

Newsletter



Scope 3 Emissions

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Scope 3 Emissions Crucial For Net-Zero Transition

In modern economy where outsourcing is common and operations are often spread across multiple jurisdiction, Scope 3 emissions, from supply chain pollution to the impact of a product's use by clients, form the biggest share of total emissions in many other industries.

Poor disclosure of full value chain emissions therefore leaves shareholders with an unclear picture of a company's climate transition risk exposure and strategic resilience.

Data from CDP (formerly Carbon Disclosure Project) shows that almost all financial institutions' emissions are Scope 3 emissions, coming from investing, lending and underwriting activities.

Through proxy voting, shareholders have increasingly asked companies to adopt short, medium and long-term science-based GHG emissions reduction targets, inclusive of emissions from its full value chain, in order to achieve net-zero emissions by 2050 or sooner.

For a company like Costco Wholesale, Scope 3 emissions are embedded in purchased goods and services within its supply chain, as its competitor, Walmart, discloses that 95% of its emissions trace back to its supply chain. Hence, Costco Wholesale has since agreed to set targets to reduce its Scope 3 emissions.



Background

Climate concerns continues to dominate with more clarity on sectoral commitments required to achieve the global net zero goal, as stakeholders' requests have become noticeably more specific.

The World Economic Forum estimates that Scope 3 emissions account for between 75% and 80% of all emissions generated by the oil & gas sector.



Regulatory Efforts For Consistency

Global efforts are underway to ensure that consistent climate-related information on Scope 3 emissions are well accounted for and disclosed.

Recently, the US SEC released a proposal to enhance and standardize climate-related disclosures that covers Scope 3 emissions where material, or where companies have set Scope 3 emissions reduction targets.

As mandatory, standardized climate reporting rules take effect across major markets, Scope 3 disclosures will no longer be voluntary, in order to drive the net-zero transition.