

Yale Business & Environment Clinic

Ambitious Climate Action on Scope 3 Emissions



22 February 2018

The premise for our conversation today

Scope three emissions comprise the majority of emissions for companies from many sectors.

Currently the GHG Protocol standards do not allow companies to report a lower scope three greenhouse gas inventory when they cause new emission reductions with companies that, while they may be related*, are not direct suppliers.

Will this stifle ambitious climate action along supply chains? Should current rules change?

NativeEnergy – our collective impact

30 million invested in impact projects

200 million additional investment attracted

50 thousand lives changed each year

100 million litres of water each year

7 million tonnes of CO₂ reductions

2.5 million MWh of renewable energy

80 projects verified, certified & operating 10-20 years



Since 2000, our focus is building resilient supply chains by empowering communities, improving health, protecting biodiversity

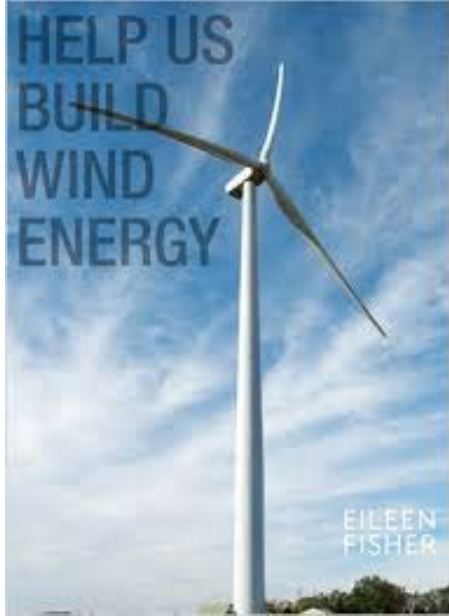
impact projects & the stories they tell



NO EXCUSES

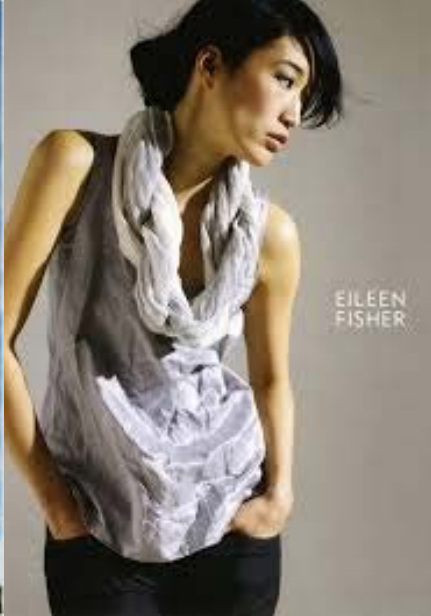
OUR VISION IS FOR AN INDUSTRY WHERE HUMAN RIGHTS AND SUSTAINABILITY ARE NOT THE EFFECT OF A PARTICULAR INITIATIVE, BUT THE CAUSE OF A BUSINESS WELL RUN. WHERE SOCIAL AND ENVIRONMENTAL INJUSTICES ARE NOT UNFORTUNATE OUTCOMES, BUT REASONS TO DO THINGS DIFFERENTLY. WHERE EXCUSES ARE IGNORED AND ACTION IS TAKEN.

WE'RE WORKING TOWARD A WORLD IN WHICH THE CLOTHES YOU LOVE TO WEAR CREATE NOTHING BUT LOVE.



HELP US BUILD WIND ENERGY

EILEEN FISHER



EILEEN FISHER



REVERB

- ABOUT
- PROJECTS
- PROGRAMS
- TAKE ACTION
- NEWS
- PARTNERS
- CONTACT
- SUBSCRIBE



Making change, or not, is the heart of the matter

The supply chain is the primary source of greenhouse gas emissions for many of the world's largest companies

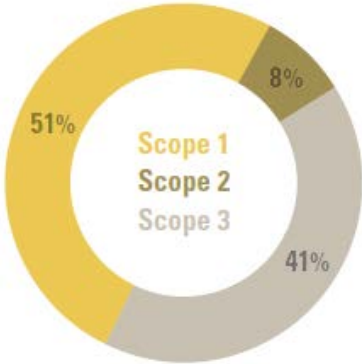
To attain a <math><2^{\circ}\text{C}</math> pathway...

New, enduring, business-relevant actions to reduce emissions and cause positive change in those supply chains *matter*

Scope 3 activities are the primary source of greenhouse gas emissions for many of the world's largest companies

Sources of Greenhouse Gas Emissions

Percent of GHG emissions

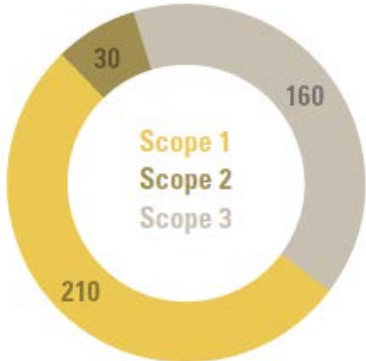


- Use of sold products
- Purchased goods and services
- Investments

2015 Global

Intensities of Greenhouse Gas Emissions

GHG Intensity: Metric tons CO₂e per million dollars of revenue



2015 Global

Source: Trucost, 2017

New, enduring, business-relevant actions to reduce emissions and cause positive change in supply chains *matter*

What constitutes new, enduring, business-relevant actions to reduce emissions? Consider ...

- Steak
- Ice cream
- Anti aging cream

steak



Photo: W. Freihofer 2017

steak

- How much carbon can improved grazing practices sequester?
- Estimate total sequestration over 10 years
- How much money will it cost ranchers to improve grazing practices?
 - Ranch-by-ranch economics
- Pay ranchers upfront
- Verify reductions over 10 years
- Results
 - Improved yields, improved productivity
 - More resilient supply
 - Biodiversity, habitat conservation, water quality, neighbor relationships (on the edge of Yellowstone)
 - Invest in scalable innovation
- Projections
 - 0.3-0.5 tonnes of CO₂e per acre
 - 75,000 acres in first phase
 - 500,000 acres in second phase

The carbon reductions are new, innovative, scalable. They tie directly to the business, its risks & its opportunities.

New, enduring, business-relevant actions to reduce emissions and cause positive change in supply chains *matter*

What constitutes new, business-relevant actions to reduce emissions? Take the case of...

- Steak
- Ice cream
- Anti aging cream

- Project verified to existing standards
- Project caused and owned by company
- Project creates co-benefits for suppliers
- Project creates linked prosperity
- Project is innovative, replicable, scalable
- Improved practices endure

ice cream



ice cream

- Measure farm emissions and identify technology and practice improvement options
- Estimate total carbon reductions over 10 years
- How much money will it cost farmers to adopt new technologies, new practices?
 - Farm-by-farm
- Pay farmers upfront, year 1
- Results:
 - Reduced on-farm costs
 - Build resilient milk supply
 - Gain visibility into supply risks
 - Build supplier relationships
 - Innovation
 - Carbon reductions independent of actual milk purchases
- To date:
 - Range of solutions from manure solids separation to low-till cropping yields 1-3 tonnes CO₂e/cow, 0.5-1 tonne CO₂e/acre...

A project investment standard ensures innovativeness, relevance & quality.

An ambitious Science Based Target for an ice cream company requires significant reductions in scope 3 – global ag sector

Strategy: Invest in suppliers to create GHG reductions, strengthen business, and contribute to supplier prosperity and resilience

Implementation: Identify, develop, and implement solutions that reduce GHG and provide tangible long-term value to business and suppliers



anti aging cream



anti aging cream

- Measure emissions from boiling shea nuts
- Invest in improved raw material processing (wood stoves)
- Results:
 - Build resilient supply chain(s)
 - Invest in scalable innovation
- To date:
 - Some portion of 22,000 shea nut processors convert to cookstoves that require 50% less wood than conventional “three stone” cookstove (1 tonne of wood each year)
- L'Oréal commits to 60% reduction in scopes 1 & 2 by 2025 (already reduced 67%)
- Insetting for residual 400,000 tonnes of CO2 e / year by 2020
 - Projects in L'Oréal's supply chain, supplier communities or surrounding landscapes
 - Projects in energy efficiency, energy generation, low carbon farming, forest management or agroforestry
- To qualify, a project must require L'Oréal support

A carbon project standard ensures climate and SD goals.

A word on causation

Ben & Jerry's

- All investments must provide significant funding to new capital projects or practice improvements that reduce emissions.
 - The objective of the Investment Program is to spark innovation and change in Ben & Jerry's activity chain, to demonstrate new ways of reducing emissions, and to recognize Ben & Jerry's as the catalyst for these reductions. As such, investments must *fund projects or practice improvements that were not planned or committed to* by the Supplier at the time of Ben & Jerry's commitment to the project.

L'Oréal

- Carbon Balanced Program projects follow guiding principles:
 - Additional: demonstrating that the project faces *barriers that prevent it from being implemented without the support* of L'Oréal's Carbon Balanced Program.
 - Impactful: measurable and conservatively estimated carbon gains, without the risk of being accounted for twice.
 - Transformative: enabling projects and activities that are scalable and which would result in long term benefits along the supply chain.

New, enduring, business-relevant actions to reduce emissions and cause positive change in supply chains *matter*

What constitutes new, business-relevant actions to reduce emissions? Take the case of...

- Steak
- Ice cream
- Anti aging cream

Now consider...

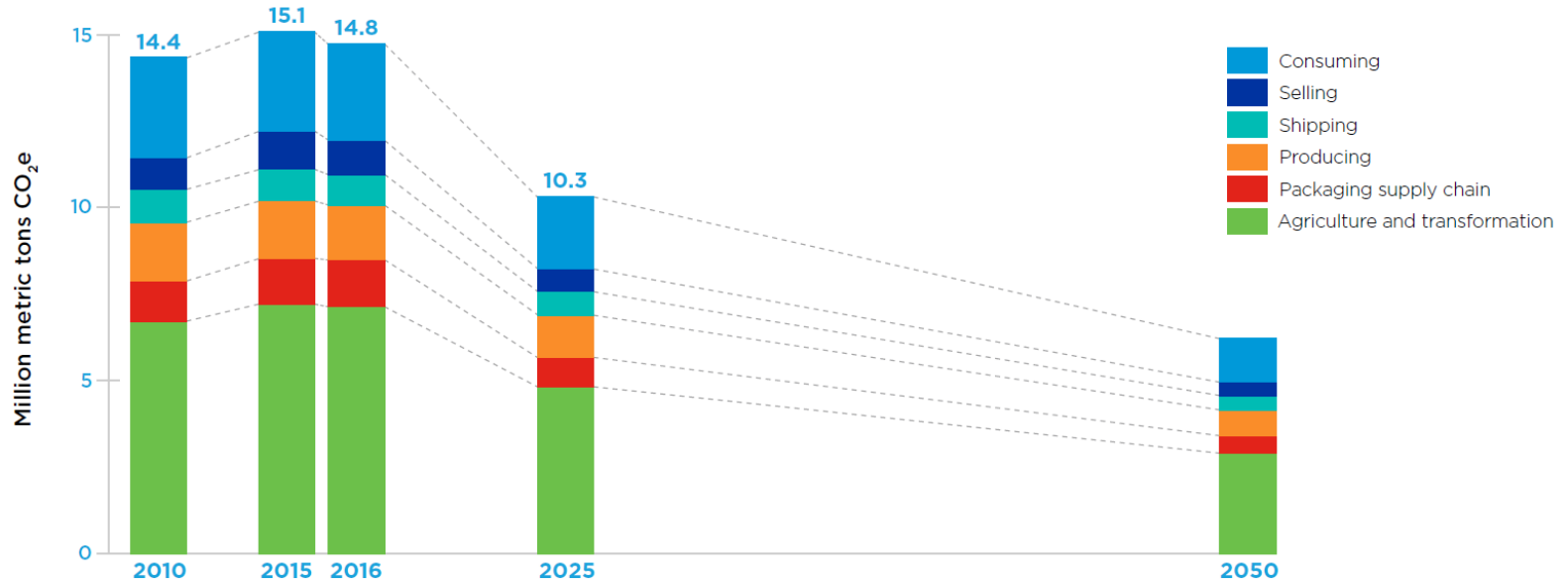
- Cheerios

cheerios



Agriculture and transformation are 48% of total value chain GHG emissions

The path to 2050**



KEY DRIVERS (% OF EMISSIONS)



ROW CROPS*

29%



DAIRY PRODUCTS

23%



MEAT

7%



OTHER

41%

* Includes sugar beets.

cheerios

- Strategy
 - Direct investment
 - Vanilla
 - Cocoa
 - Continuous improvement
 - Milk and wheat
 - Sector-wide improvement over time
- ... potential to connect GHG, environment, livelihood and soil health goals...
- GHG
 - 28% absolute reduction by 2025 and 41-72% by 2050, in line with science
- Environment
 - 100% dairy, wheat, oats, sugar beets, corn from farmers that demonstrate continuous improvement on environmental metrics
- Livelihoods
 - 100% of vanilla and cocoa via programs that improve farmer livelihoods – 20,000 smallholder farmers by 2020

Sector-wide, continuous improvement approach.

In summary

Companies have the opportunity to envision, initiate, finance, control and report on emission reduction projects that they own in and around their value chain, and increasingly are seeking to do so.

If scope 3 emission reduction actions are caused by the company, the company should be able to report lowered inventory emissions. We believe this achieves the following:

- Requires companies to take new and relevant action to address their impact on climate
- Recognizes the real and dynamic nature of businesses supply chains
- Enables companies to take more aggressive and innovative approaches to meeting their scope 3 reduction targets.
- Maintains the intent and structure of the GHG Protocol and SBTi's established guidelines.

If scope 3 emission reduction actions are caused by the company, the company should be able to report lowered inventory emissions – via the GHG Protocol

Currently

- Set boundaries, measure GHG inventory and track inventory changes year-on-year
- Supply chain “project” carbon reductions are recognized, but do not count toward reduced GHG inventory
 - To avoid double counting
 - We agree with this for “offsets”
 - We disagree for “emission reductions” and believe it diminishes perceived value of those reductions

Ideally

- Actions that reduce emissions in the supply chain count in the same way that turning off the lights counts
 - Mechanisms can be put in place to avoid double counting
 - Ownership
 - Causality
 - Proximity

Does the ability to account for supply chain reductions in your GHG Protocol inventory spur more ambitious action?

Does the ability to account for supply chain reductions in your GHG Protocol inventory matter?

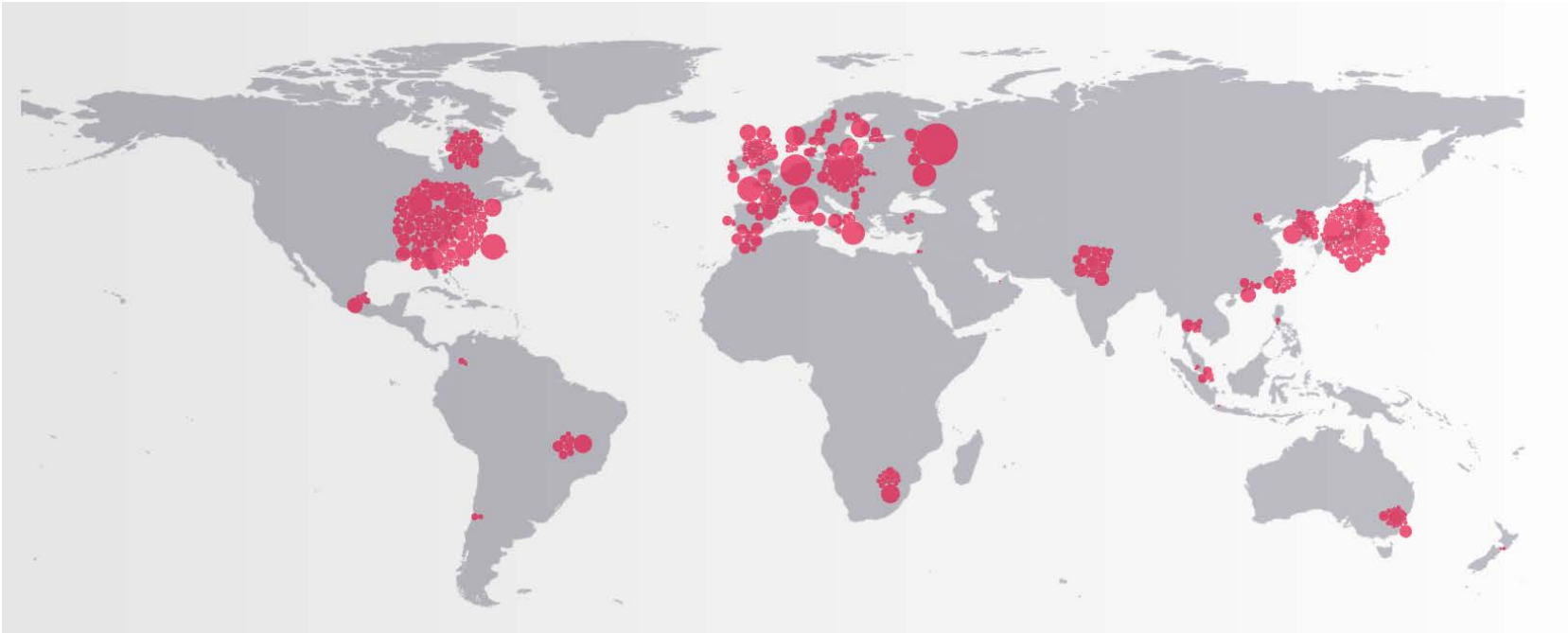
- GHG Protocol *est. 2001*
 - 1,000 corporations in first year; Today over 60% of Fortune 500 firms
 - Robust, widely accepted and referenced
- SBT *est. 2015*
 - 342 companies taking action = 90 targets set (Kering, Unilever), 252 committed to set
 - ~2 Companies joining the initiative every week



- CDP *est. 2002*
 - 6,000 corporations reporting

“Scope 3 Targets insufficient ambition & undefined best practices”

Geographic spread of largest, highest emitting CDP disclosing companies



Each dot represents one company. The size of the dot represents the company's emissions.

Consider these scope 2 and scope 3 actions...

- Company A makes a conscious decision to switch to B20, and pays \$.20 more per gallon to do so. Perfect causality.
- Company B's fuel supplier switched all its customers to B20 last year, and Company B never got the memo until it conducted its inventory. Zero causality. Under current guidance, Company B would be entitled to report a reduced inventory.
- Company C pays 100% of the capital and ongoing cost to convert a boiler from oil to solar thermal at a technical college that trains students in skills that equip them for modern factory jobs. Company C buys products from factories that need employees with such skills. Company C has no knowledge that any manufacturer it has ever bought from has hired a graduate of that school, however. Company C is in the widget industry, but it invested in the education industry. The highest level of causation, but modest proximity. Under current guidance Company C would not be entitled to report a reduced inventory.

Consider and debate

>>There is a need to incentivize investments in scope 3 reductions by reflecting their impacts in inventory reporting<<

FOR

Yes, reductions caused by a company via projects with suppliers, or 'like' suppliers, should be reflected in inventory reporting

AGAINST

No, reductions that companies pursue that are not reflected in their actual inventory can simply be reported separately

Reflect on your debate

- Did you argue a position you initially agreed with?
- Did your position change?
- What do you want to learn more about on this topic?



Closing remarks

Making change, or not, is the heart of the matter –

- Did the reporting company have a causal role in changing the practices or technologies that resulted in lower emissions?
- And to what extent did those emission reductions occur in close proximity to the reporting company's own operations or sphere of influence?



THANK YOU

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