

# A practical guide to Scope 3

The what, the why and the how of all upstream and downstream Scope 3 categories for complete carbon reporting



You may think of Scope 3 as emissions generated from everything that goes into your business to allow it to operate (upstream), and emissions generated from the use of the products or services you provide (downstream).

## Scope 3

Just when you've got to grips with the various fuels, refrigerants, and electricity demands of Scopes 1 and 2, Scope 3 - and its 15 separate categories - looms large. To date, reporting Scope 3 has been almost entirely optional, but is now increasingly expected in carbon reporting. So, what is it? Why should you report on it? *How* do you report on it? Read on for a better idea of how Scope 3 relates to your business.

## Executive summary

- Scope 3 is a series of mutually exclusive activity categories structured to capture emissions from **business and consumer activities over which you have indirect control, but some influence**. A degree of double counting between separate entities is expected using Scope 3.
- The Green House Gas Protocol does not mandate reporting of Scope 3 (although it strongly encourages it). However, **Streamlined Energy and Carbon Reporting** requires disclosure of **energy use relating to business travel** in rented and employee-owned vehicles, where the reporting company is responsible for purchasing fuel, for large, quoted companies and LLPs.
- As of January 2023, the **EU Sustainable Finance Disclosure Regulations Principle Adverse Impacts will include Scope 3** emissions within a Financial Market Participant's portfolio.
- Reporting Scope 3 increases **transparency and completeness of disclosure**, thereby increasing **consumer and partner trust**, and **joint opportunities for reduction** action.
- Completing a **Scope 3 inventory of your business** can be aided by mapping.
- The **GHG Protocol provides free resources** for [measurement](#) and [reporting](#) requirements.

## What is Scope 3?

Scope 3 is a series of categories structured to capture emissions largely generated from business activities you depend on but have indirect control over. These are emissions that are generated by services and products provided by another company to you, or by your consumers using your product or service.

Due to the nature of reporting on emissions in large supply and value chains, the emissions listed in your Scope 3 may be partially or fully accounted for in the Scopes of other companies and vice-versa. However, by measuring and reporting Scope 3 alongside Scopes 1 and 2, you should capture *all* emissions you are both directly and indirectly responsible for in your business.

Scope 3 categories are further divided into upstream and downstream Scope 3 impacts. Think of upstream categories as emissions from everything that goes into your business to allow it to operate, and downstream as emissions from activities that come from the use of the products or services you provide.

Category	Description	Example	GHG Minimum boundary
1: Purchased goods and services	Emissions attributable to extraction, production and transportation of goods routinely purchased by you, as well as services purchased by you, to enable your business to function.	Raw materials, ingredients, or parts purchased by you which you use in the product you sell. Services provided by external entities such as legal, marketing and advertising, cleaning, security, IT, would also be included here. This can be measured by applying your spend with suppliers, to their intensity metric of emissions per £.	All upstream (cradle-to-gate) emissions of purchased goods and services.
2: Capital goods	Emissions from energy use in extraction, production, and transportation of capital goods. This is sometimes referred to as 'embodied carbon'. This can be measured through contacting the supplier for emissions information per product, or less accurately through secondary research.	New hardware such as PCs, equipment, machinery, vehicles. These are typically 'one off' purchases, and are therefore not included in purchased goods, which tend to be routine purchases. These can be identified through significant CapEx.	All upstream (cradle-to-gate) emissions of purchased capital goods.
3: Fuel and energy related activities	The energy used in extraction and production of fuel and electricity and energy lost in transmission and distribution of electricity between where it is generated and where it is used (by you).	This value is autogenerated based on your fuel and electricity disclosure in Scope 1 and 2. You do not need to actively provide additional data to complete this category.	All upstream emissions from raw material extraction up to but excluding point of combustion of fuels or combustion by a power generator and T&D loss including combustion emissions.
4: Upstream transportation and distribution	The emissions from energy used in the transportation, distribution, and storage of goods between your supplier and you, and between your own facilities. Includes transport and distribution services purchased by you for both inbound and outbound logistics.	Fabric is shipped from your supplier in Denmark to your warehouse in Liverpool, then driven to your factory in Leeds where t-shirts are made. Products are then transported to a storage warehouse. At point of sale, you purchase distribution services from a third party to ship the product to your customer.	Scope 1 and scope 2 emissions of transportation and distribution providers that occur during use of vehicles and facilities (e.g., from energy use). <i>Optional: The life cycle emissions associated with manufacturing vehicles, facilities, or infrastructure.</i>
5: Waste generated in operations	Emissions resulting from the energy required both to process, treat, recycle, and dispose of the material and water waste you have generated.	Your waste provider provides you with an invoice for the tonnes of general waste you have produced and tells you what percentage is combusted or sent to landfill. You weigh the amount of paper and plastic you produce for recycling in your office each week.	The scope 1 and scope 2 emissions of waste management suppliers that occur during disposal or treatment. <i>Optional: Emissions from transportation of waste.</i>
6: Business travel	A measure of the fuel and electricity use in journeys and hotel stays for business-related activities.	You take a taxi from your home to the airport and record the number of miles between the two, then fly first class from London Heathrow to Los Angeles for several meetings, and back. Whilst there, you stay in a hotel for 3 nights. When you get back, you take the train home.	The scope 1 and scope 2 emissions of transportation carriers that occur during use of vehicles (e.g., from energy use). <i>Optional: The life cycle emissions associated with manufacturing vehicles or infrastructure.</i>
7: Employee commuting	Emissions used in transport of your employees from their home to their place of work. This can be estimated using employee survey data.	You send out an employee survey which asks employees to report how they get to work and how far their journey is. The emissions per employee or per transport type can be estimated and extrapolated based on number of days travelled to the office in a set timeframe.	The scope 1 and scope 2 emissions of employees and transportation providers that occur during use of vehicles. <i>Optional: Emissions from employee teleworking.</i>
8: Upstream leased assets	Emissions generated in the operation of a leased asset you use, as a lessee, if not included in Scope 1 and 2.	You lease a building, and you have no financial or operational control of energy use. You don't pay the bills directly or choose when lighting and heating etc are in use. This energy use is recorded here. If you do have financial or operational control, then this would be reported in your Scope 1 and 2.	The scope 1 and scope 2 emissions of lessors that occur during the reporting company's operation of leased assets (e.g., from energy use). <i>Optional: The life cycle emissions associated with manufacturing or constructing leased assets</i>

9: Downstream transportation and distribution	Emissions from transport and distribution of product between you and the end consumer <b>if you have not paid</b> for this service. Emissions from retail and storage are included here <b>if you do not own</b> the facilities or vehicles used.	You have sold your t-shirt and the customer pays for it to be sent to them. It is transported from your storage warehouse to a packing facility, and then on to your customer. If your t-shirt is sold by another company in their shop, the retail emissions would be accounted for here.	The scope 1 and scope 2 emissions of transportation providers, distributors, and retailers that occur during use of vehicles and facilities (e.g., from energy use). <i>Optional: The life cycle emissions associated with manufacturing vehicles, facilities, or infrastructure.</i>
10: Processing of sold products	Emissions generated by a downstream company in the processing of an intermediate product you have sold, which is not the end product sold to a consumer.	You sell fabric used to make t-shirts. The emissions generated from energy used in the factory which turns your fabric into a t-shirt would be included here.	The scope 1 and scope 2 emissions of downstream companies that occur during processing (e.g., from energy use).
11: Use of sold products (and services)	Emissions from the energy used to use or maintain a product you have sold.	If you have sold a washing machine or car, you can estimate electricity or fuel directly used by these products in their lifetime (direct use of energy). If you have sold a t-shirt, you can collect data on consumer use, such as how many times it would be washed, dried, and ironed in its lifetime (indirect use of energy).	The direct use-phase emissions of sold products over their expected lifetime (i.e., the scope 1 and scope 2 emissions of end users that occur from the use of: products that directly consume energy (fuels or electricity) during use; fuels and feedstocks; and GHGs and products that contain or form GHGs that are emitted during use). <i>Optional: The indirect use-phase emissions of sold products over their expected lifetime (i.e., emissions from the use of products that indirectly consume energy (fuels or electricity) during use).</i>
12: End-of-life treatment of sold products	Emissions generated in the treatment and disposal of a product you have sold at the end of its life.	If you have sold 10,000 t-shirts, you can collect data on consumer end-of-life treatment of the t-shirt. When you know what % are likely to be recycled, or end up combusted or in landfill, you can estimate the total emissions generated from disposal.	The scope 1 and scope 2 emissions of waste management companies that occur during disposal or treatment of sold products.
13: Downstream leased assets	The emissions generated in the operation of assets you own and lease to others, if not included in your Scope 1 and 2.	The fuel and electricity used to heat and light a building or vehicle you own and lease to another person or company. You can request this activity data from your lessee.	The scope 1 and scope 2 emissions of lessees that occur during operation of leased assets (e.g., from energy use). <i>Optional: The life cycle emissions associated with manufacturing or constructing leased assets.</i>
14: Franchises	The emissions generated in the operation of a franchise, which are reported in the Scope 1 and 2 of the franchisor.	The fuel and electricity used to heat, light, and run a restaurant, shop or hotel etc location that operates as a franchise of your business.	The scope 1 and scope 2 emissions of franchisees that occur during operation of franchises (e.g., from energy use). <i>Optional: The life cycle emissions associated with manufacturing or constructing franchises.</i>
15: Investments*	The emissions generated in the operation of investments, including debt (with and without known use of proceeds), equity (subsidiary, associate, joint venture) and project finance, whereby you have provided finance as a service.	You hold 25% equity in/own 25% of an investee company – you therefore proportionally include 25% of their total emissions in this category if you have no operational/financial control over the investee.  You have provided long-term financing, acting as a sponsor (equity investor) or financier (debt investor) of e.g., an infrastructure project.	Proportional Scope 1 and 2 emissions from equity investments into companies or projects using equity share approach where the company does not have control over the investee. Where there is control, these would be reported in the reporting company's Scope 1 and 2. <i>Optional: Scope 1 and 2 emissions of the debt investment/service investee, and emissions from managed investments and client services and other investments.</i> Projected lifetime emissions financed as an initial sponsor/lender during the reporting year should be reported separately.

\*Detailed guidance covering differences in equity, debt, managed services and project finance is available in the [Corporate Value Chain \(Scope 3\) Accounting and Reporting Standard](#)

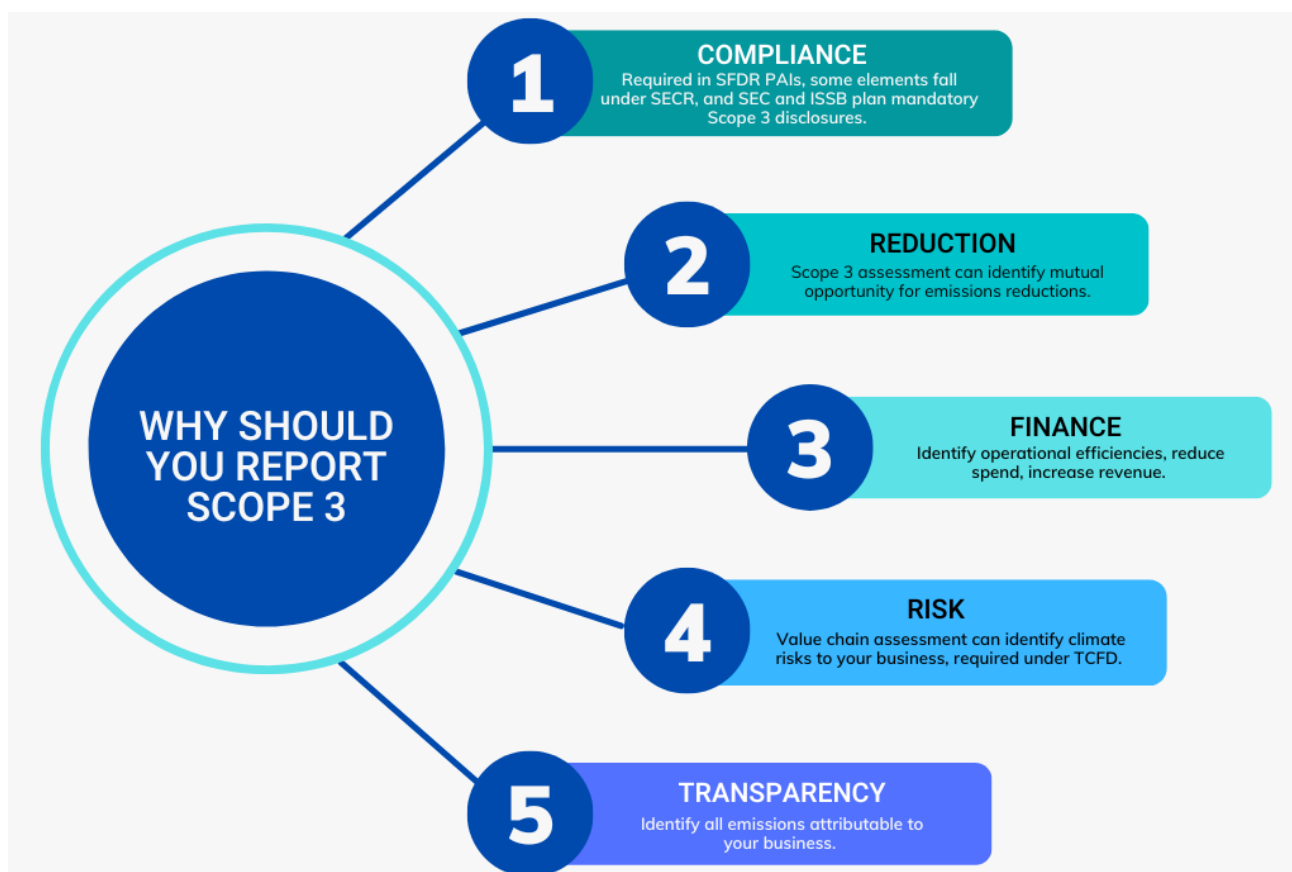
## Why should Scope 3 be reported?

### Compliance

Certain Scope 3 elements fall under Streamlined Energy and Carbon Reporting (SECR) requirements. Alongside Scope 1 and 2, large unquoted companies and LLPs must disclose energy use and related emissions from business travel in rental cars or employee-owned vehicles, where the company is responsible for purchasing the fuel. Related emissions have the potential to fall under Scope 3 Categories 3 (Fuel and energy related activities) and 6 (Business travel).

From 1<sup>st</sup> January 2023, reporting on Scope 3 is also required under Sustainable Finance Disclosure Regulation (SFDR) for Financial Market Participants (FMPs). Scope 3 impact of an FMP's portfolio is now included under disclosure of SFDR Principle Adverse Impacts (PAIs).

Outside of the UK reporting requirements, the US Securities and Exchange Commission (SEC) plans to mandate large companies to disclose their indirect Scope 3 emissions in their annual reports. On top of this the [International Sustainability Standards Board](#) (ISSB) have stated they are releasing new requirements for reporting standards which will include mandatory Scope 3 disclosures.



### Interlinked transparency, reduction, and related financial value

By highlighting overlap in emissions generation in the supply and value chains, Scope 3 encourages joint effort in emissions reduction. Indeed, it is expected that you have some influence over the sources of emissions in your Scope 3. If your supplier reduces their emissions, then your total emissions also reduce, and vice-versa where you are the supplier. This adds financial value by increasing your competitiveness where sustainability is a deciding factor in supplier selection, a trend which is gathering momentum.

Following GHG Protocol recommendations for transparency and completeness, in endeavouring to report Scope 3 in your emissions totals, you may also increase your appeal to consumers. After all, the wider public are becoming more aware and scrutinous of carbon accounting claims, driven by recent cultural and legislative crack downs on greenwashing.

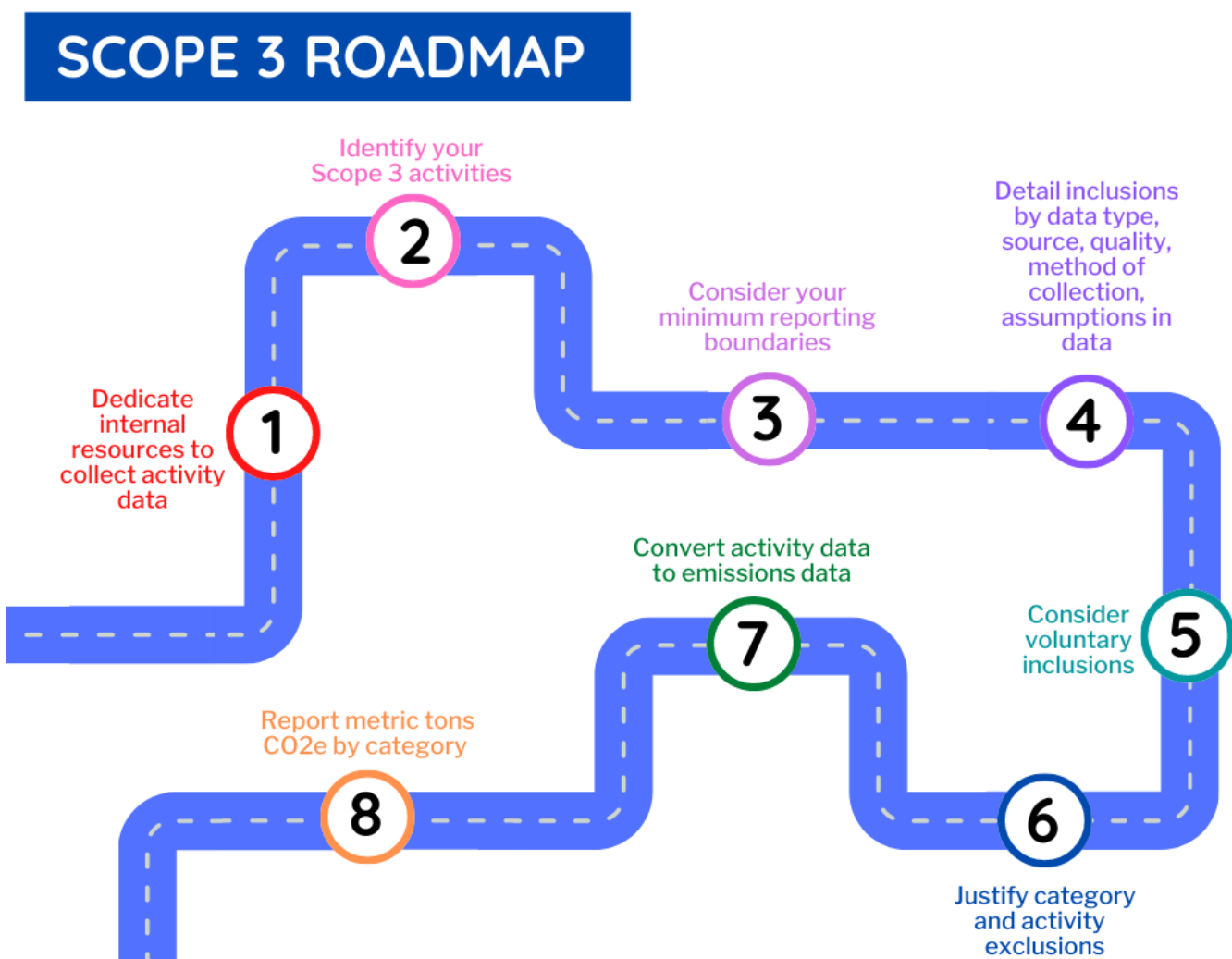
Reduction measures are additionally underwritten with more easily quantifiable financial value – for example, renewable energy can be cheaper than fossil fuel use, and therefore lower your energy and fuel bills.

## Climate risk value

Mapping your supply and value chain provides opportunities to identify and address climate risk. This may be transition risk i.e. your exposure to shocks from climate mitigation impacts. It may also be physical climate and related geopolitical risk such as extreme weather events, which may affect your business operations directly, or indirectly through impact on your supply chains. Understanding these risks can make your business more resilient to shocks; documenting this is a requirement of the Task Force on Climate-Related Financial Disclosures (TCFD).

## How do you measure and report Scope 3?

Scope 3 is complex. It encompasses almost all inputs and outputs to your business, so a practical approach to measuring it is necessary. First and foremost, it is recommended that you dedicate internal resource to the task and utilise a data management plan.



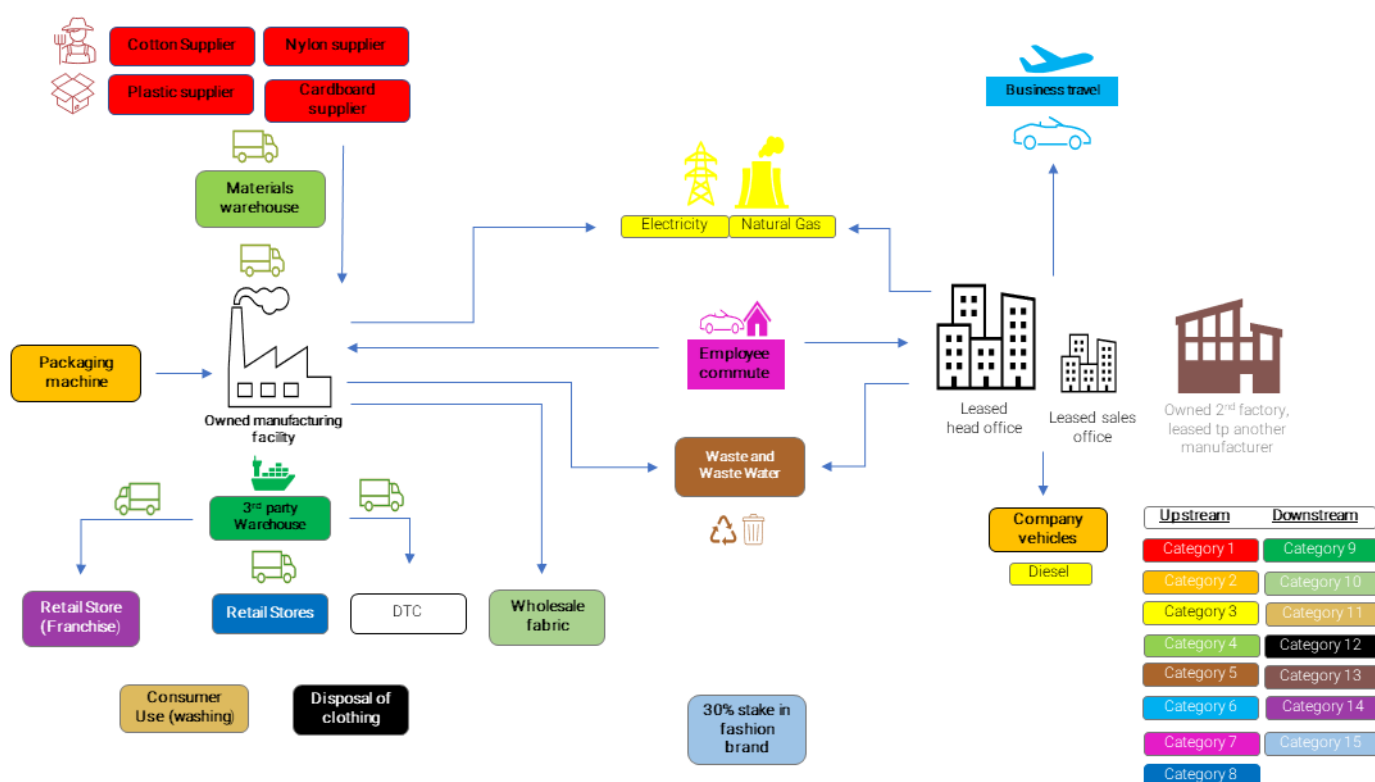
## Measurement

To identify activity data, you can simply run through the list of categories and make notes of what activities apply to your business under each. A Scope 3 worksheet is available from Carbon Responsible to assist you in this at the end of this article. The GHG protocol lists the [minimum boundaries and optional inclusions](#) (what you must and what you can choose to report) for each category. You can measure activity data and then internally, or through a third party, convert this to emissions values using appropriate conversion factors.

The GHG Protocol advocates ‘mapping’ your business to identify where Scope 3 categories may apply. You can sketch this out on paper, or digitally. You can then label or colour code parts of your business to identify categories.

- You can start by noting owned and leased physical locations, such as offices, warehouses, and factories.
- Identify how these link together, through transport, to your employees, suppliers and customers (if applicable). You can add commuting, business travel, and inbound and outbound freight.
- Identify tangible inputs of purchased goods and services, and capital goods to your business, as well as outputs such as waste and energy used to process, use and dispose of your product.
- Add businesses linked to yours – investments and franchises, and operation of assets you lease.

Supply Chain Emissions Map – Clothing Company



## Reporting

It is recommended to use the [GHG Protocol Inventory Reporting Template](#) in disclosure of your Scope 3. This includes noting Scope 3 activities included in the report, as well as noting and justifying any Scope 3 exclusions. For each reported category, descriptions of data types and sources, data quality, and emission calculation methodologies and assumptions should all be methodically noted. The total emissions per category should be reported in metric tons CO<sub>2</sub>e, independent of GHG trades/offsets and biogenic emissions, which should all be reported separately.

**The diverse nature of businesses can raise questions when trying to understand what exactly applies to yours using general guidance. For dedicated guidance and assistance measuring your business’ Scope 3 impact, contact [info@carbonresponsible.com](mailto:info@carbonresponsible.com) or [visit our website](#). We simplify carbon measurement and reporting.**



## **FAQs**

### **How do I report my emissions if I'm renting or leasing and my lessor pays the bills?**

Energy use such as electricity and gas may be part of a service fee or included in your rent/lease. Where you report energy use in a rented/leased building depends on the control approach you take. If you take an operational control approach, i.e. you take ownership of your energy use because you can control how much energy is used, you would report these emissions in your Scope 1 and 2.

If you take a financial control approach, and you pay directly for your energy use, you would also report this under Scope 1 and 2. If however, you do not directly pay your energy bills, you would report these emissions in Scope 3 Category 8: Upstream leased assets.

You may apportion energy use based on the percentage or square footage of building occupied by you. You should apply the same control approach (financial or operational, and equity where appropriate) across all reporting, including fuel and energy use relating to vehicles and machinery.

### **What is meant by material use?**

Material use covers goods such as product packaging, and stationary. The associated emissions are reported under purchased goods and services and include emissions from the extraction and production of the raw material and processing into subsequent products.

The same good may be reported twice, for example, paper bought would be reported in Category 1: Purchased and services, and then again, once used, in Category 5: Waste generated in operations. This is because Category 5 instead accounts for emissions generated in the disposal and processing of waste materials, rather than their production.

### **How much should I report?**

It is accepted that mapping 100% completeness in a company's value chain is not possible. However, where data is available, you should always adhere to the GHG minimum boundaries when reporting.

Scope 3 considers materiality thresholds. The material threshold is usually 5% of the total inventory, above which emissions are considered significant. Emissions should be included if they are significant.

Emissions can be assessed for inclusion against the influence the company may have on reducing the emissions, whether they contribute to the company's climate transition or physical risk exposure, whether they are deemed critical by stakeholders, whether the activity is in-house or outsourced and the level of control around this, and whether there is sector-specific guidance to follow.

Working out whether a source of emissions is above or below 5% of the total, already requires data collection and calculation. As a general rule, it is better to include as much data as is available, in line with the GHG accounting principles of transparency and completeness.

### **What should I focus on?**

If you must prioritise Scope 3 emissions assessments due to limited internal resources for example, once you have identified all relevant sources, it is recommended to start with emissions sources/activities that are likely to have the largest impact on your total emissions, or which you have the most control over. Remember to disclose exclusions in your reporting.