World Business Council for
Sustainable Development

WORLD
RESOURCES
INSTITUTE

The Greenhouse Gas Protocol Initiative
the foundation for sound and sustainable climate strategies

Scope 3 (Supply Chain)
Accounting and Reporting Standard

Summary of the Scope 3 Standard Road Testing Workshop
May 20 & 21, 2010

Overview

Forty-two companies are currently road testing the draft Scope 3 Standard. Over 45 participants attended the workshops on May 20 – 21, 2010 at WRI's office in Washington, DC.

The objectives of the workshop were to gather the following information from the road testing companies:

- Feedback on the practicality and usability of the draft standard
- Recommendations for revisions to the draft standard
- Feedback on how the inventory results will support business goals and drive reductions in GHG emissions

1. Key Recommendations

During the workshop, WRI/WBCSD received positive feedback on the importance of the new standard, the quality of the standard to-date, and WRI/WBCSD's transparent process for standard development. WRI/WBCSD also received many constructive recommendations for improving the standard. All feedback from the road testing workshop will be considered as the standard is revised and the second draft is released for public comment in September 2010.

This section summarizes the key recommendations and take-away messages from road testing companies.

Business Objectives

- Objectives of Scope 3 accounting and reporting vary and include: engaging suppliers and enabling supplier GHG measurement and reduction strategies; understanding the impact of value chain emissions to inform reduction targets; improving credibility and transparency in reporting; enabling a common understanding of Scope 3 emissions; and understanding risks and opportunities.
- Scope 3 inventories will help companies to drive GHG reductions by giving them information on where the major impacts and opportunities are located within the supply chain.
- Stakeholders are already asking for Scope 3 information through the Carbon Disclosure Project or on a business-to-business/customer-level. Some companies have been winning public bids due to their comprehensive GHG measurement and management strategies.
- The current standard and boundary is complex for some companies. Some suggest a tiered or phased-in approach.

Mapping the Value Chain & Scope 3 Categories

- Most agreed that the categories captured most of the activities of a company.
- Category 1, "Direct Supplier Emissions," should be separated from the other categories, as it leads to confusion about double counting. Consider moving it to a section devoted to supplier engagement and supplier data collection.
- It would be useful to include more guidance on all of the activities included in Category 2 (Purchased Goods and Services), as these will vary widely between sectors and companies. What services should be included? Discussion but no agreement on whether Category 2 (Purchased Goods and Services) should be split into two separate categories (e.g. Direct and Indirect Procurement, or Production and Non-Production Purchases, or Goods and Services) to reflect purchases that are directly connected to the goods and services produced.
- Most agreed that is it useful to have "capital goods" as a separate category as it allows users of the report to understand if there were GHG increases due to purchases of capital goods or another reason.
- The standard should add another downstream category for "processing of sold products."
- The standard should clarify the relationship between scope 2 and "category 3 – Energy-Related Activities Not included in Scope 2)" of scope 3.
- Investments, Franchises and Leased Assets need to be clarified. Many were not sure what these categories included.

Setting the Scope 3 Boundary

- The majority of attendees supported accounting for 100% of scope 3 emissions, with flexibility in data types and justification for exclusions.
- A minority supported the 80% approach included in the current draft standard.
- Guidance on capital goods needs to be clearer.
- Product use phase emissions have high uncertainty. This needs to be communicated clearly.
- Several attendees suggested not reporting a total scope 3 emissions figure, but instead only reporting by individual scope 3 category.

Supplier Engagement & Collecting Primary Data from Suppliers

- Additional guidance is needed on collecting supplier data including: avoiding confidentiality concerns; allocation of supplier data; and assessing data quality.
- Many rod testers prioritized suppliers to request data from, based on a combination of spend, emissions and relationship with suppliers (e.g. long-standing relationships prioritized over new relationships).
- Receiving data from suppliers ranged in success from nearly 100% response rate, to less than 1%. There was more success in collecting data from contract manufacturers than from other suppliers. Successful response could also be related to ease of use of customized template, as well as time/effort spent with suppliers.
- Providing strong data confidentiality provisions was helpful for road testers in collecting data from suppliers.
- Many found it difficult to find the right contact at the company to send the data collection request. Guidance on this should be included in the standard.
- The majority agreed that a standard data collection template would be useful. More work needs to be done to develop a common template provided by WRI/WBCSD that could be used and downloaded from the website, which could reduce survey fatigue. The template should be simple.
- For many, supplier engagement is an important part of Scope 3, others are more interested in understanding the impact of their upstream and downstream purchased and sold goods and services. Adding a required reporting metric on supplier engagement was seen by many as a good addition, but some preferred it as optional.
- Allocating supplier emissions is a challenge due to lack of information needed to appropriately allocate the data. Some of the data needed to perform the allocation can raise confidentiality concerns. When suppliers provide already allocated data, confidentiality concerns are reduced. However, the assumptions used for the allocation, the allocation method and the quality of the data can be unclear for the company conducting the inventory. Giving the supplier options on allocation (e.g. mass, spend, etc) can be useful. They should report the allocation method used.
- Many road testers allocated data collected from suppliers by financial spend.

Collecting Secondary Data

- The primary and secondary data types are confusing. The standard should clarify the terms and provide examples and guidance.
- The standard needs more guidance on evaluating data quality. It is difficult to know which databases to use and trust. The list of databases provided was very useful and should be maintained, updated and posted on the GHG Protocol website.
- Many suggested that the standard should encourage, but not require, a data quality assessment.
- The standard should include guidance on performing uncertainty analysis and sensitivity analysis.
- The standard should clarify if extrapolation of data within a category is acceptable.

Assurance

- The standard should include a user-friendly checklist with steps to prepare for assurance.
- More guidance on self assurance is needed. It was challenging to find people in the company that are independent and competent to provide first party assurance, as most who would be considered competent were involved in the inventory process.
- Language on assurance in the draft standard needs to be more user-friendly.
- Assurance should remain optional.
- The standard needs to explain what should be assured – the data or the processes.
- The standard should be clear that good documentation and an audit trail are essential for assurance.
- The standard should provide guidance on assuring product use phase emissions, since they are forecasted emissions and not historical. Do you assure the emissions or the assumptions?

Reporting

- Most agreed reporting emissions by individual greenhouse gas should be optional. Reporting on a CO_2-equivalent basis at a minimum should be required.
- Agreement to report global warming potential factors and emissions factors used to calculate the inventory.
- Reporting on data quality and data uncertainty are different. The standard should clarify what is required in the report. More guidance on how to qualitatively report data uncertainty and data quality would be useful.
- Most did not support reporting by primary and secondary data unless the data types are made clearer.
- Standardized reporting templates would be useful, rather than users trying to read and understand various report formats. A standardized template could be used and customized.

Additional Feedback

- Most road testing companies agreed collecting data was the most challenging part of the inventory process (collecting data internally, from suppliers and from other data sources).
- Most road testers said that they could update the scope 3 inventory annually.
- The standard should include a vision for all suppliers reporting data eventually, in a streamlined approach; so companies move from using secondary data to primary data over time.
- The standard should explain the relationship and differences between the Product standard and the Scope 3 standard, and why a company should use them for different goals.
- The standard should explain that Scope 3 includes cooperation between value chain partners, and explain how these partners interact.
- Online tools for Scope 3 calculations with default values would be useful.
- The definition of Scope 3 should be clarified (not just "other indirect emissions")
- The standard has gaps that need guidance, including: how to calculate the end of life of products; waste and recycling; disposal of sold products (needs temporal definition); guidance on biogenic carbon sequestration; and guidance on how to account for offsets,

- Case studies and examples will be useful

Next Steps

The following timeline identifies the steps between the road testing workshops and the completion of the standard in December 2010. Road testing inventory reports and feedback forms are due to Holly Lahd (hlahd@wri.org) by June 30th. WRI/WBCSD will present the feedback from the workshop and the written road testing feedback to the Steering Committee on June 28-30. This summary will be shared with all participants in the standard development process and posted on the GHG Protocol website (www.ghgprotocol.org).

Date	Activity
May 18-21	• Product and Scope 3 Road Testing Workshops
June	• Road testers submit GHG inventory reports and feedback reports • Steering Committee meeting (June 28-30, Oslo, Norway)
July/August	• WRI/WBCSD publish summary of road testing feedback • TWGs provide input on proposed revisions based on stakeholder comments, road test feedback, and steering committee feedback
September	• Release of revised drafts for 30 day public comment period
October/ November	• WRI/WBCSD compile and analyze written comments • WRI/WBCSD revise standards with input from Steering Committee and TWG members as needed
December 2010	• Finalize text of standards