

# Scope 3 and Your Road to Net Zero

Understanding where  
Scope 3 fits in your  
business's sustainability  
plans



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# Introduction

In 2019, 17% of net Greenhouse Gas emissions in the UK were estimated to be from the business sector<sup>1</sup>.

It has been more than two years since the UK legislated to hit net zero by 2050, and since then the term has become a well-known phrase, and something many organisations are striving towards.

We are already on our net zero journey and the rise of renewables across our electricity grid means UK Greenhouse Gas (GHG) emissions have fallen steadily with a 30% reduction in the last 15 years - a world-leading performance.

However, this is only the beginning, and if we are to stay on track to meet our 2030 contribution to the Paris Agreement, we will need to cut emissions by a further 40%.

At a national government level, following the publication of the 'Ten Point Plan for a Green Industrial Revolution' and the Energy White Paper at the end of 2020, we have seen several important policies and strategies published to support the delivery of the UK's net zero ambition. These include the National Infrastructure Strategy, Industrial Decarbonisation Strategy and the Transport Decarbonisation Plan. However, some key pieces of the net zero puzzle are still missing.

With more to be announced, the onus will be on everyone, including businesses, to play their part to help the UK achieve net zero.

As such, many private and public sector organisations are setting ambitious goals to cut carbon emissions across their operations.

However, setting these targets can be challenging. Many businesses are now aligning their plans through the Science Based Target initiative (SBTi), and a key part of this is putting strategies in place to reduce Scope 1, 2 and 3 emissions as outlined in the GHG Protocol.

While many businesses are comfortable with tackling the 'direct' emissions covered by Scopes 1 and 2, Scope 3 - which covers indirect emissions that occur throughout the value chain - is a much more complex area to address. While reporting on the majority of Scope 3 emissions is not yet compulsory for UK businesses, having a greater understanding of it and how it impacts your business is an important step on your road to net zero.

That is why we have produced this guide to help your business understand the role these emissions play in your wider sustainability strategy - wherever you sit in the value and supply chain.

We hope you find it useful.

## Anthony Ainsworth

Chief Operating Officer (COO),  
npower Business Solutions (nBS) powered by E.ON

<sup>1</sup> [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/957887/2019\\_Final\\_greenhouse\\_gas\\_emissions\\_statistical\\_release.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/957887/2019_Final_greenhouse_gas_emissions_statistical_release.pdf)

Section

2

# What are the three 'Scopes' and why is Scope 3 important?

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## Section

# 2

# What are the three 'Scopes' and why is Scope 3 important?

"Up to 90% of an organisation's environmental impact lies in the value chain - either upstream (supply chain) or downstream e.g. product use phase. Analysing and taking action on your value chain is therefore a vital step for any business that wants to become more sustainable and prepare for a low carbon economy<sup>2</sup>."

Firstly, it is important to look at Scope 3 in the context of Scopes 1 and 2.

GHG emissions are categorised into three groups or 'Scopes' by the most widely-used international accounting tool, the GHG Protocol<sup>3</sup>.

- **Scope 1** covers direct emissions from owned or controlled sources. This includes fuel combustion and company vehicles
- **Scope 2** covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company
- **Scope 3** includes all other indirect emissions that occur in a company's value chain. This includes business travel in non-company vehicles, as well as employee commuting. It also includes emissions arising from your purchased goods and services and both upstream and downstream transportation and distribution

Until recently, many businesses have focused on reducing emissions from their own operations and power consumption under the GHG Protocol Scope 1 and Scope 2 framework, as they are largely within a business's control. You can, for example, switch to renewable energy or commit to electrifying your fleets to help reduce these emissions. While using power from the grid will still have emissions associated with it, as the grid moves to renewables, these emissions will reduce.

However, the move towards net zero means that businesses need to look beyond this and across their entire supply and value chain, which is where Scope 3 comes in.

This is where it gets more complicated. The GHG Protocol defines Scope 3 emissions as "all indirect emissions that occur in the value chain of the reporting company, including both upstream and downstream." This means it covers everything from the goods purchased to the disposal of the products you sell. In general terms - everything that happens outside of your business's walls.

<sup>2</sup> [carbontrust.com/what-we-do/measure-and-evaluate/value-chain-and-supply-chain-sustainability](https://carbontrust.com/what-we-do/measure-and-evaluate/value-chain-and-supply-chain-sustainability)

<sup>3</sup> [ghgprotocol.org/](https://ghgprotocol.org/)

Typically Scope 3 can account for 80–90% of an organisation’s emissions. However, while the Scope 3 standard is the only internationally accepted method of measuring value chain emissions, measuring Scope 3 emissions can be complex and time-consuming.

That said, there are numerous commercial and reputational benefits to understanding Scope 3 emissions. For example, as they become more climate aware, consumers are now more likely to look at a company’s whole value chain when it comes to brand loyalty. For businesses who form the supply chain, future contracts may depend on having a strong sustainability plan in place.

That is why collaboration is crucial. With more organisations in both the public and private sectors now declaring Scope 3 as part of their decarbonisation strategies, the importance of understanding what this means for your business’s net zero plans will only grow.



**“You can offer to collaborate on solutions to reduce emissions with current suppliers, or consider changes to your supply chain. However, in most areas, suppliers will have considerable influence on how emissions are reduced through their own purchasing decisions, and product design<sup>4</sup>.”**

<sup>4</sup> [deloitte.com/uk/en/focus/climate-change/zero-in-on-scope-1-2-and-3-emissions.html](https://www.deloitte.com/uk/en/focus/climate-change/zero-in-on-scope-1-2-and-3-emissions.html)

Section

3

# Calculating Scope 3 emissions

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## Section

# 3

# Calculating Scope 3 emissions

More than 1000 companies have chosen to set emissions reduction targets aligned with climate science through the SBTi.

Targets are considered 'science-based' if they are in-line with what the latest climate science deems as necessary to meet the goals of the Paris Agreement – limiting global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C.

For companies that commit to science-based targets, if Scope 3 emissions represent more than 40% of a company's overall emissions, the SBTi requires that a target is put in place to cover the impact.



### How are Scope 3 emissions calculated?

The way Scope 3 emissions are calculated and reported will differ depending on a business's location, size and sector. For example, some sectors have high levels of business transport emissions, while others have long and complex value and supply chains.

Similarly, a lot will depend on where you sit in the value chain. The reporting business will be seeking to influence its suppliers and partners to reduce emissions to help them meet their targets. For these 'supporting' businesses, this could mean a complete change to how they operate or even design products.

The 'Scope 3 Standard', developed by the GHG Protocol, is the accepted standard for GHG emissions reporting. It recommends that companies prioritise their Scope 3 actions by identifying business activities that:

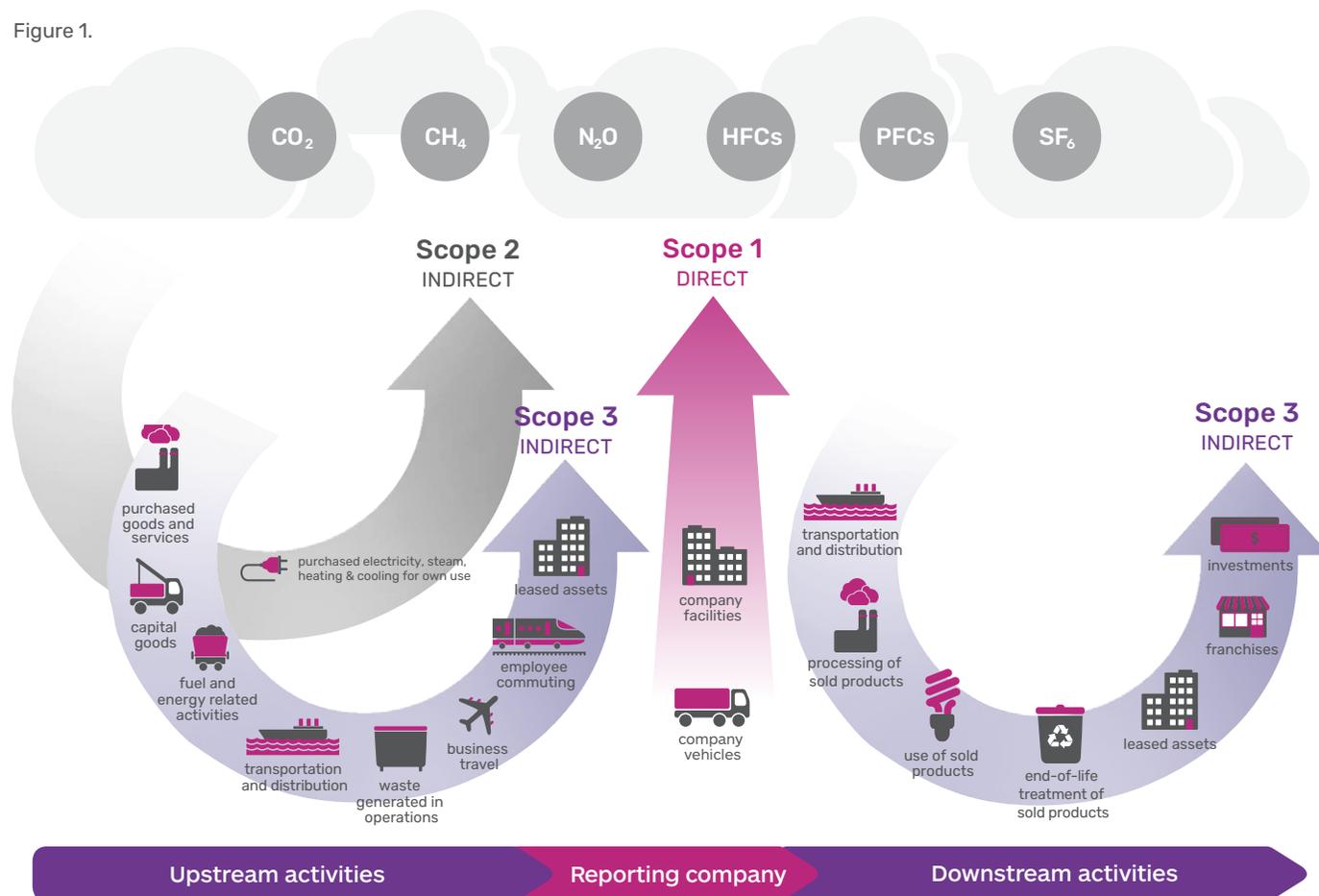
1. Are expected to have the most significant GHG emissions.
2. Offer the most significant GHG reduction opportunities.
3. Are the most relevant to the company's business goals.

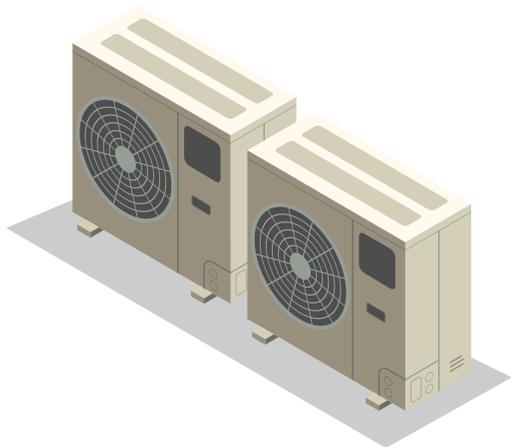
## Understanding which Scope 3 categories are relevant to your business

The first step towards effective Scope 3 reductions is deciding where to focus your efforts for maximum impact.

There are 15 distinct Scope 3 categories (Figure 1.), all relating to the indirect emissions which come from your business's value chain. Depending on what your business does, some will deliver more valuable and measurable results than others.

Figure 1.





When deciding where to focus your efforts, there are several things to consider<sup>5</sup>. An initial screening process is a great idea and can help you to create a 'Scope 3 inventory'.

For each of the 15 Scope 3 categories, begin by using high-level data to determine the contribution it makes to your overall GHG emissions. Then, go a little deeper by using the following criteria and asking the question below each one:

**Size**

Does this activity contribute significantly to your company's total anticipated Scope 3 emissions?

**Influence**

Are there potential emissions reductions (in your value chain) from this activity that could be undertaken or influenced by your company?

**Risk**

Do the activities contribute to your company's risk exposure (e.g. financial, regulatory, supply chain, product and technology, compliance, and reputational risks)?

**Stakeholders**

Is the activity considered a critical area for focus by key stakeholders (e.g. customers, suppliers or investors)?

**Outsourcing**

Is the activity one which is outsourced after being previously performed in-house, or is it an activity typically performed in-house by other businesses in your sector?

**Sector guidance**

Has the category been identified as significant by sector-specific guidance - by the government or by industry bodies?

**Spending or revenue analysis**

Is the activity one that requires a high level of spending or generates a high level of revenue (and is sometimes correlated with high GHG emissions)?

**Other**

Does measurement/reporting of the activity meet any additional criteria developed by your company or industry sector?

Wherever the answer is 'yes' to most or all of the above questions, the category should be considered a relevant focus area for your business's Scope 3 emissions reduction activity.

To help you identify focus areas, we have created a template. Completing it will give you a clearer idea of where to start and will also help you to understand the methods you should use to conduct your calculations, as priority categories will also need the most labour-intensive data collection and most accurate analysis methods.

<sup>5</sup> Criteria adapted from [GHG Protocol Technical Guidance for Calculating Scope 3 Emissions \(p12\)](#)

**Example chart:**  
**Scope 3 Category:** \_\_\_\_\_ **(from 1-15)**

Scoring Criteria	Yes - significantly	Yes - somewhat	No	Maybe/Unsure
Size (include descriptive text)				
Influence				
Risk				
Stakeholders				
Outsourcing				
Sector guidance spending or revenue analysis				
Other				
<b>Totals</b>				



### Choosing your data and calculation methods

Deciding which categories of Scope 3 emissions require close scrutiny and which data and methods to use for your calculations is not yet an exact science. It will depend on the availability and quality of data, as well as other factors which are individual to your business.

The GHG Protocol recommends that where high levels of GHG emissions can be attributed to an activity, businesses should attempt to use **primary data** from specific activities within their own value chain and **supplier-specific** calculations.

If you use suppliers, this will involve gathering product life cycle GHG emissions data and having a good insight into the quantities of the products and services used by your business.

This more precise method should also be used where a Scope 3 category is particularly important to your customers or to your business objectives, or where failing to reduce the carbon impact of an activity creates the potential for significant business risk, now or in the future.

Less precise methods may be acceptable where the contribution to GHG emissions is much lower, or where the cost and complexity of collating 'specific' data is disproportionately high.

These methods could include using **secondary data**, such as industry averages from published databases, government statistics or industry associations and/or 'non-specific' calculations that follow accepted industry guidelines.



**Top tip: keep track of the ratio of primary and secondary data used to calculate your Scope 3 emissions and set goals to increase the proportion of primary data used over time.**

Below are some examples of different types of calculation methods, which are all acceptable approaches but will deliver varying accuracy in their results:

From most accurate to least accurate

**Supplier-specific method** – this is the most accurate approach and requires your business to collect product-level, cradle-to-gate GHG inventory data from goods or services suppliers

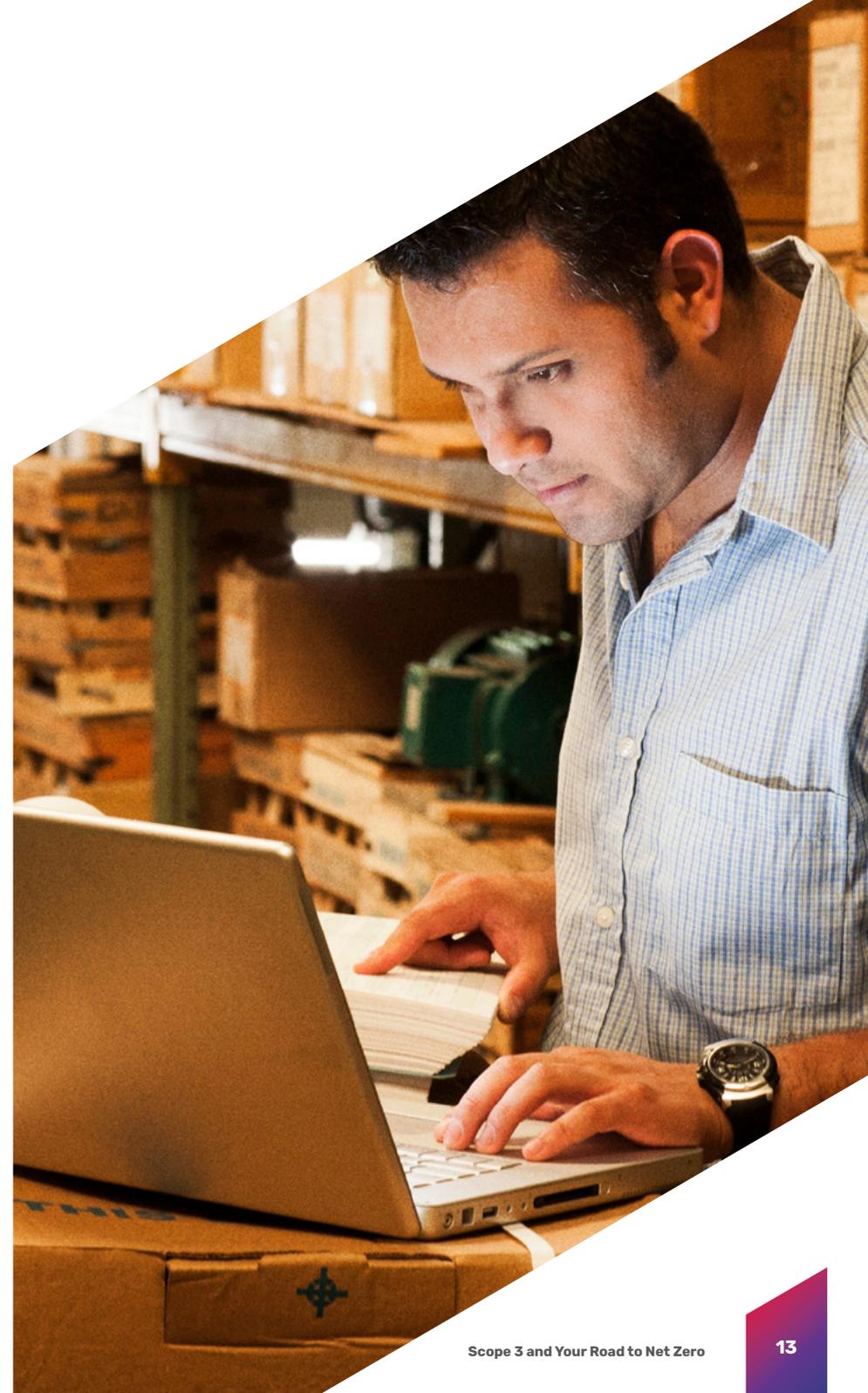
**Hybrid method** – this approach combines any available supplier-specific data with secondary data to fill the gaps

**Average-data method** – where primary data is unavailable, your business may choose to estimate emissions by collecting data on the weight or other relevant units of goods or services purchased, and multiplying by the relevant secondary emission factors, e.g. the industry accepted average figure for emissions per unit of goods or services

**Spend-based method** – alternatively, it may be more appropriate to estimate emissions by multiplying the economic value of goods and services purchased by the relevant secondary emission factors, e.g. the industry accepted average figure for emissions per monetary value of goods

#### **Be as accurate as possible**

In an ideal world, every business would have cutting-edge data-management systems and access to accurate, up-to-date information on every product and service used. However, this is rarely the case. For now, the message to businesses is to do the very best you can with the data and resources you have available.



Section

4

# Rethinking the product life cycle

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## Section

# 4

# Rethinking the product life cycle

When you begin your Scope 3 evaluation, it may become apparent that changes to product design are necessary before your business can make meaningful reductions to carbon emissions and become truly sustainable.

Circular design is a growing trend among large organisations keen to push emissions down, and environmental credentials up. This means that sustainability is built in from the start. It is recognised as having a significant role in both upstream and downstream carbon reduction, so is currently driving innovation and drawing major investment.

### Becoming circular

Product journey mapping will help you to understand what you need to change and the value those changes will deliver. While this is likely to be a fairly long process that involves multiple business functions, you can begin with five key questions:

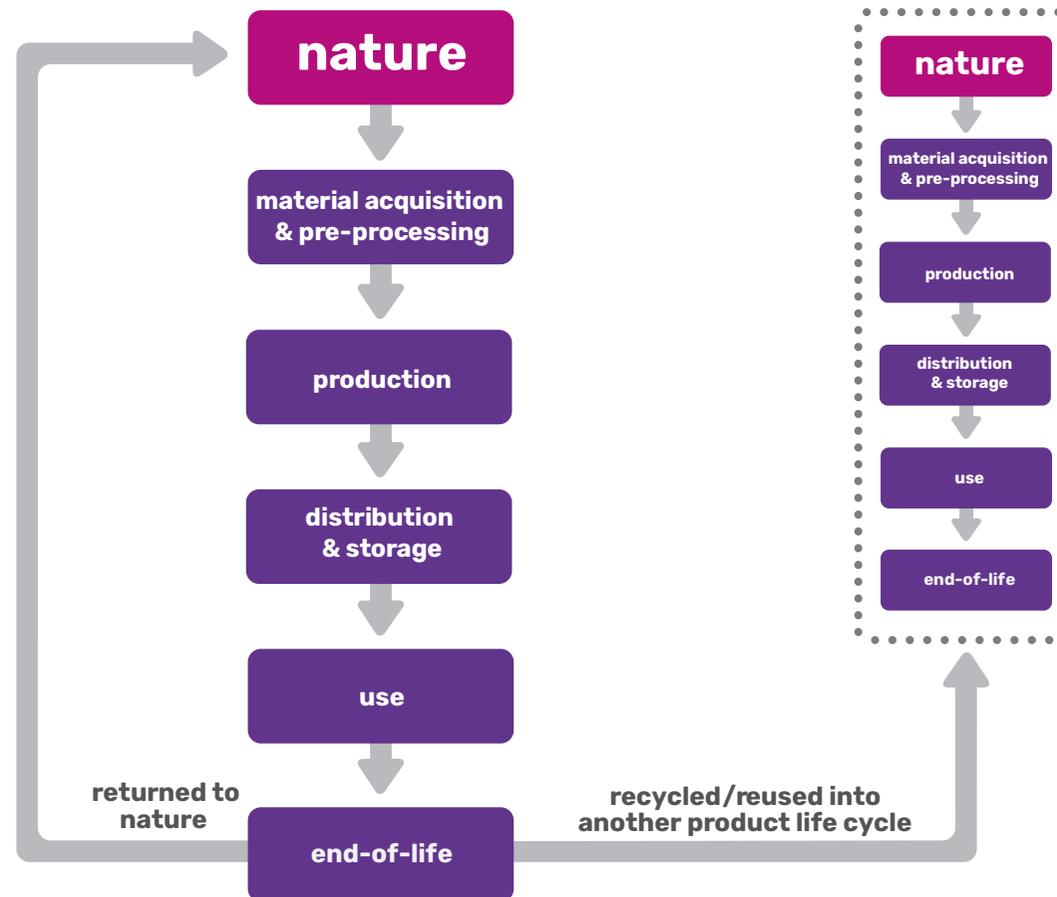




**A circular economy approach can achieve large improvements in environmental performance by redesigning systems and business models to simultaneously reduce upstream and downstream emissions...[and] could reduce up to 3.6 billion tCO<sub>2</sub> in heavy industry per year globally<sup>6</sup>.**

If the way you manufacture products is more energy intensive than necessary, if the intended use-phase of your product is shorter than is ideal and cannot easily be extended, or if your product does not have a circular pathway, you may decide to consider redesigning the product or replacing components with more sustainable alternatives.

### The five stages of a product life cycle<sup>7</sup>



<sup>6</sup> Best Practices in Scope 3 Greenhouse Gas Management (p34)

<sup>7</sup> [ghgprotocol.org/sites/default/files/standards/Product-Life-Cycle-Accounting-Reporting-Standard\\_041613.pdf](https://ghgprotocol.org/sites/default/files/standards/Product-Life-Cycle-Accounting-Reporting-Standard_041613.pdf) (p36)

Section

5

# Engaging the supply chain in carbon reduction

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## Section

# 5

# Engaging the supply chain in carbon reduction

Being able to measure Scope 3 emissions can be challenging as it involves acquiring adequate and accurate data from across the value and supply chain.

The administrative challenge of drawing data together from disparate sources and turning it into meaningful information that can be acted upon requires engaging with your suppliers.

So, how can you get them on board with carbon reduction initiatives?

The road to net zero emissions is difficult unless businesses collaborate. In fact, the overarching aim of Scope 3 is not to reduce one organisation's emissions, but to facilitate a global shift towards a low carbon economy. Every business is being called upon to take responsibility for carbon emissions that are beyond its direct control and therefore must all work together to achieve net zero.

This means that successful progress begins with the complex task of engaging a supply chain which may exist across geographical and cultural boundaries. It is no mean feat, and will create different challenges for each organisation.

However, there are some steps which may help every business make net zero progress through better collaboration, as outlined here.

### 5 top tips for better collaboration:

- 1.** Set clear expectations for your suppliers. Consider incentivising supply chain partners to improve their carbon reduction measures and their data gathering methods. Have a clear criteria for any new suppliers you enlist, as well as internal procurement targets that have environmental and ethical standards built in.
- 2.** Set up interviews with suppliers to better understand their processes and people, and to get a view on where improvements could be made, as well as their obstacles to carbon reduction.
- 3.** Facilitate workshops with key suppliers to help them understand where action could be taken on carbon reduction. This will also provide a forum for peer-to-peer support and will help to foster innovation and encourage an exchange of best practices.
- 4.** Provide co-branded training materials for your suppliers' teams, to help them spread the word on net zero and get everyone behind the efforts you are making to reduce carbon.
- 5.** Get your internal stakeholders on board right from the outset. The best results will be achieved by having input and oversight from right across your business, including procurement teams and the c-suite. Your net zero strategy needs to align with broader business objectives if you want to ensure that everyone is invested in driving carbon reduction action forward.

Section

6

# The benefits of being a Scope 3 leader

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## Section

# 6

# The benefits of being a Scope 3 leader

We know that putting together a sustainability plan can be time consuming, particularly if you do not have an in-house expert dedicated to that role. Add in the complexities of calculating Scope 3 emissions, and the task can be daunting.

However, there are several benefits to taking a proactive approach to Scope 3, wherever you sit in the value and supply chain.

### **Commercial**

The decision to take sustainability seriously is a commercially astute one for businesses of all sizes.

The SBTi tells us that companies committed to the initiative are demonstrating that creating a climate-secure world goes hand-in-hand with successful business operations. Therefore, having a robust strategy across the whole supply chain is as much about economic resilience as it is about reducing carbon emissions as it will also help to protect your business from future risk.

For those within the value chain of a public sector or a larger corporate organisation, it will increasingly mean the difference between winning a supply tender or losing it.

As well as providing an advantage over the competition, having a robust sustainability plan could also help to secure investment and drive innovation, ultimately making your business more resilient for the future.

### **Reputational**

The term 'greenwashing' has become more common as consumers are now more willing to 'call out' disingenuous corporate behaviour. Any carbon reduction strategies therefore need to be ambitious but based on credible data. By including Scope 3 emissions as part of your reporting, it will demonstrate that your business is willing to go beyond Scopes 1 and 2.

Even if your business does not have pressure to prioritise sustainability from within the supply chain, research has shown that potential customers are more likely to buy from a brand with strong ethical and environmental values. Therefore, it can also be an important differentiator for your brand, helping you stand out in a crowded marketplace.

### **Talent acquisition**

In our 2020 report, 'Your Business Blueprint - The Road to Net Zero', respondents fed back that one of the benefits of having a strong sustainability strategy was attracting the next generation of talent. Potential new recruits are increasingly assessing a company's climate commitments as well as more 'traditional' criteria, so including Scope 3 emissions could be a key differentiator.

Section

7

# Scope 3 FAQs

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## Section

# 7

## Scope 3 FAQs

### 1. What is included in Scope 3?

Scope 3 covers all of an organisation's non-owned, indirect emissions. There are 15 different categories of Scope 3 emissions, and these occur both upstream and downstream in the value chain, from the sourcing of materials right through to the way your product is used and disposed of.

### 2. Am I legally obliged to report on Scope 3 emissions?

In the UK, unless you are a 'large' unquoted or limited liability partnership (LLP) business, you are not required by law to report on your Scope 3 emissions. Large businesses that fall within the requirements of the Streamlined Energy and Carbon Reporting (SECR) scheme do need to report on the carbon emissions that occur from fuel burned during business travel where the car is owned by an employee, or is rented.

### 3. How does Scope 3 fit with SECR?

SECR makes annual carbon reporting mandatory for all listed UK businesses or businesses that fit two or more of the following criteria: more than 250 employees; an annual turnover greater than £36 million; an annual balance sheet greater than £18 million.

Under SECR, reporting under Scopes 1 and 2 is mandatory but Scope 3 remains voluntary, the exception is the reporting of Scope 3 carbon emissions that occur from fuel burned during business travel where the car is owned by an employee, or rented. It is now mandatory to report under this category.

### 4. How does Scope 3 fit with the Energy Savings Opportunity Scheme (ESOS)?

Similarly to SECR, the majority of Scope 3 reporting is not required under ESOS, which focuses on energy use within an organisation rather than carbon emissions. However, many businesses that fall within the scope for ESOS will now also be required to report under SECR, where emissions associated with business travel will need to be reported. (See above).

### 5. How do I calculate my Scope 3 emissions?

How you calculate your Scope 3 emissions will depend on the activities your business carries out and on the availability of data. You will need to engage your value and supply chain and gather data on their owned emissions under Scope 1 and Scope 2, as well as any information they can provide on their Scope 3 emissions.

The calculations can become very complex, using accepted industry averages where specific data is not available, so it may be helpful to call on expert help. A good starting point is to identify which of the 15 Scope 3 categories will deliver the highest carbon savings and will fit best with your business objectives. We have created a template in this guide to help you with this.



# How we can help

If your business is new to calculating emissions across all three Scopes, or has taken the first steps and would like to make bigger strides, it can help to get an expert on board. It will not only help you ensure you are focusing your efforts in the right place, but will also provide assurance that your calculations and measurements are correct. This will give you a head start when it comes to carbon reporting, whether that's for supply chain partners or compliance purposes.

However ambitious your net zero goals are, our team of experts can help. Get in touch to find out how we can support you on your road to net zero.

Contact us:



[Request a call back](#)



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