the GHG Protocol.

Challenges:
Conducting a Scope 3 analysis tailored to the company's needs presented several challenges. Firstly, the complexity of such an analysis required expert guidance. Additionally, selecting the most relevant categories without merely following industry norms demanded a unique approach. It was also essential to find data sources or establish data collection methods for the chosen categories, aligning with the GHG Protocol's requirement to use financial spending data to calculate emissions.

Objective:
The objective is to conduct a Scope 3 materiality analysis that works best for your company to get the most meaningful deliverable. A comprehensive Scope 3 analysis is incredibly complex and challenging. Therefore, it is important to take your time evaluating what Scope 3 categories are most significant to *your* company and *your* industry rather than following the lead of other companies that may not align with your business. Those meaningful, or *material* Scope 3 categories that work best for you are likely where you have:

- Impact on reduction tactics
- Influence over managing them
- Flexibility regarding business decisions

Another factor to consider is accessibility to quality data. Establish which categories you have, or can find, good data around while also aligning with the guidance in the GHG Protocol for the 15 categories.

Benefits and Key Aspects:
- **Expert Guidance:** To conduct a genuine, meaningful, and tailored Scope 3 assessment of your supply chain, *make sure to find the right partner* (independent third party) who can guide you through the process. This is vital as they will ask the right questions each step of the way and help you to tailor this exercise best for your company.
- **Clear Boundaries:** *Set clear boundaries at the start of the exercise over which Scope 3 categories you chose and why*. We shouldn't aim to 'boil the ocean' of Scope 3 emissions, but rather select targeted, specific Scope 3 categories that your company has the most influence over to be able to meaningfully flow into the next stages of setting an emissions baseline with the goal of eventually setting reduction targets. If you don't have a well-tailored list of categories for Scope 3 at the beginning, this becomes a big bottleneck once you get to the next phase of actually doing something to reduce emissions.
- **Stakeholder Engagement:** *Pressure test the categories selected with key stakeholders.* Do your CFO, COO, Financial Planning, and other key decision makers agree with the categories selected? The key players in the business will innately know the best categories where we have the most influence over in this regard, so it is important they are involved in the process.

Table 1: Scope 3 Categories and Examples

Upstream Scope 3 Categories

Category 1: Purchased goods and services	Such as emissions generated to create a product used in an assembly
Category 2: Capital goods	Used to provide, sell, store, or deliver products or services, such as emissions from a warehouse to store products
Category 3: Fuel and energy-related activities	Not counted for in scopes 1 and 2, such as extraction of natural gas needed to generate heating
Category 4: Upstream transportation and distribution	Such as emissions generated from transporting materials between suppliers
Category 5: Waste generated in operations	And treated by a third party, such as emissions from waste disposed of in a landfill
Category 6: Business travel	Such as emissions from air and vehicle travel to a client meeting
Category 7: Employee commuting	Such as emissions from car travel to the office
Category 8: Upstream leased assets	Not counted for in scopes 1 and 2, like emissions from a leased building the company is using to store products

Downstream Scope 3 Categories

Category 9: Transportation and distribution after the point of sale	Such as emissions from a customer traveling to a retailer for a product
Category 10: Processing of sold intermediate products	Used to create a final product, such as emissions created from a raw material being produced and sold to another company to make a final component
Category 11: Use of sold products	Such as emissions the end-user generates after purchasing and using the product
Category 12: End-of-life treatment of sold products	Such as emissions created when a customer disposes of the product including recycling, landfilling, or finding a useful application for the sold product
Category 13: Downstream leased assets	Such as emissions from fleet vehicles leased to other entities in connection with the operation of the vehicles
Category 14: Franchises	Meaning all emissions created by franchises under a company
Category 15: Investments	Such as emissions generated in an infrastructure project a company has financed

Goal and Target Setting

The goal of establishing a Scope 3 program is to reduce carbon emissions in the value chain. The process of setting goals and targets for emissions reductions will have multiple layers. At a high level, an overall reduction goal at the company level is typically a percentage reduction year over year to meet a future target. For example, achieve a 40% reduction in total carbon equivalent emissions within the Purchased goods and services category by 2040. What makes scope 3 goal setting difficult is that it relies on outside stakeholders to make improvements to their scope 1 and 2 emissions for a company to meet their scope 3 goal. For this reason, goal setting tends to be a process closely tied to internal and external engagement, structured review and planning processes, collaborative activities around reduction strategies, and monitoring for reporting and continuous improvement. These aspects are covered later in the guide.

Steps 1 and 2 identified the scope 3 categories relevant to the business and established a baseline for carbon emissions. The following questions are helpful in establishing an attainable goal that aligns with the objectives of the business and meets sustainability targets.

- Who are the stakeholders requesting carbon emissions reductions within the value chain?
- What are the specific reductions and time frames being requested?
- Who within my organization should be included to evaluate the requested reductions? Are different teams needed for different categories?
- How do these reduction targets fit into the overall business strategy?

Step 3: For each relevant scope 3 category, define clear and measurable scope 3 emission reduction targets. Identify the organizational leader best positioned to drive performance for each target.

Tip: *Ensure that net zero goals are considered during this stage in alignment with overall company commitments. Science Based Target initiatives (SBTi) are commonly referenced and provide guidance by sector to assist with target setting and building a path to meet reduction targets.*

Stakeholder Engagement

At this point in the process the first three steps have built the foundation for understanding who the primary stakeholders are within the organization as well as external stakeholders exerting pressure or introducing requirements related to scope 3 emission targets and goals. This initial engagement sets the stage for further collaboration in the development and management of the scope 3 program.

Internal Stakeholders

- **Procurement** - important for initiatives related to category 1 – Purchased Goods and Services.
- **Operations** – several categories may be relevant or potentially impact this team as well provide a valuable link to business initiatives and support refinement of sustainability strategies.
- **Designers and Engineering** – categories 11 and 12 are particularly impacted by these roles as well as serving as a platform to foster decarbonizing innovation.
- **Sales & Marketing** – overall scope 3 program targets may be passed from the customer to the organization through this team and may open new market opportunities through low carbon products and services as well as increasing reputation and brand value.
- **Human Resources** – may influence categories 6 and 7 as well as provide a conduit for sharing greenhouse gas emissions reduction performance with the organization, support employee engagement, and enhance recruitment.
- **Finance** – investor impact, disclosures, and regulatory risk are primary drivers for this team. If category 15 is material, Finance is a key contributor.
- **EHS** – decarbonization expertise supports other teams in areas emission reduction strategies, data accuracy and improvement, monitoring, and reporting.
- **Executive Team** – supports the work of the scope 3 program teams and demonstrates commitment to reaching goals.
- **Board of Directors** – assures commitment to scope 3 emissions reduction targets; oversees investor and customer impacts, regulatory and disclosure requirements; and protects brand reputation and value.
- **Legal -** supports Scope 3 programs by ensuring legal compliance, managing contractual agreements, addressing data privacy, mitigating risks, advising on environmental regulations, and protecting intellectual property, among other key responsibilities.

External Stakeholders

- Value chain including upstream and downstream, such as suppliers and customers
- Shareholders and investors
- Insurance providers
- Local communities
- NGOs

Although most of the Scope 3 Program elements are driven and supported by internal stakeholders, external stakeholders typically fall into two categories: those who have an active impact on carbon emissions (suppliers and customers) and those who exert pressure or values on reduction activities and targets (shareholders, investors, and NGOs).

Stakeholder Engagement cont.

Step 4: Create a stakeholder engagement plan that identifies key stakeholders and outlines how communication will occur and what collaborative tasks are necessary for success.

***Tip**: The GEMI Scope 3 Engagement Matrix is a tool that was developed to assist with development and implementation of a stakeholder engagement plan. The tool is designed to help facilitate work with each identified stakeholder. The link to this tool is included in Appendix A and at*:
https://gemi.org/download/3065/

***Good Practices**: Collaborative efforts among companies within the same or similar industry sectors lead to higher success outcomes and greater efficiency. Look to industry sector leaders such as trade associations or carbon accounting and management software platforms for information on how to engage with industry peers.*

Procurement and Supplier Engagement

For most industries, Upstream Category 1 – Purchased Goods and Services, tends to have the most impact on scope 3 emissions with some estimates claiming it contributes to more than 80% of the total carbon emitted in connection with a company's business footprint. Progress in reducing carbon emissions in this category relies on strong collaboration between the Procurement team and the supply chain. Until recently, sustainability goals were not typically included in the Procurement business plan. However, we are beginning to see Procurement being integrated into Sustainability teams and in some cases leading a company's sustainability initiatives.

An effective Scope 3 program relies on engagement between Procurement and suppliers. To set a program up for success, there are three important components to an engagement plan:

1. Educate the entire Procurement team about the Scope 3 Program and their role in achieving emissions carbon reduction goals.
2. Integrate environmental and sustainability criteria into the procurement process and prioritize suppliers with low-carbon offerings and sustainable practices.
3. Encourage suppliers to disclose their carbon emissions and develop carbon emissions reduction strategies.

Step 5: Work with the Procurement team to develop an action plan that supports education and engagement.

***Good Practices**: Integrating sustainability principles including carbon emissions reduction goals into a company's Supplier Code of Conduct communicates the values expected of the supply chain and provides a foundation for accountability. Once the Supplier Code of Conduct has been successfully implemented and socialized, creating a Supplier Score Card provides a method to track supplier performance and benchmark against peers.*

***Tip:** Some companies rely on organizations such as CDP and EcoVadis to provide certification, ratings, and ranking around sustainability "fitness" through the engagement with the company's supply chain to provide a level of assurance. These relationships are often a requirement to do business with companies. It is important to take these requirements into account as they may impact engagement tasks and timelines.*

***Case Study #2**: Example of a Supplier Sustainability Roadmap used for a large supply chain. This methodology provides a starting place for suppliers to create their own roadmap to manage, monitor and report a sustainability program.*

Case Study #2: Supplier Sustainability Roadmap template used by a large manufacturing company in its supply chain sustainability program to facilitate progress in meeting sustainability goals.

Instructions to suppliers on how to use the template:
Words in red font with yellow highlight should be replaced with your specific information.

Title:
Replace "Your Organization's" with company name in title, "*company name Supplier Sustainability Roadmap with Purchasing Process v1.0.*"

Purpose:
This template may be used to communicate your organization's holistic approach to supplier sustainability.

Key Features:
The framework provided in this template is cyclical and follows the DMAIC continuous improvement framework with the addition of a *Disclosure* element. The *Disclosure* element follows the *Control* phase before the process starts again. *Disclosure* was added as a phase in the process, recognizing the important role it plays in engaging relevant stakeholders in sustainability discussions. A section in grey was added, which is attached to *Disclosure*, communicating your internal processes to incorporate sustainability disclosures into your systems and decision making. There are placeholders within the template to list supplier initiatives your organization has at each stage in the process.

Target Audience:
The target audience includes both internal and external parties to communicate your sustainability program at a high level.

Developed by Fred Gersdorff

Case Study #3: CSX is engaging with their suppliers through the CDP Supply Chain program providing a strong methodology and platform to increase engagement, communicate carbon reduction goals, and monitor progress.

Methodology:

*CSX has used **CDP Supply Chain** since 2021 to engage with top tier suppliers. The initial focus was to cover supplies included in the top 50% of annual spend. The implementation of this process included a web-based meeting to explain:*

- *CSX carbon reduction goals and strategies*
- *How supplier emission reductions could support future emission reductions*
- *How supplier specific emissions would be used in Scope 3 accounting*

Results:

The first year using CDP for supplier engagement had a 38% participation rate, however, it allowed CSX to use allocated emissions instead of emission estimates based on supplier spend. Year 2 of the supplier engagement expanded the participation requests and resulted in 48% participation. Year 3 engagement will be expanded to ensure a broader cross section of supplier categories.

Critical for Success:

The Procurement team was instrumental to help identify the appropriate supplier contacts necessary. Separate training was held with the Procurement team to review various ways purchasing and supplier selection was included in ESG reporting.

Carbon Emissions Reduction Strategies

It is important to communicate that the overall objective of a Scope 3 Program is not simply to measure and report carbon emissions. The overall objective is to reduce carbon emissions systematically and reliably. This requires the identification of hotspots through analysis of the data so that improvement can be prioritized, and opportunities promoted for action. Focusing on the value chain entities with the largest impact is a great place to start. Identifying trending patterns is also very informative to determine if targets are attainable in the future, allowing for time to work with the value chain on realignment to the overall goals.

The following questions may assist in determining which value chain entities to focus on. This exercise is an iterative process allowing for identification of a target group that is manageable for the resources available to the company. It is important to celebrate the "wins", big and small, to keep momentum and engagement strong. Coming back to these questions will allow focus areas to expand as progress is made.

- Where are the areas that will have the biggest impact?
- Where do you have significant influence to promote success?
- Where are these opportunities for quick wins?
- How do I determine the most effective way to address low-to-mid hanging energy efficiency, carbon reduction "fruit"?

Step 6: Based on answers to the questions above, determine which specific value chain entities should be selected for carbon reduction strategy support and work with those entities to develop a carbon emissions reduction plan. Repeat this exercise as progress is made and resources allow for expansion.

***Tip**: Some carbon accounting and management systems have built in analysis of trending against carbon emissions reduction goals as well as capabilities to support action plans for individual suppliers. This makes managing the implementation and monitoring of reduction strategies more manageable for responsible internal teams.*

***Good Practices:** Appendix B includes examples and definitions of carbon reduction strategies as well as methodologies for identifying targets and supporting carbon reduction plans.*

Case Study #4: CSX is helping their customers to reduce their scope 3 emissions by providing a Carbon Calculator to drive better business decisions with a side benefit of potentially increasing sales for CSX.

Methodology:

CSX provides a Carbon Calculator to rail customers to help demonstrate the benefits of shipping by rail over truck. Transportation can be a significant scope 3 emission category and logistics personnel have the data to consider carbon emissions as well as transportation cost.

Benefits:

Freight transportation by rail is typically 3-4 times more fuel efficient than truck. By showing a side-by-side carbon comparison, customers are able to see the carbon emissions avoided by utilizing rail.*

Non-rail customers are also able to estimate emissions using a simplified calculator on the CSX.com website.

CSX reports customer specific reporting when requested and via CDP for work performed on behalf of the customer. This includes summing the railcar weight and distance traveled and estimating total diesel fuel necessary for the move. By following this method, CSX allocates emissions used by customers as their Scope 3 transportation related emissions.

*References:

- Freight Rail & Climate Change - AAR
- AAR-Climate-Change-Fact-Sheet.pdf

Monitoring and Reporting

Increasing climate related standards and disclosure requirements include the requirement for companies to meet defined thresholds to report Scope 3 emissions, many supported by regulatory frameworks creating a liability risk. As these standards and disclosure requirements evolve, one certainty agreed upon is the importance of working through steps 1 and 2 of this quick guide to establish a company's materiality and risk exposure regarding current or future disclosure requirements.

The task of performing the first two steps identifies the data collection paths as well as gaps in material information needed to effectively create a monitoring and reporting plan. Formalizing Scope 3 data collection into business processes will assist with data integrity through distributed internal ownership of the collection process and spread resourcing needs across the organization.

Recognizing a company's maturity status for implementation of a company's Scope 3 program is important. A company just beginning the implementation process will begin with mapping out processes for data collection, reporting, and monitoring. More advanced programs will evolve to full system integration where feasible. An important criterion for determining when to move forward with system integration is after processes have been tested and validated to determine readiness for system integration. Additionally, documentation is critical to maintain as many disclosure standards have mentioned the provision of assurance or limited assurance as a requirement.

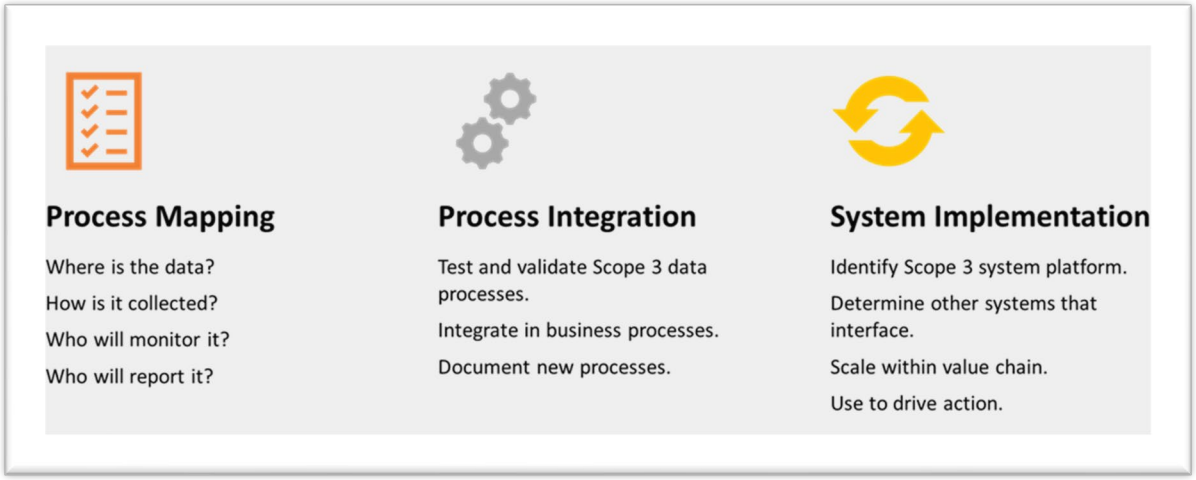
Companies operate in a technologically connected world where robust data systems and services are a critical differentiator in meeting profitability targets and running the business. A data driven Scope 3 foundation starts with simple yet effective data collection practices utilizing software platforms that not only streamline the process but also possess the crucial capability to integrate data from multiple high-quality sources seamlessly. This integration ensures that the data is not only comprehensive but also reliable and importantly minimizes the human resource intensity of the data collection and reporting process.

A truly effective system extends beyond data collection—it must have the ability to scale and empower both suppliers and procurement specialists alike. It serves as an invaluable tool for informed decision-making, enabling procurement specialists to make environmentally responsible choices and empowering suppliers to align with sustainability goals.

Tip: *The power of data only lies in its ability to inform and drive action. To this end, dashboard capabilities are indispensable. A well-designed dashboard provides at-a-glance metrics on performance, offering a clear path to carbon reduction goals and the identification of potential risks. It not only informs strategy but also facilitates swift decision-making by providing real-time insights.*

Monitoring and Reporting cont.

Finally, a data-driven system should enable organizations to focus their efforts where they are needed most. This is achieved through the creation of action plans, the sharing of best practices, and establishing accountability measures. With these components in place, organizations can harness the full potential of data to drive their Scope 3 emissions reduction initiatives efficiently and effectively.



Step 7: Develop robust data collection mechanisms and processes to gather relevant data from various sources across the value chain with the goal of fully integrating them into internal business processes.

Tip: *There are many Scope 3 software as a service options on the market. Scope 3 programs with category 1: Purchased Goods and Services targets may benefit from implementing one of these platforms. One strategy to alleviate the cost and resource intensity is to work with industry peers to use the same platform provided information can be shared in accordance with antitrust practices.*

Good Practices: *Investing in a scope 3 data management system to streamline data collection, analysis and reporting has a tremendous positive impact on the quality of the data, the time to perform the steps, and the value received from the process.*

Case Study #5*: Example of several grocery chains in the United Kingdom utilizing the M2030 platform to collaborate on carbon reduction in their supply chains.*

Case Study #5: How the UK's grocery sector is collaborating on carbon reduction in supply chains.

Challenge:

Most businesses recognize the need to tackle carbon emissions. Whether that's from an internal drive to do better or external pressures from investors, regulators, and customers. A shared commitment to deliver 50% absolute reduction in greenhouse gas emissions related to UK food and drink in the UK by 2030 requires collective action to breakdown barriers to progress to meet this target.

Solution:

Aldi, ASDA, Co-op, Lidl GB, Marks & Spencer, Morrisons, Ocado Retail, Sainsbury's, Tesco, and Waitrose partnered individually with Manufacture 2030 (M2030). Together, they are creating one way for grocery suppliers to share environmental data and decrease emissions. Over the last four years, thousands of manufacturing sites have recorded baselines in energy, water, and waste – with the vast majority well underway implementing impact reduction roadmaps in their facilities.

Benefits:

- *Fifty two percent (52%) of the suppliers have set carbon reduction targets covering Scope 1 and 2, and 28% have set Scope 3 reduction targets.*
- *More than 3,000 grocery supplier sites have joined M2030.*
- *By collaborating with their peers on supplier engagement, the 10 retailers have seen far more success than if they were to work in isolation.*
- *Throughout 2024, 4,800 supplier sites will be invited to submit their data and create reduction plans.*
- *More than 20,100 actions from the carbon reduction platform have been added by suppliers. As a result, it is expected there will be a significant reduction in climate change emissions in the grocery sector over the coming years.*
- *One of the biggest headaches for suppliers acting on environmental impact is having to report to many customers in multiple different ways. By working collectively with M2030, the 10 grocery retailers have removed this burden – reducing workloads and saving time.*
- *Equipping their supply base with a carbon reduction platform enables suppliers to focus on actions that result in real business improvements. Whether that's enhancing resource and operational efficiency, driving down costs, or procuring more sustainably.*

Reference:
https://manufacture2030.com/

Internal Integration and Communication

The Scope 3 program likely relies on input and cooperation from multiple functional areas within the organization. Education and alignment are important to assure a successful implementation of the program and garner needed support for long term resilience. Integrating into the broader sustainability framework to educate and engage employees across the organization using sustainable practices related to material scope 3 emissions as a vehicle to encourage support for the program through a more holistic approach.

Integrating scope 3 related considerations into company policies, decision making processes, and risk management protocols establishes a framework to support overall success of the Scope 3 Program. Examples of areas that may positively impact the program include Supplier Code of Conduct, purchasing contract language, design specifications, website communications, and inclusion on the agenda in executive and board level meetings. Integration with Sustainability functions or within Sustainability teams can lead to resource and technical support.

Step 8: Develop an integration and communication plan that includes education, policy enhancements, and progress monitoring laterally across functional areas impacted by the Scope 3 program as well as vertically up to executive leadership.

Tip: *There are open-source resources available that provide templates related to policy and contract language. Industry trade associations are also actively supporting members' sustainability initiatives which might include scope 3 initiatives. See the resource section at the end of this document for links to organizations that may provide resources for use in the Scope 3 Program.*

Good Practices: *Establishing an accessible library of success stories serves to celebrate the wins, provide ideas for others, and promote maintenance of program momentum.*

Case Study #6: Aligning internal Procurement strategies and practices as well as implementing guidance and training to meet climate commitments.

Challenge:

A consumers product company required carbon reductions in their supply chain emissions to meet science-based target and net zero climate commitments.

Solution:

The internal procurement team sought support and expertise to create, implement, and maintain a supply chain engagement program. Through this effort a Supplier Emissions Management System was created. The following elements were included in the system:

- *Unique performance categories for approximately 200 priority suppliers (from a base of 1,000s of suppliers) based on their sustainability initiatives and emissions reduction progress.*
- *Clear criteria that must be met in order to advance to higher levels within the categories.*
- *Customized and proven engagement strategies to help suppliers advance their emissions reduction initiatives.*
- *Internal operational and organizational guidance for the client's internal teams as well as the suppliers to best position both parties to meet Scope 3 emission reduction targets.*

Benefits:

- *Informed procurement agents were able to harness the latest sustainability knowledge in their daily workloads which optimized sourcing decisions leveraging segmented suppliers and tailored engagement tactics.*
- *The program helped build constructive relationships with suppliers while driving accountability for emissions reductions.*
- *The increase in transparency created trust between the client and their suppliers as well as with the client's investors.*
- *The client is realizing enhanced brand value as a result of the credible action to meet science based and net zero targets.*

Reference: For more information about the consultant who led this initiative, go to https://nextgenesg.co/

Continuous Improvement

In the areas of climate impact, stakeholders have clearly communicated that performance matters. Therefore, including aspects of continuous improvement is an important element of the Scope 3 program. Additionally, Scope 3 disclosure requirements and standards frameworks are constantly evolving creating a changing environment that may impact elements of the program. Consistency in program reviews and adaptation for alignment and improvement will foster a culture of continuous improvement to drive long-term sustainability performance including Scope 3 initiatives.

The **DMAIC** approach, which stands for Define, Measure, Analyze, Improve, and Control, is a systematic methodology used in continuous improvement processes. It is a core component of Six Sigma, a data-driven quality management system. The first step, "Define," involves identifying the problem, setting clear objectives, and understanding the scope of the project. "Measure" focuses on gathering relevant data and establishing baseline measurements to assess the current state. In the "Analyze" phase, data is thoroughly analyzed to identify root causes and underlying issues that contribute to the problem. The "Improve" phase aims to develop and implement solutions to address these root causes, with a focus on achieving process enhancements and efficiency. Finally, the "Control" phase establishes processes and metrics to sustain the improvements over time and prevent a return to the initial problem state. DMAIC offers a structured, data-centric approach for organizations to drive continuous improvement and ensure progress towards goals. When used in the context of continuous improvement within sustainability programs, this approach allows for a structured framework for continuous improvement related to sustainability objectives including scope 3 emissions reductions. A template utilizing this structure is included in Appendix A.

Feedback loops play a critical role in facilitating continuous improvement when using the DMAIC approach. Assuring that appropriate feedback loops are in place for each step in the continuous improvement process enables organizations to adapt, refine, and continuously enhance their sustainability program including scope 3. They provide a mechanism for ongoing learning, adaptation, and optimization, driving the journey of continuous improvement in a structured and data-driven manner. The next page explains each phase of the DMAIC methodology.

Continuous Improvement cont.

Here's how feedback loops assist in each phase of the DMAIC methodology:

1. **Define**: Feedback in the "Define" phase comes from various sources, including customer feedback, employee suggestions, and historical data. This feedback helps to validate whether net zero goals and interim targets are still relevant or have changed. A change in defined goals can have a reverberating effect on program initiatives, timing, and funding. It is important to include definitions of materiality in this feedback loop as changes to growth and business plans may impact materiality.
2. **Measure**: Feedback in the "Measure" phase involves checking that data collection methods and identified metrics are effectively monitoring progress. It also serves to identify potential deviations or unexpected gaps and/or results.
3. **Analyze**: Feedback in the "Analyze" phase provides an opportunity to validate the initial understanding of trends and opportunities for improvement. The fluid nature of disclosure requirements, carbon reduction technology advancements, and updates to net zero targets may require refinement of hypotheses and identification of key variables affecting the process, making it possible to focus efforts on the most critical factors.
4. **Improve**: Feedback is crucial during the "Improve" phase as it helps in testing and validating proposed solutions. Emerging technologies and learned best practices may serve to enhance results. Implementing changes and closely monitoring their impact allows teams to gather feedback on whether the improvements are effective or need further adjustments. This iterative process allows for fine-tuning and optimizing solutions based on real-world feedback.
5. **Control**: In the "Control" phase, feedback loops are essential for ensuring that improvements are sustained over time. By establishing control measures and continuously monitoring key performance indicators (KPIs), organizations can quickly identify any deviations from the improved state. This feedback loop provides early warning signals and allows for immediate corrective actions to maintain the gains achieved.

Step 9: Create a cyclical review process that monitors sustainability and/or Scope 3 progress toward carbon reduction goals. Assure that appropriate feedback loops are in place to allow for incorporation of emerging technologies and best practices, changes to materiality as well as evolving business practices.

III. Governance for Scope 3

Governance is essential for a Scope 3 program because it provides the structure, oversight, and accountability needed to successfully reduce emissions, align efforts with strategic goals, manage risks, allocate resources effectively, maintain transparency, and ensure compliance with regulations. Without robust governance, a Scope 3 program is more likely to falter, with potentially significant consequences for both the environment and the organization itself.

Although not inclusive, there are three important components that should be considered to assure proper governance of the Scope 3 program within the organization.

1. **Strategic Alignment of Policies**: Ensures that the program aligns with the organization's broader strategic objectives. It helps in integrating emissions reduction efforts into the company's overall business strategy, which can lead to increased efficiency, cost savings, and competitive advantages. Without governance, emissions reduction initiatives might remain disconnected from the core business goals. Examples of areas where alignment is critical include:
    a. Embedded terms and conditions
    b. Responsible Sourcing Policy
    c. Supplier Code of Conduct
    d. Corporate Ethics
2. **Support and Resource Allocation**: Effective governance structures establish clear lines of responsibility and accountability within an organization beginning with support from the executive and board level. In the context of a Scope 3 program, this means defining who is responsible for setting goals, implementing strategies, monitoring progress, and reporting results. Accountability ensures that actions are taken to reduce emissions, and individuals or teams are held responsible for meeting targets and deadlines. Allocation of resources includes both human and financial resources to assure the program is adequately funded and staffed. Important elements to consider include:
    a. High level executive support
    b. Strategic cross functional support
    c. Tactical resourcing for implementation and execution
    d. Financial support for projects based on realistic ROIs
3. **Third Party Verification and Certification**: This governance structure facilitates transparency and assurance of accuracy serving as the ultimate validation of the program's performance enhancing credibility. Third party verification and certification may not be required, however, are considered a best practice for industries with traditionally high Scope 3 emissions. The following elements for consideration are presented as recommendations for assuring program credibility and demonstrating a commitment to accurate reporting and environmental responsibility:
    a. Internal program audits
    b. Third party audits
    c. Certification from a third party

Tip: *Companies with established Scope 3 programs have begun to incorporate auditing of suppliers as a component of validating emissions of category 1 emissions. Establish expectations with the supply chain as well as the Procurement team early in the implementation process to assist with gaining appropriate support around reporting and meeting carbon emissions reduction targets.*

IV. Conclusion

In conclusion, this quick guide, prepared in collaboration with GEMI member companies, serves as a resource for professionals within organizations looking to address the critical issue of Scope 3 greenhouse gas emissions reduction. It outlines the key steps involved in developing a comprehensive Scope 3 program focused on value chain emissions and aligns with industry-standard guidance from the US EPA and GHG Protocol. By emphasizing the importance of stakeholder engagement, collaboration, and data-driven systems, this guide empowers companies to make informed decisions, set realistic reduction targets, and embark on a journey of continuous improvement.

As businesses face increasing pressure to disclose, reduce, and be transparent about their greenhouse gas emissions, the tools and insights provided within this document have been designed to support their efforts to meet these challenges and contribute to a more sustainable future.

Step 1: ***Conduct a comprehensive materiality assessment*** to identify all relevant scope 3 emissions sources and categorize them according to the Greenhouse Gas Protocol's Scope 3 categories.

Step 2: ***Establish a baseline*** to quantify the current Scope 3 emissions for each category as material. This baseline will serve as a reference point for setting goals, establishing priorities, and driving future improvements.

Step 3: For each relevant scope 3 category, ***define clear and measurable scope 3 emission reduction targets***. Identify the organizational leader best positioned to drive performance for each target.

Step 4: ***Create a stakeholder engagement plan*** that identifies key stakeholders and outlines how communication will occur and what collaborative tasks are necessary for success.

Step 5: Work with the Procurement team to ***develop an action plan that supports education and engagement***.

Step 6 ***Determine which specific value chain entities should be selected for carbon reduction strategy support*** and work with those entities to develop a carbon emissions reduction plan.

Step 7: ***Develop robust data collection mechanisms and processes*** to gather relevant data from various sources across the value chain with the goal of fully integrating them into internal business processes.

Step 8: ***Develop an integration and communication plan*** that includes education, policy enhancements, and progress monitoring laterally across functional areas impacted by the Scope 3 program as well as vertically up to executive leadership.

Step 9: ***Create a cyclical review process*** that monitors sustainability and/or Scope 3 progress toward carbon reduction goals. Assure that appropriate feedback loops are in place to allow for incorporation of emerging technologies and best practices, changes to materiality as well as evolving business practices.

References and Resources

- Scope 3 Inventory Guidance | US EPA from the US Environmental Protection Agency (EPA) provides detailed information on how to identify, calculate, and report Scope 3 emissions, as well as the 15 categories of Scope 3 emissions and the relevant factors and methods for each category.

- Corporate Value Chain (Scope 3) Standard | GHG Protocol from the GHG Protocol is a comprehensive framework for measuring and managing Scope 3 emissions. It explains the principles, requirements, and guidance for Scope 3 accounting and reporting, as well as the steps to improve and expand your emissions estimate over time.

- How can companies address their scope 3 greenhouse gas emissions? - Science Based Targets provides guidance and tools for setting science-based emission reduction targets aligned with the Paris Agreement.

- Reporting Scope 3 emissions: Key frameworks and standards (carbonchain.com) provides an excellent article with links and highlights to many frameworks, standards, and regulations related to scope 3 emissions for carbon reporting. Note this is a blog published in March 22, 2023 in a dynamic environment.

- GEMI is an organization of leading companies dedicated to fostering global environmental, health and safety (EHS) and sustainability excellence through the sharing of tools and information to help business achieve environmental sustainability excellence. Through the collaborative efforts of its members, GEMI also promotes a worldwide business ethic for EHS management and sustainable development through example and leadership.

- Scope 3 Peer Group is a cross-industry, global collective of those tasked with supply chain carbon reduction. The Group aims to support faster and more confident action in a noisy, rapidly changing and confusing space through activity driven support, benchmarking and sharing good practices.

- The Climate Drive developed to help businesses move from ambition to action to achieve net zero. Their mission is to increase accessibility to trusted and actionable decarbonization resources for businesses to accelerate climate action in line with the latest good practices. The Climate Drive centralizes key decarbonization resources, focusing on implementation.

Appendix A: GEMI Scope 3 Engagement Matrix

The GEMI Scope 3 Engagement Matrix was developed in 2022 through the work of member corporate partners participating in the Scope 3 Workgroup. The purpose of this tool is to assist with internal communications between the sustainability team and other functional teams within an organization to promote alignment around specific goals, set the foundation for learning, and develop a foundation for effective communication. The GEMI Scope 3 Engagement Matrix may be found here: https://gemi.org/download/3065/

Appendix B: Progress Through Action - Decarbonizing the Value Chain

In the journey towards decarbonization, it is important to adopt a holistic lifecycle mindset, one that transcends Scope 1 and 2 emissions to encompass the full extent of their material Scope 3 impacts along the value chain. This expanded perspective is crucial for understanding and addressing the true emission footprint of the business. Most organizations are not accustomed to decision making through a lifecycle lens. ***Be cognizant of areas within the organization that may benefit from educational support to make the shift to lifecycle approaches in all aspects of the business.***

Data is the lifeblood of decarbonization efforts, and the importance of collecting it from high-quality sources cannot be overstated. Careful consideration must be given to data accuracy, avoiding reliance on missing or estimated data where possible, which could lead to erroneous decisions. ***Prioritize data sources that can be verified such as from mandated environmental reporting.***

A strategic approach that ensures resources are allocated where they can make the most significant difference is analyzing hot spots in the data. ***To identify the most impactful areas for emissions reduction, analyzing data to identify leaders and laggards helps to pinpoint opportunities for targeted and effective reduction efforts.***

Collaboration is key to driving change and meeting reduction targets. Sharing decarbonizing roadmaps, technology enhancements, and best practices can serve to advance progress around carbon emissions reduction initiatives and provide critical insights into return on investment (ROI) and potential business risks associated with actions. ***Engage in collaborative efforts within the value chain, industry sectors, carbon accounting and management systems, and other areas focused on concerted efforts towards a sustainable, low-carbon future.***

Decarbonization strategies within a company's value chain are crucial for reducing greenhouse gas emissions and contributing to sustainability goals. Here is a list of strategies that companies may implement across various stages of their value chain:

1. Supply Chain Optimization: Companies can work with suppliers to reduce emissions through more efficient transportation, logistics, and inventory management, ultimately lowering the carbon footprint of the entire supply chain.
2. Energy Efficiency: Implementing energy-efficient technologies and practices in manufacturing and operations can significantly reduce energy-related emissions. This includes upgrading equipment, lighting, and HVAC systems.
3. Renewable Energy Sourcing: Transitioning to renewable energy sources, such as solar or wind power, for operations and production can lead to a substantial reduction in emissions.
4. Product Design: Companies can design products that are more energy-efficient and have a longer lifespan. Additionally, designing for disassembly and recycling can minimize emissions associated with product end-of-life.

5. Transportation: Optimizing transportation methods and routes, using electric or hybrid vehicles, and promoting carpooling and telecommuting for employees can reduce emissions associated with transportation.
6. Materials and Procurement: Selecting materials with a lower carbon footprint, utilizing recycled or sustainable materials, and working with suppliers committed to reducing emissions are essential steps.
7. Circular Economy: Embracing circular economy principles involves reducing waste, reusing materials, and recycling, which can significantly reduce emissions across the value chain.
8. Waste Reduction: Minimizing waste generation and improving waste management practices can reduce emissions related to waste incineration and landfill.
9. Emissions Tracking and Reporting: Accurate measurement, reporting, and transparency regarding emissions at each stage of the value chain are essential for setting and monitoring reduction targets.
10. Collaboration and Partnerships: Collaborating with other organizations, industry peers, and non-governmental organizations can lead to shared decarbonization efforts, knowledge sharing, and collective impact.
11. Green Procurement: Choosing suppliers and partners that prioritize sustainability and low-carbon practices can have a positive ripple effect on the value chain.
12. Employee Engagement: Engaging and educating employees on sustainability and carbon reduction can lead to more conscious decision-making and behavior changes throughout the company.
13. Carbon Offsetting: When emissions cannot be entirely eliminated, companies can invest in carbon offset projects like reforestation, renewable energy initiatives, or carbon capture to balance out their carbon footprint.
14. Life Cycle Assessments (LCAs): Conducting LCAs on products and processes can identify hotspots for emissions and guide targeted reduction efforts.
15. Regulatory Compliance: Staying informed and compliant with relevant carbon regulations and emissions standards is essential for avoiding penalties and maintaining public trust.
16. Investment in Research and Development: Allocating resources to research and develop innovative, low-carbon technologies and processes can lead to breakthrough solutions.

Companies can choose and combine these strategies based on their specific industry, operations, and goals to drive effective decarbonization efforts throughout their value chain.