

FINAL - Scope 3, Boundaries & Historical emissions

This document lays out the draft suggestions from the working group focused on Scope 3, Boundaries and historical emissions.

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Summary of Recommendations and Principles

This section provides a summary of general recommendations and principles to provide an overview. These are further detailed and expanded upon in coming sections.

Principles guiding the criteria recommendations

Principle A. Target-setting : *Minimum criteria should set a high standard of net zero target setting across scopes.*

Principle B. Data Inclusion & availability: *Criteria should drive forward increasing target quality and coverage to enable sufficient action and credibility. In support of this data coverage, continuous data improvements, and greater data quality and comparability is needed.*

Principle C. Reduction Priorities: *Scope 3 reductions should be prioritized for those organizations with more material Scope 3 emissions.*

Principle D. Avoided Emissions, induced effects - going beyond scope 3: *Criteria should differentiate between Scopes 1-3 and indirect impacts leading to emission reductions, so that avoided emissions and demand reduction - although important - are kept separate from Scope 3.*

Principle E. Cumulative Historical Emissions: *In general the historical emissions should be included but framed as a leadership practice rather than a starting line criteria, and focused on driving forward-looking action.*

Principle F. Criteria Operationalization: *Criteria should encourage early top-level leadership involvement at the organisation level to drive forward best anchoring and practices for Scope 3 target setting and monitoring.*

Principle G. Inclusiveness of SMEs: *Criteria should be phrased with SMEs in mind without diminishing ambition for larger organizations. If those cannot be combined separate criteria/interpretations may be needed.*

Principle H. Jurisdictions: *Criteria should be phrased with subnational jurisdictions in mind without diminishing ambition for businesses and investors. If those cannot be combined separate criteria/interpretations may be needed.*

For the Minimum criteria

A1. Recommendation for Target Setting: Net Zero Targets are long-term targets and should adopt inclusive boundaries (covering at least 90% of emissions including scope 3 upstream and downstream).

A2. Recommendation for Target Setting: Clarify whether scope coverage in target setting relates separately to interim and long term targets:

B1. Recommendation for Data inclusion and Availability: On the path to full data coverage, in the absence of immediately available primary data, secondary data such as proxies, and estimates of hotspots may be used as a basis for the target and identification of decarbonization levers, so as to ensure that measurement of scope 3 emissions does not delay action or narrow the target scope.

B2. Recommendation for Data inclusion and Availability: Transparently report and use credibly sourced and comparable proxies and methodologies. Moreover, any exclusion of emissions from quantitative scope 3 targets above the proposed 90% inclusion (in line with SBTi) should be avoided or explained if unavoidable.

C1. Recommendation for Reduction Priorities: To deliver on their targets, organizations should focus on reducing emissions for Scope 3 emissions if those constitute a material percentage of total emissions, while never neglecting Scopes 1 and 2.

C2. Recommendation for Reduction Priorities: Organizations should focus their emissions reduction efforts on hot spots, while not neglecting to address the cumulative effects of other contributions.

D1. Recommendation for Avoided emissions, induced effects and going beyond scope 3: The boundary between Scope 3 and emissions avoided or incurred outside of the value chain (sometimes referred to as scope 4 or scope X) must be kept separate in target setting and monitoring, given very worrying practice of some companies calculating avoided emissions and then claiming neutrality by using those to offset the rest of their Scope 1-3.

G1. Recommendation for minimum criteria and leadership practice: Criteria could be more inclusive of SMEs without significant data collection resources by encouraging the use of proxy and industry level data as a basis for target setting and monitoring.

H1. Recommendation for Jurisdictions: Minimum target scope for cities should be scope 1 and scope 2.

For the Leadership practices

B3. Recommendation for Data Inclusion and Availability: Targets should, where possible, refer to primary or representative emissions data from actors within their value chain (including S1, S2 and S3 upstream and downstream emissions). If such data are unavailable, organizations should use secondary data including reasonable proxies based on precautionary principles while setting targets for greater data completeness and expanded coverage.

B4. Recommendation for Data Inclusion and Availability: Organizations should develop and publish measurable plans to narrow data gaps in their targets and target monitoring, expand coverage of Scope 3 emissions, and improve overall data quality over time.

D2. Recommendation for a Avoided emissions, induced effects and going beyond scope 3: Encourage organizations to publicly report negative impacts related to the company that do not fall under Scopes 1-3, and to identify opportunities to drive these down.

E1. Recommendation for Cumulative historical emissions: Historical emissions should be used primarily to guide ambition in setting net zero target dates and accelerate decarbonisation efforts. If compensated they should be done so with like-for-like removals.

E2. Recommendation for Cumulative historical emissions: Historical emissions compensations, if they are being taken, should help to close climate finance gaps.

E3. Recommendation for Cumulative historical emissions: Recommendation to create three levels of scenarios for dealing with cumulative historical emissions {tentatively since year 19xx/20yy}.

F1. Recommendation for Criteria Operationalization: Criteria should encourage proactive engagement by top-level leadership with decarbonisation efforts across the value chain and operations.

G1. Recommendation for Inclusiveness of SMEs: Criteria could be more inclusive of SMEs without significant data collection resources by encouraging the use of proxy and industry level data as a basis for target setting and monitoring.

H2. Recommendation for Jurisdictions: Leadership practices should remain territorial but the advanced leadership or pace-setters should be encouraged to include scope 3 emissions.

For the Interpretation guide

B5. Recommendation for Interpretation Guide: Scope 3 targets should cover all 6 GHGs separately as set out by the GHG Protocol.

D2. Include advertised emissions in scope 3.

For the Lexicon

B3. Define *primary, representative* and *secondary data*. Refer back to GHG Protocol or other recognized standard¹ and outline scenarios in which failing to access primary data is reasonable

D1. Define *enabled savings/avoided emission* and *induced effects* so organizations have a common language for discussing impact outside of the value chain.

¹ Based on the [GHG protocol](#) *Primary Data* is defined as “Data from specific activities within a company’s value chain” and *Secondary Data* is defined as “Data that is not from specific activities within a company’s value chain”.. Secondary data includes industry-average data (e.g., from published databases, government statistics, literature studies, and industry associations), financial data, proxy data, and other generic data. Reference Table 7.7 in the GHGP scope 3 standard about moving up the levels of the hierarchy.

The GHG protocol further states “In certain cases, companies may use specific data from one activity in the value chain to estimate emissions for another activity in the value chain. This type of data (i.e., proxy data) is considered secondary data, since it is not specific to the activity whose emissions are being calculated.” *In this document such data are referred to as Representative Data to denote that these are different from secondary data by being collected from organizations within the boundaries of the organization.*

ISO describes Primary Data as “quantified value of a process or an activity obtained from a direct measurement or a calculation based on direct measurements” and Secondary Data as They also use the term Site-specific Data for “primary data obtained within the organizational boundary” and considers this a sub-category of primary data. Secondary Data is defined as “data obtained from sources other than primary data”. Site-Specific and Representative Data seems close.

For Operationalising the Criteria

F1. Recommendation for leadership practice: Criteria should encourage proactive engagement by top-level leadership with decarbonisation efforts across the value chain and operations.

F2 Support the update of management standards and standards related to products and processes to mobilize decarbonisation across products and processes in the value chain

F3. Work with the UNFCCC to encourage national frameworks and data systems / capacity for scope 3 emissions reporting for subnational governments

Recommendations based on discussions regarding businesses and investors

A. Target-setting

Principle: Minimum criteria should set a high standard of net zero target setting across scopes.

A1. Recommendation for Minimum Criteria: Net Zero Targets are long-term targets and should adopt inclusive boundaries (covering at least 90% of emissions including scope 3).

- Rationale: Most of the working group felt that Race to Zero minimum criteria for inclusion of scope 3 emissions should be at least as ambitious as the SBTi Net Zero standard already at the starting line (i.e. to stay **in line with or exceed the SBTi threshold of 90% of emissions**)^{2,3}. There were some limited concerns that this put too high a burden on companies however others emphasized that, as pledging Race to Zero is a voluntary commitment, this ambition was appropriate, and that it is important that Race to Zero as a leading initiative hold the highest standard on net zero definition. Others, including Andreas Hoepner who objects, for the record, views the SBTi threshold as too low rather than too high.
- The term “material” was discussed as it appears in the current criteria. “including Scope 3 for businesses/investors where they are material to total emissions and where data availability allows them to be measured sufficiently”. If any reference to “material” is

² Reporting boundaries may be more inclusive than target setting boundaries for scope 3.

³ SBTi Net Zero Standard: “Long-term SBTs must cover at least 95% of company-wide scope 1 and 2 emissions and 90% of scope 3 emissions.” It is worthwhile to note that compete Scope 3 emissions are required for EU Paris-Aligned and EU Climate Transition Benchmarks (see Hoepner, A. G. F.; Masoni, P.; Kramer, B. et al.. (2019) ‘TEG Final Report on Climate Benchmarks and Benchmarks’ ESG Disclosure’. Brussels: European Commission.)

kept in the text, clarification would be needed. There seems no commonly agreed definition, materiality may for example be defined as 5% or more of total emissions across all 3 scopes.⁴ Some research suggests that materiality analysis “could possibly be misused by companies to apply legitimization strategies when reporting is fuzzy and the underlying processes remain unclear”⁵. There were some limited concerns in the group regarding the reference to a particular number, but the majority of participants wanted further clarity regarding materiality. However, with the suggested change to explicitly adopt inclusive boundaries covering at least 90% of emissions including scope 3, the term “material” might not be needed.

A2 - Recommendation for Minimum Criteria: Clarify whether scope coverage in target setting relates separately to interim and long term targets:

- Long-term and short term targets may have different scope requirements. As Net zero is the long-term target it should include the wider coverage, but as R2Z also requires interim targets it may be discussed whether reduced scope coverage would be relevant for interim targets (E.g. SBTi makes a distinction between "two-thirds boundary in near-term science-based targets and 90% boundary in long-term science-based targets"). Any such reduction in scope should be put in context of the overarching goal of achieving a science-based overall reduction.

B. Data Inclusion and Availability

Principle: Criteria should drive forward increasing target quality and coverage to enable sufficient action and credibility. In support of this data coverage, continuous data improvements, and greater data quality and comparability is needed.

B1. Recommendation for minimum criteria: On the path to full data coverage, in the absence of immediately available primary data, secondary data such as proxies, and estimates of hotspots may be used as a basis for the target and identification of decarbonization levers, so as to ensure that measurement of scope 3 emissions does not delay action or narrow the target scope.

⁴ GHG Protocol corporate accounting standard defines materiality as: Determined individually, 5% of total inventory for the part of the organization being verified but the GHG scope 3 guidance determines this individually. EU ETS defines materiality as: 5% of aggregate emissions for installations less than 500kt, 2% for installations greater than 500kt.

⁵ Beske, F., Haustein, E., & Lorson, P. C. (2020). Materiality analysis in sustainability and integrated reports. *Sustainability Accounting, Management and Policy Journal*, 11(1), 162-186.
doi:<http://dx.doi.org/10.1108/SAMPJ-12-2018-0343>

- As decarbonisation is the urgent goal, the effort to measure emissions to monitor target progress should not prevent meaningful action. The means (measurement of emissions) should not be mistaken for the ends (reducing and balancing emissions).
- Hotspot estimates and proxies are useful as a measure to prioritize action, but not as a long term data strategy
- Organizations should refer back to the GHG Protocol for direction on data to include.⁶

B2. Recommendation for minimum criteria: Transparently report and use credibly sourced and comparable proxies and methodologies. Moreover, any exclusion of emissions from quantitative scope 3 targets above the proposed 90% inclusion (in line with SBTi) should be avoided and explained if unavoidable.

- Organizations should be transparent about the type of data they are using, their methodologies and their data sources.
- Credible sources should be used for emissions factors (e.g. IPCC, IEA etc.)

B3. Recommendation for leadership practice: Targets should, where possible, refer to primary or representative emissions data from actors within their value chain (including S1, S2 and S3 upstream and downstream emissions). If such data are unavailable, organizations should use secondary data including reasonable proxies while setting targets for greater data completeness and expanded coverage.

- Preferable for targets to cover a wider percentage of the portfolio with proxies than to capture a narrower percentage with primary data - data collection should not distract target implementation.
- Preferencing target completeness over data type for targets is particularly important for inclusiveness of targets of emerging markets and SMEs
- Reasonable data proxies to be used for target setting and monitoring are accurate, complete, reliable (ie based on precautionary principles), relevant, and timely.⁷
- Recommendation for lexicon / interpretation guide: define primary, representative and secondary data. Refer back to GHG Protocol or other recognized standard⁸

⁶ SBTi criteria on full coverage- "Companies must complete a scope 3 inventory covering gross scope 3 emissions for all its emissions sources as set out as the minimum boundary of each scope 3 category per the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard. For a definition of the minimum boundaries of scope 3 categories and emissions sources that fall outside the minimum boundaries, see Table 5.4 (page 35) of the Corporate Value Chain (Scope 3) Accounting and Reporting Standard."

⁷ Hoepner, A. G. F. and Rogelj, J. (2021) 'Emissions estimations should embed precautionary principle' *Nature Climate Change* 11: 638–640. DOI: 10.1038/s41558-021-01109-3

⁸ Based on the [GHG protocol](#) *Primary Data* is defined as "Data from specific activities within a company's value chain" and *Secondary Data* is defined as "Data that is not from specific activities within a company's value chain".. Secondary data includes industry-average data (e.g., from published databases, government statistics, literature

- Recommendation for interpretation guide or further criteria version could be to outline scenarios in which failing to access primary data is reasonable.

B4. Recommendation for leadership practices: Organizations should develop and publish measurable plans to narrow data gaps in their targets and target monitoring, expand coverage of Scope 3 emissions, and improve overall data quality over time.

- Organizations should develop and publish plans for improving data quality for significant emissions sources in reference to data hierarchy as outlined in the GHG Protocol in order to base their target and target monitoring on near complete data from largely primary sources.⁹
- The long-term date could be broken down into interim targets reflecting collaboration with different business areas, e.g. have interim dates for working with Supply Chain for upstream and any supplier related data, and another date for working downstream with clients, just to name 2 key business areas for internal collaboration.

B5. Recommendation for interpretation guide: Scope 3 targets should cover all 6 GHGs separately as set out by the GHG Protocol.

- (The GHG Protocol scope 3 standard requires Emissions data for all six GHGs separately (CO₂, CH₄, N₂O, HFCs, PFCs, SF₆) in metric tonnes and in tonnes of CO₂ equivalent and ISSB, GRI, TCFD, Exponential Roadmap, SBTi and many others all refer back to the GHG protocol on this).

C. Reduction priorities

studies, and industry associations), financial data, proxy data, and other generic data. Reference Table 7.7 in the GHGP scope 3 standard about moving up the levels of the hierarchy.

The GHG protocol further states “In certain cases, companies may use specific data from one activity in the value chain to estimate emissions for another activity in the value chain. This type of data (i.e., proxy data) is considered secondary data, since it is not specific to the activity whose emissions are being calculated.” *In this document such data are referred to as Representative Data to denote that these are different from secondary data by being collected from organizations within the boundaries of the organization.*

ISO describes Primary Data as “quantified value of a process or an activity obtained from a direct measurement or a calculation based on direct measurements” and Secondary Data as

They also use the term Site-specific Data for “primary data obtained within the organizational boundary” and considers this a sub-category of primary data. Secondary Data is defined as “data obtained from sources other than primary data”. Site-Specific and Representative Data seems close.

⁹ See GHG Protocol Value Chain Standard Table [7.7] Levels of data (ranked in order of specificity)

https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard_041613_2.pdf

Principle: Scope 3 reductions should be prioritized for those organizations with more material Scope 3 emissions.

C1. Recommendation for minimum criteria: To deliver on their targets, organizations should focus on reducing emissions for Scope 3 emissions if those constitute a material percentage of total emissions, while never neglecting Scopes 1 and 2.

While scope 1-2 should always be taken care of as a matter of hygiene as it falls within the control of the entity, taking care of scope 1-2 should not be an excuse for neglecting scope 3 emissions when they are material. For example, for FIGs, Scope 3 can be 100x bigger than Scope 1-2. These organizations should focus on primary data (and proxies if necessary) to drive expanded Scope 3 data coverage¹⁰ and decarbonization.

C2. Recommendation for minimum criteria: Organizations should focus their emissions reduction efforts on hot spots, while not neglecting to address the cumulative effects of other contributions.

- Organizations should collect this information, synthesize it, highlight the most significant emissions sources, and be transparent, i.e. they should prioritize sources that are more carbon intensive, whether in Scope 1, 2 or 3.

D. Avoided Emissions, induced effects - going beyond scope 3

Principle: Criteria should differentiate between Scopes 1-3 and indirect impacts leading to emission reductions, so that avoided emissions and demand reduction - although important - are kept separate from Scope 3.

D1. Recommendation for minimum criteria: The boundary between Scope 3 and emissions avoided or incurred outside of the value chain (sometimes referred to as scope 4 or scope X) must be kept separate in target setting and monitoring, given worrying practice of some companies calculating avoided emissions and then claiming neutrality by using those to offset the rest of their Scope 1-3.

- Best practice recognizes that avoided emissions and demand reduction are important but absolutely separate from Scope 3, in contrast to presenting avoided emissions as scope 3 reductions.

¹⁰ In line with SBTi, companies are required to based their targets on a thorough emissions inventory that covers at least 95% of company-widescope 1 and 2 GHG emissions and a complete scope 3 screening" - i.e. there should be a screening as a basis for conclusion regarding scope 3

- In line with SBTi consider avoided emissions to fall under a separate accounting system from corporate inventories and hence do not accept them to count toward value chain emission reductions
- Those organizations wanting to address their indirect impacts beyond scope 1-3 are encouraged to do so but account for them separately and to consider negative impacts besides their positive (avoided) emissions. At this point, accounting for avoided emissions is not well defined and organizations should look to best practice and tread carefully until best practice is established while being as transparent and holistic as possible
- It is acknowledged that impacts on emissions outside of scope 3 are both positive and negative, and companies should also report negative impacts if they report positive ones. To highlight that such indirect impacts may be negative as well as positive, we suggest new lexicon terms: *enabled savings/avoided emission* and *induced effects*. *Enabled savings/avoided emissions* in practice has largely been used to refer to positive indirect impacts and to report emissions savings or avoided emissions outside of the value chain. As such some in the group have proposed introducing the term *induced effect* as a more neutral term to consider in discussion of both avoided and added emissions outside the value chain from, for example, the use of a product. It would also be good to check the vocabulary of the latest IPCC report in case it introduces new terminology.

D2. Recommendation for a leadership practice: Encourage organizations to publicly report negative impacts related to the company that do not fall under Scopes 1-3, and to identify opportunities to drive these down.

- Recommended to outline and identify emissions incurred outside of the value chain with some connection to the entity, and to explain where a company is taking qualitative (if not quantitative) responsibility for these even as they are not part of net zero targets for scope 1-3 emissions.
- As a clarification, this is expanding the helpful boundaries applied by the GHG protocol for financial institutions to other types of ‘low impact - high influence’ industries including: professional services (e.g PR/Advertising/Consultancy/Law etc), Entertainment companies (TV/movies/sports/events etc), Media companies (News/current affairs platforms), Creative industries (Publishing, arts etc)).
 - *High level ambition - these industries set goals for Scope 4/X/induced effects in addition (never as an alternative to) their Scope 1, 2 & 3*
 - *Mid level ambition - these industries commit to assess their Scope 4/X influence/induced effects in addition (never as an alternative to) their Scope 1, 2 & 3*

- *Low level ambition/minimum criteria - this industries are transparent about their editorial/advisory/creative/curriculum/client policies regarding Net Zero - e.g Client Disclosure Reports*
- In line with this, there was a specific recommendation for the interpretation guide for an **expanded definition of scope 3 to include advertised emissions.**
 - The concept of Advertised Emissions is an effective approach for advertising and it may be considered as a *direct driver* of emissions.
 - Advertised Emissions may be recommended as a Leadership Practice within an expanded definition of Scope 3 in line with how Financed Emissions are dealt with (as part of scope 3). Advertisers and agencies can choose NOT to advertise certain products in the same way that financial institutions can choose NOT to invest in certain industries. They are very similar concepts - reporting companies, advertisers and agencies, like financial institutions - have influence over the emissions that result from their decisions - more emissions or less emissions.
 - There is a need for similar solutions for other 'brainprint' industries.
 - The Client Disclosure Reports¹¹ require PR & Advertising agencies (and wider professional services) to disclose their revenue by client industry. The purpose of these disclosures is to build transparency in 'true' Scope 3 for an industry whose product is mainly intangible. Over 170 agencies/consultancies have agreed to reach this level of transparency.

E. Cumulative Historical Emissions

Principle: In general the historical emissions should be included but framed as a leadership practice rather than a starting line criteria, and focused on driving forward-looking action.

E1. Recommendation for leadership criteria: Historical emissions should be used primarily to guide ambition in setting net zero target dates and accelerate decarbonisation efforts. If compensated they should be done so with like-for-like removals.

- While being aware of historical emissions is a good practice, one concern raised is that the practice of cheaply offsetting historical emissions is an easy win that does not necessarily drive transformation or accelerate decarbonisation.

¹¹ <https://www.creativeandclimate.com/disclosurereports>

E2. Recommendation for leadership criteria: Historical emissions compensations, if they are being taken, should help to close climate finance gaps.

E3. Recommendation for leadership criteria: Recommendation to create three levels of scenarios for dealing with cumulative historical emissions {tentatively since year 19xx/20yy}.

- As a leadership practice, three distinct levels of ambitions could be defined:
 - *High ambition scenario: Historical emissions should be estimated and addressed in parallel with emission reductions towards net zero so that historical emissions are neutralized through like-for-like removals before reaching net zero.*
 - *Mid ambition scenario: Historical emissions should be estimated and addressed after achieving net zero so that historical emissions are neutralized through like-for-like removals as soon as possible after reaching net zero.*
 - *Minimum scenario: Historical emissions should/may be estimated and reported and reasons for not addressing them should be disclosed while respecting sound accounting principles like transparency, inclusiveness, accuracy, completeness, reliability and relevance.*
- Overall there is no well-defined practice for accounting of historical emissions, so it's not clear how organizations could refer to these in a credible way. There are many open questions like: How far back in time? Until the origin of a company >100 years back? Since 1980? How about mergers and acquisitions? When does a company stop being the same company?

F. Criteria Operationalization

Principle: Criteria should encourage early top-level leadership involvement at the organisation level to drive forward best anchoring and practices for Scope 3 target setting and monitoring.

F1. Recommendation for leadership practice: Criteria should encourage proactive engagement by top-level leadership with decarbonisation efforts across the value chain and operations.

- This allows organizations to establish a game plan early, and coordinate efforts throughout the organization and its values chain, and align data gathering and decarbonisation policy. Capacity and training may pose additional operationalization challenges, but motivation from top leadership helps drive forward best practices.
 - *High ambition scenario - C-suite/top-level leadership remuneration packages linked to Net Zero performance, Net Zero updates included in all Board meetings, Net Zero data included in IPO data.*

- *Mid ambition scenario - C-suite/top-level leadership review Net Zero dashboard data at least quarterly*
- *Low ambition/minimum criteria - High level pledge extended to high level annual update of progress.*
- Resources should be allocated to form a sustainability team which should report directly to senior leadership, which acts as the highest-level sustainability champion in the company and in supply chains, client engagement, operations, and finance – sustainability leads should be placed. Direct support is needed from executives to back a sustainability manager in setting targets, gathering data and engaging across scope 3. Though the importance of holistic/integrated sustainability approaches and top-leadership engagement was considered important by participants, there was also someone seeing difficulties with proposing a specific organizational setup.
- Leadership and ambition should in particular extend down your value chain to engage with vendors, suppliers, customers, clients and other supply chain partners to advance their leadership too.

F2 Support the update of management standards and standards related to products and processes to mobilize decarbonisation across products and processes in the value chain

- Updating management standards such as ISO, GHG Protocol, IEC, ITU can help operationalize high level criteria on the details of scope 3 to enable a more comprehensive target setting. This will require wide scale support from R2Z members to engage in consultation processes to get these standards updated. However, this needs to go far beyond the management standards but should be a perspective that gets worked into any kind of technical standard. Scope 3 is about every material in a value chain, so we need to have standards revised through a net zero target lens attached to every standard guiding supply chain operations and development.

F3 Work with the UNFCCC to encourage national frameworks and data systems / capacity for scope 3 emissions reporting for subnational governments

- Cities and regions will struggle to measure scope three emissions and coordinate data gathering without support from national governments.

Recommendations based on discussions of SMEs

G. Inclusiveness of SMEs

Principle: Criteria should be phrased with SMEs in mind without diminishing ambition for larger organizations. If those cannot be combined separate criteria/interpretations may be needed.

G1. Recommendation for minimum criteria and leadership practice: Criteria could be more inclusive of SMEs without significant data collection resources by encouraging the use of proxy and industry level data as a basis for target setting and monitoring.

- Quantitative Scope 3 reporting may require significant resources, which poses a challenge for SMEs that do not necessarily have the necessary capacity (i.e. lack of financial resources and staff). In this regard, data proxies could be very helpful. However, guidance on how to find and use such data may also be needed.
- A good way to move forward with SME's would be to stress test the criteria e.g. with regards to materiality with a couple of SMEs to identify any need for a separate SME track. SME concerns may include such as being very reliant on automated tools, and the limitations they have to meet the materiality criteria as well as limited knowledge of proxies and methodologies.
- As a first approximation, SMEs might also benefit from data sets developed for Environmentally Extended - Input Output Analysis factors (EE-IOA) such as [Greenhouse gas emission statistics - air emissions accounts](#). However these could be complex enough to apply and may not be available for all countries which poses particular challenges for scope 3. Moreover, they often refer to quite broad categories which may lack the specificity needed for a more detailed understanding.
- It was suggested that a qualitative target approach focused on key scope 3 action could be more feasible and important for SMEs than detailed quantitative target measurements.

Recommendations based on discussions of subnational governments

H. Jurisdictional boundaries

NOTE: Due to the composition of the group this topic was given much less consideration and the text here is reflecting the discussion of only one meeting with city experts.

Principle: Criteria should be phrased with Jurisdictions in mind without diminishing ambition for businesses and investors. If those cannot be combined separate criteria/interpretations may be needed.

H1. Recommendation for minimum criteria: Minimum target scope for cities should be scope 1 and scope 2.

H2. Recommendation for leadership practice: Leadership practices should remain territorial but the advanced leadership or pace-setters should be encouraged to include scope 3 emissions.

- There are many different types of local governments with different emissions trajectories.
- Cities should also at least be aware of scope 3 emissions while rural cities will have higher scope 1 and 2 emissions with potentially lower scope 3 emissions.
- We need to start encouraging and flagging to cities that this is eventually where they need to get to..
- AFOLU and Methane emissions could be another direction to flag emphasis - municipalities in more agricultural areas need to take a special look
- Local governments doing scope 1 and 2 without agriculture and production - need to consider this. The problem is the inventory. If cities can't build the inventory they don't target that.
- Want cities taking action without perfectly measuring - Just because you don't have an inventory doesn't mean you can't take action.

Appendix 1 - Scope language across standards:

[Mapping / comparison of scope language across other standards.](#)

Appendix 2 - Notes from the subnational / cities working group

What are some challenges for cities and regions in covering scope 3?

- Small municipalities really want to be looking at scope 3 beyond waste emissions (but have to be treated different to large municipalities) both have data gaps and data.
- Municipalities will need support which is not ready yet to tackle scope 3 emissions so it is unrealistic and potentially risky to require scope 3 coverage of cities in the minimum criteria.
- Analysis from Brazil, Mexico, India SA shows these gaps. https://e-lib.iclei.org/publications/KP_TheClimateFootprintProject.pdf
- Generation of energy can be heavily centralised, or have a market based component (top down and bottom up). Need three different levels of government to develop data.
- Only 7 % of cities are reporting scope 3 - and that's still unvalidated.
- Municipalities don't have the same level of agency as businesses as they must collect data from individual businesses and deal with regional and national overlaps. There is a fundamental difference in that a business / investor has so much more control over a supply chain.

If R2Z was to update criteria on scope 3 how could it be meaningfully operationalised?

- Cities that reported through the CDP / ICLEI platform - they can all in theory join R2Z, so can't just look at cities with large capacity. OR need to be able to provide them with the data support to do that.
- Currently there are no data management systems in place from national governments down for scope 3 emissions. No vertical integration. As a public sector practitioner separate from private sector practitioner
- There are methodologies but no consistent one and subnational and local do not all have access to these methodologies
- One thing is setting the inventory, normally would do with economic input output model, but how do you measure progress with that? Need to feed in with bottom up data, understand sectoral data sources. It is a big piece of work for a city to do that.
- A consistent approach that is standardised is needed to build the capacity.

Should the R2Z update require scope 3 as a minimum criterion rather than a leadership practice?

- Taken from the perspective of science it absolutely needs to be a minimum eventually. However, at the moment it may not be reasonable given capacity so it should remain a leadership practice for cities.

- Making it a minimum requirement now would create outrage more than anything because cities wouldn't be able to meet them and we wouldn't be able to support them.
- What might be more effective would be to go to the UNFCCC and say this need to be done by national governments so it can trickle down (need national governments to demand it set scope 3, and here's the capacity)
- Could there be an option for Conditional targets suggesting that they do this with support? Or an option for size-based targets like SBTi? For organisations not considered SMEs need to set scope 3 aligned to 1.5 but those that are considered SMEs do something different. Can a system like this be mirrored for R2Z for cities and regions?