SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Catalyzing Value Chain Decarbonization

Corporate Survey Results

FEBRUARY 2023

Context

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- Value-chain decarbonization is one of the most **significant opportunities to catalyze system-scale transformation** towards a net-zero economy.

- On average, scope 3 emissions represent **70% of corporate greenhouse gas (GHG) inventories** and are part of 96% of validated science-based targets.

- Given the scale and importance of scope 3 target-setting, and an increasing urgency for action, the SBTi has launched a **process to review and update scope 3 target-setting guidance, methods, and criteria** with the aim of ensuring the framework effectively catalyzes value-chain decarbonization while being cognisant of barriers corporates face.

- As a first step, a survey was conducted to **understand the challenges faced with scope 3 target setting.**

- This presentation outlines the **results of the survey** which will be used to inform the future development of scope 3 guidance updates. This report does not seek to provide clarifications on existing guidance or criteria.

- This comprehensive survey was carried out by the Science Based Targets initiative (SBTi) and Boston Consulting Group (BCG) in September 2022.

The end goal is clear, to reach a net-zero economy we need full value chain action

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To reach a net-zero economy, the business model of companies need to evolve to continue to create value to society without causing the accumulation of greenhouse gases in the atmosphere.

A net-zero value chain implies that each and every step involved in the provision of goods and services aligns to a level of emissions that is compatible with achieving climate stability.

Extraction / production of materials | Processing of materials | Transformation of materials | Product manufacturing | Distribution | Commercialization | Use | End of life

Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022

Scope 3 represents 70% of corporate GHG footprints; targets on these emissions are critical to achieving system-wide decarbonization

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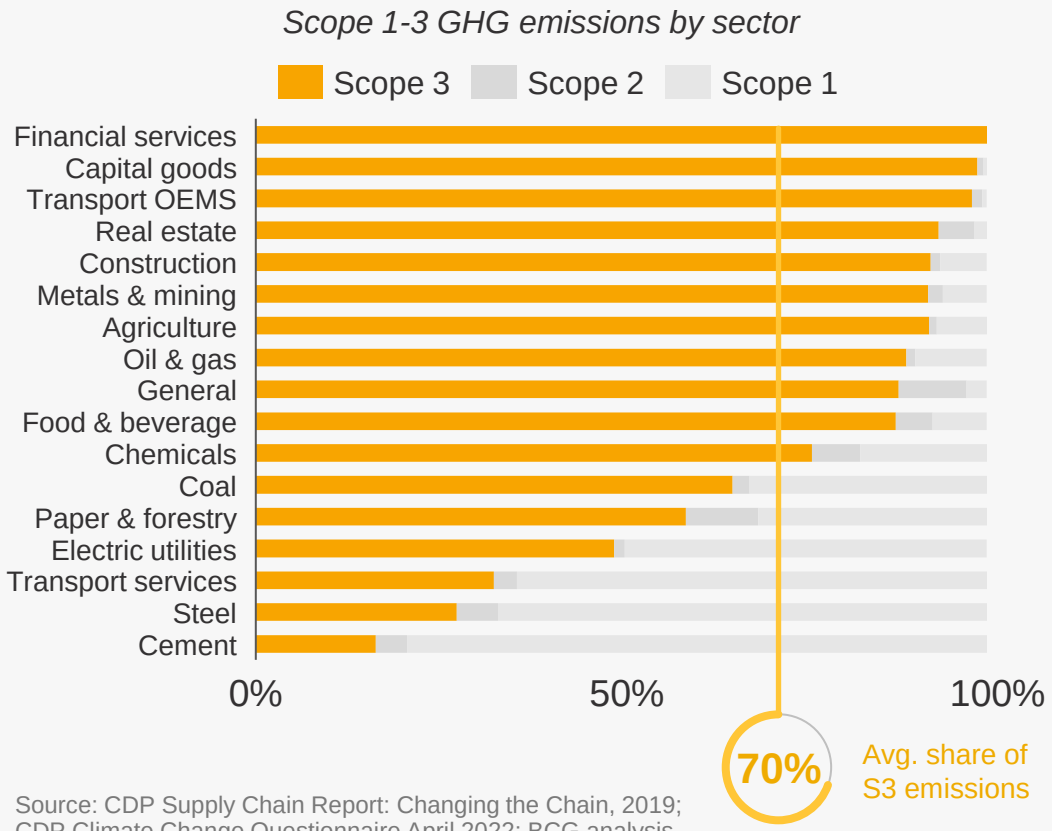
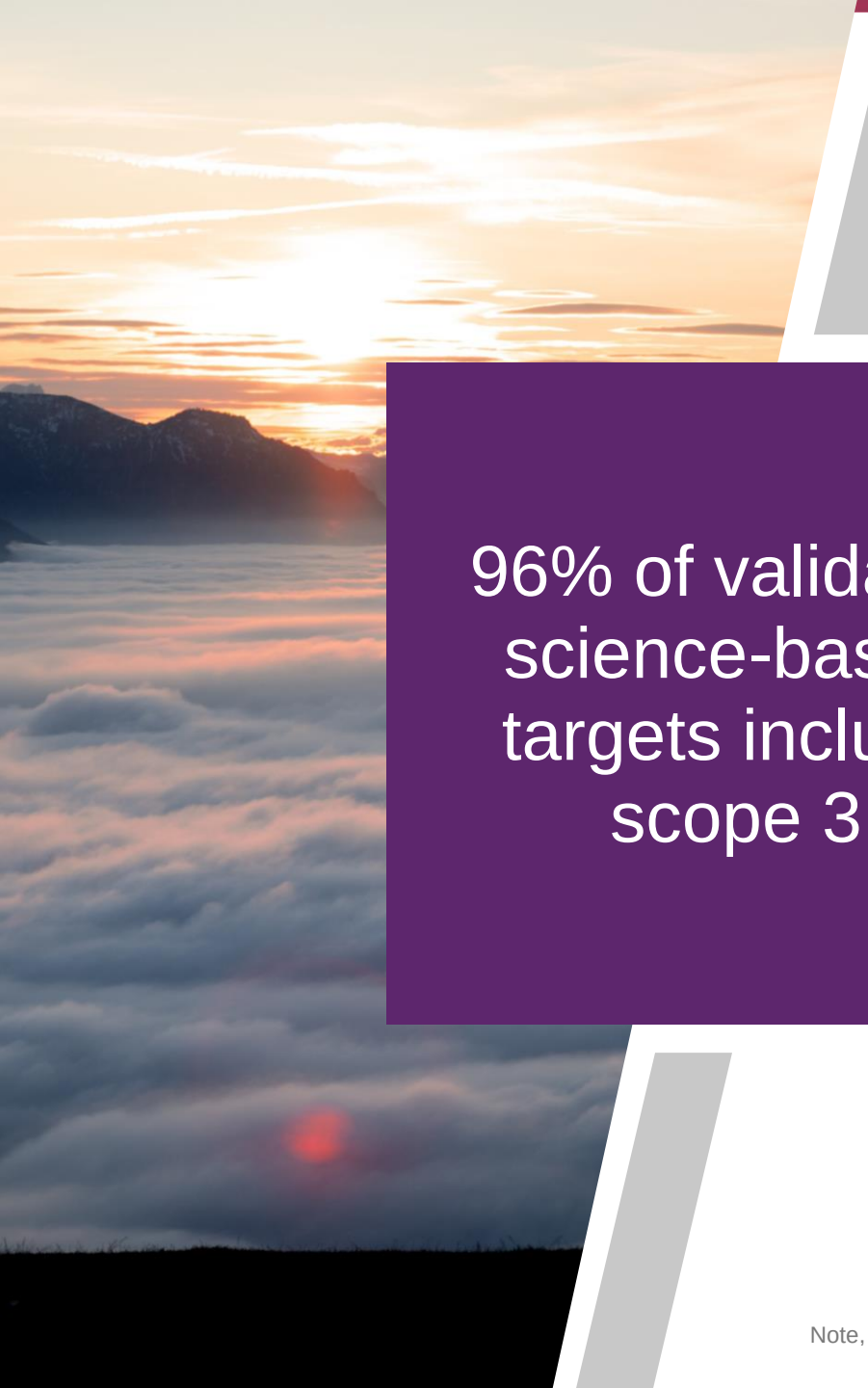
Scope 3 is significant across most sectors…



Source: CDP Supply Chain Report: Changing the Chain, 2019; CDP Climate Change Questionnaire April 2022; BCG analysis

…and core to the SBTi's theory of change

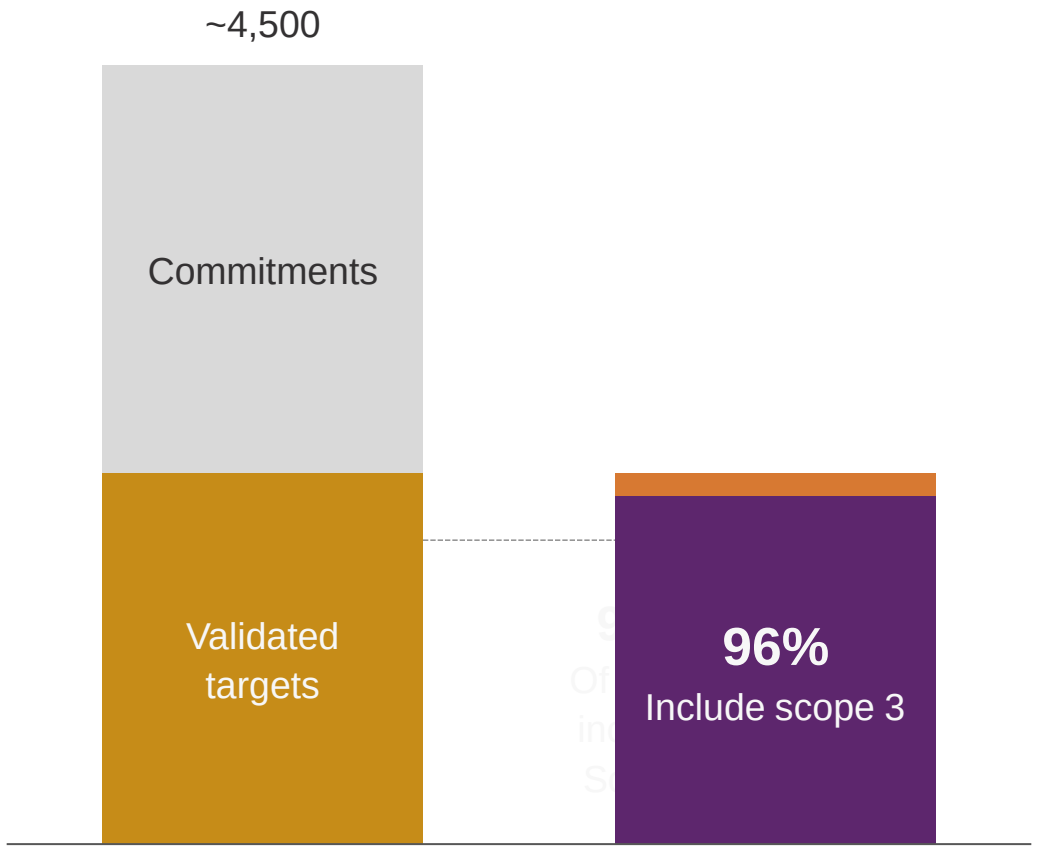
- Achieving a net-zero economy requires a fundamental transformation of the economy, which can only be achieved by **aligning incentives and eliminating barriers to GHG reduction.**
- The SBTi believes in the importance of value chain action and builds on attributional accounting to make shared **cross-value chain responsibility** between actors explicit.
- By requiring economic actors to set targets not only on their direct emissions, but also on emissions in their value chain, the **SBTi seeks to align all actors behind a common goal.**



Science-based targets, 2022

Number of companies ('000)

96% of validated science-based targets include scope 3



Note, of validated targets; Source: SBTi companies taking action dataset 2022; SBTi Progress Report 2020; BCG analysis

However, barriers remain which may prevent effective translation of scope 3 ambition into value-chain decarbonization

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Baselining

Barriers to baselining scope 3 emissions

- Availability of value chain emissions data (reliance on average emissions factors).
- Consistent application of scope 3 baselining standards.

Target Setting

Barriers to setting scope 3 targets

- Confidence in ability to deliver scope 3 targets.
- Availability of scope 3 specific science-based target-setting methods.
- Mismatch of growth plans and decarbonization ambition.

Delivery

Barriers to delivering scope 3 targets

- Ability to influence suppliers and customers.
- Cost of decarbonization.
- Ability to track progress due to data challenges.
- Awareness of "what counts" as a decarbonization lever.

Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022

Objectives of the scope 3 guidance and criteria review

1. Clarify the **role and importance of scope 3 targets** in the delivery of 1.5°C pathways.
2. Evaluate **scope 3 target boundary conditions** and materiality thresholds.
3. Assess and refine existing scope 3 **target-setting methodologies.**
4. Identify **new target-setting methodologies.**
5. Consider **accountability mechanisms** for delivery of scope 3 targets.

The SBTi is launching a process to review scope 3 guidance & criteria

Source: SBTi

To inform the SBTi scope 3 review process, a stakeholder survey was launched to understand challenges faced when baselining, setting and delivering scope 3

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Objective
Understand challenges companies face when setting and delivering scope 3 targets

230 respondents

>20 sectors

All major regions

85% with commitments or targets

>100 questions

Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022

Stakeholder engagement survey sampled a wide range of sectors and geographies

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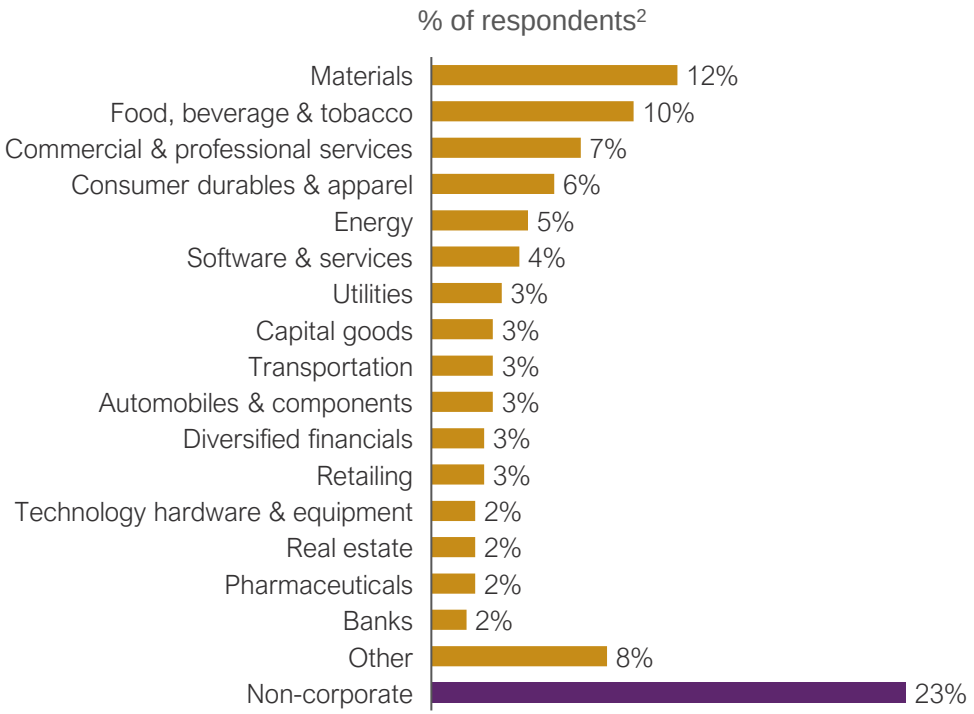
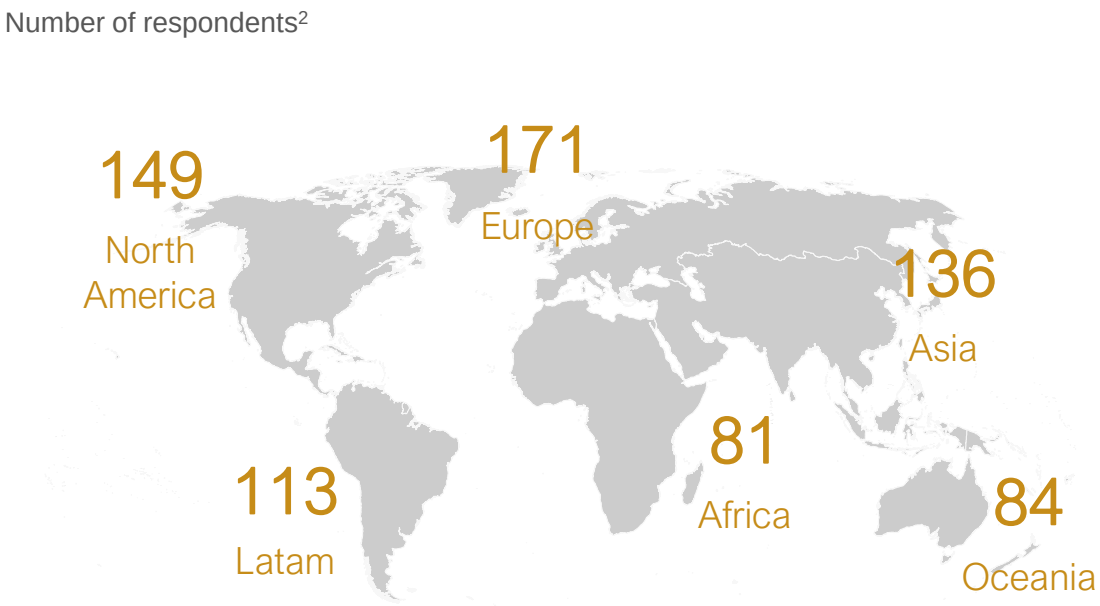
Respondents represent a range of sectors…



…and geographies[1]



Responses from all companies who completed a representative question; 1. One organization can cover multiple geographies, N=294; 2. N=237, ex. 46 respondents who did not complete this question; Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022; BCG analysis

Three categories of challenges were researched

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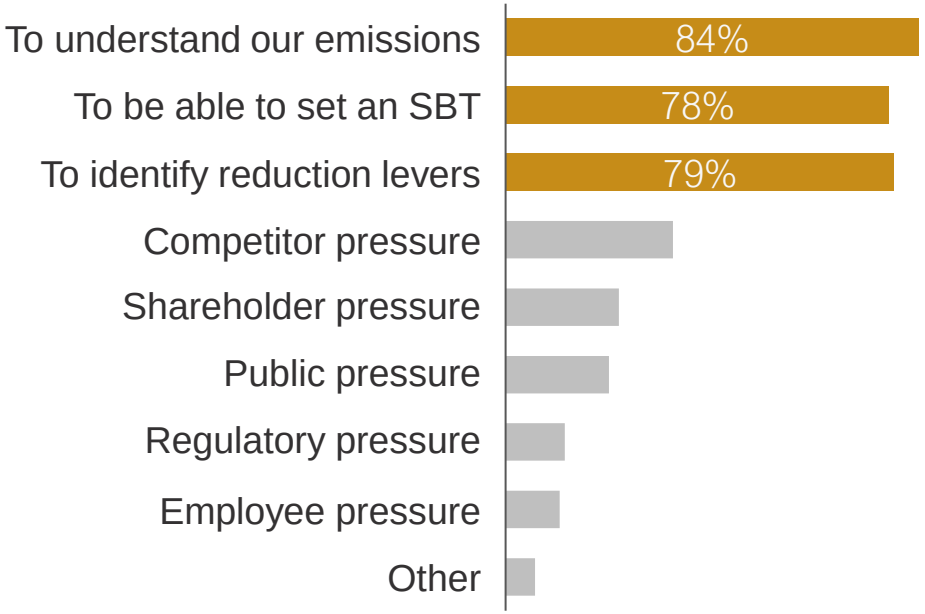
A.	B.	C.
Challenges with **baselining** scope 3 emissions	Challenges with **setting** scope 3 science-based targets	Challenges with **delivering** progress towards a scope 3 science-based target

Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022; BCG analysis

Baselining: Some companies are motivated to develop a baseline in order to set a target

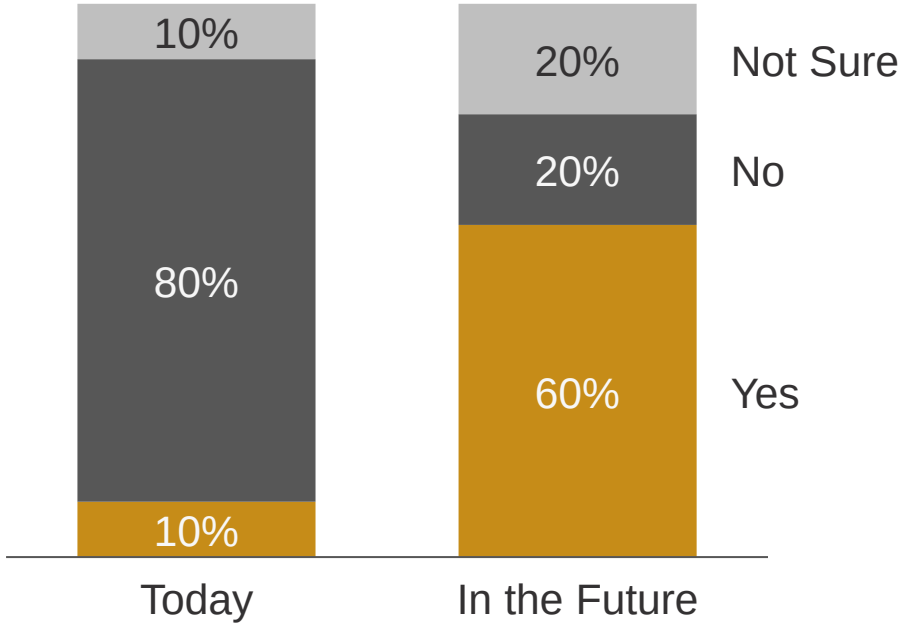
A primary motivator for baselining scope 3 emissions is to enable setting an SBT

Q. What was/is your motivation for developing a scope 3 GHG baseline? Select one or many, % of respondents



Regulation is not a motivator today, but is expected to be one in the future

Q. Are you currently subject to any regulatory disclosure on scope 3, or do you expect to be in the future?, % of respondents



Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022; BCG analysis

Baselining Barrier #1: Data access

Supplier specific emissions factors only represent 6% of baseline calculations

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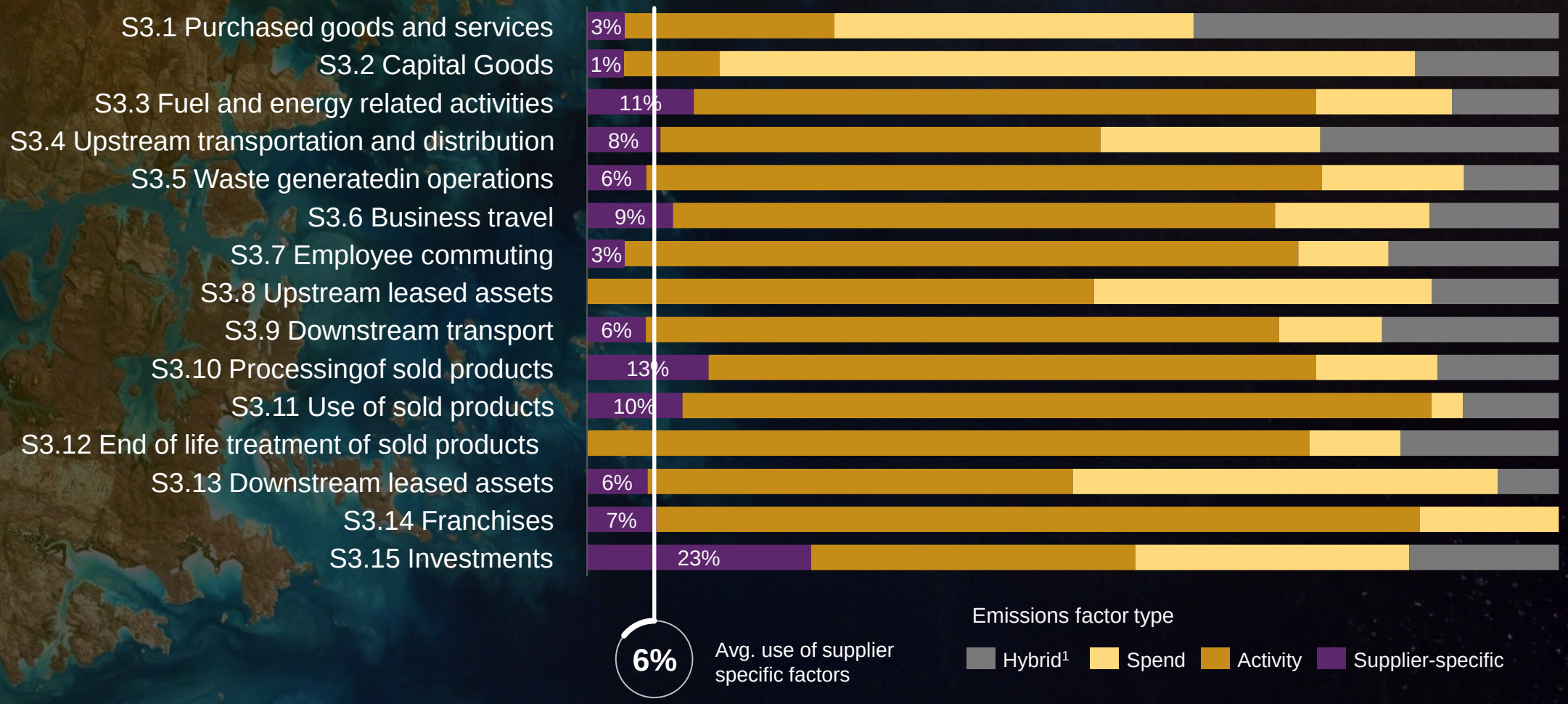
Method used to estimate scope 3 emissions, % of respondents, N=175



1. A mix of spend, activity and supplier specific emissions factors. Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022; BCG analysis

Baselining Barrier #2: Comparability

50% of companies re-baseline emissions due to methodological changes

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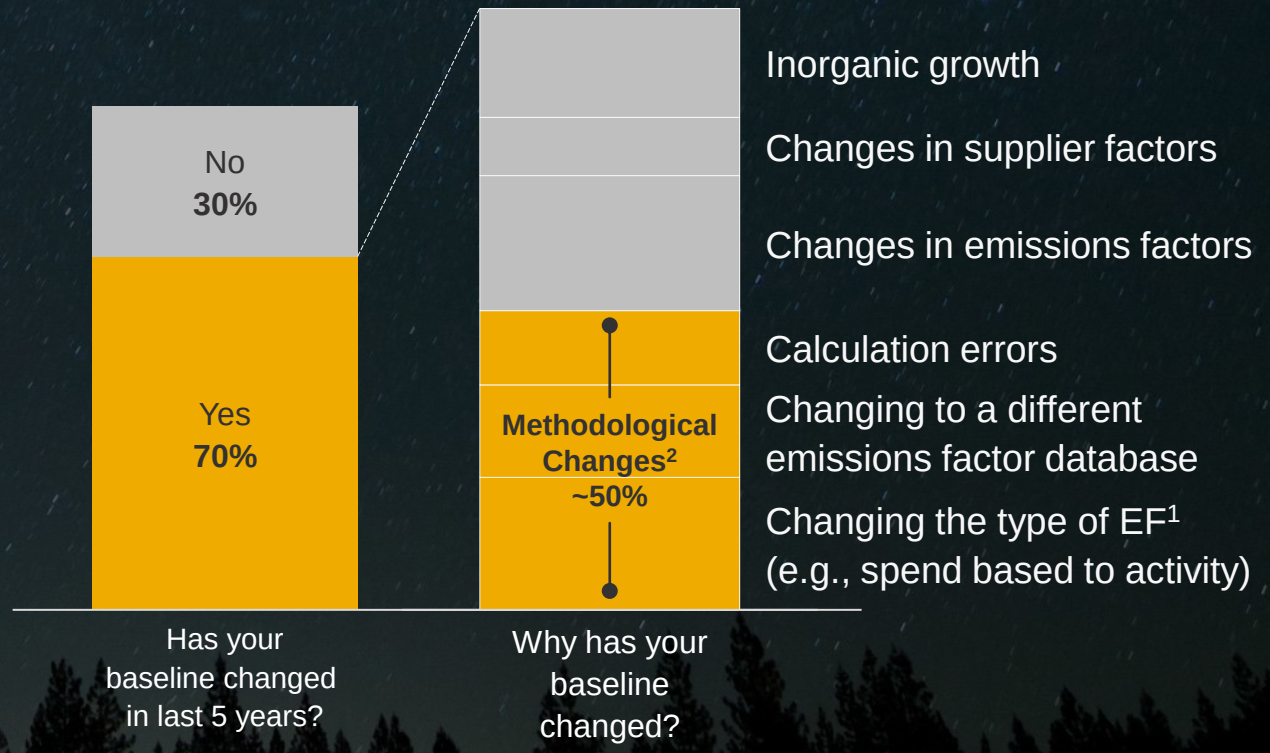
Differing interpretations of accounting guidance can limit **baseline comparability**

Due to….

- Methodological choices e.g. spend vs. activity based emissions factors
- Optional categories e.g. indirect use phase
- Lack of sufficient sector specific accounting guidelines

In addition, changing methodological decisions often lead to **re-baselining**

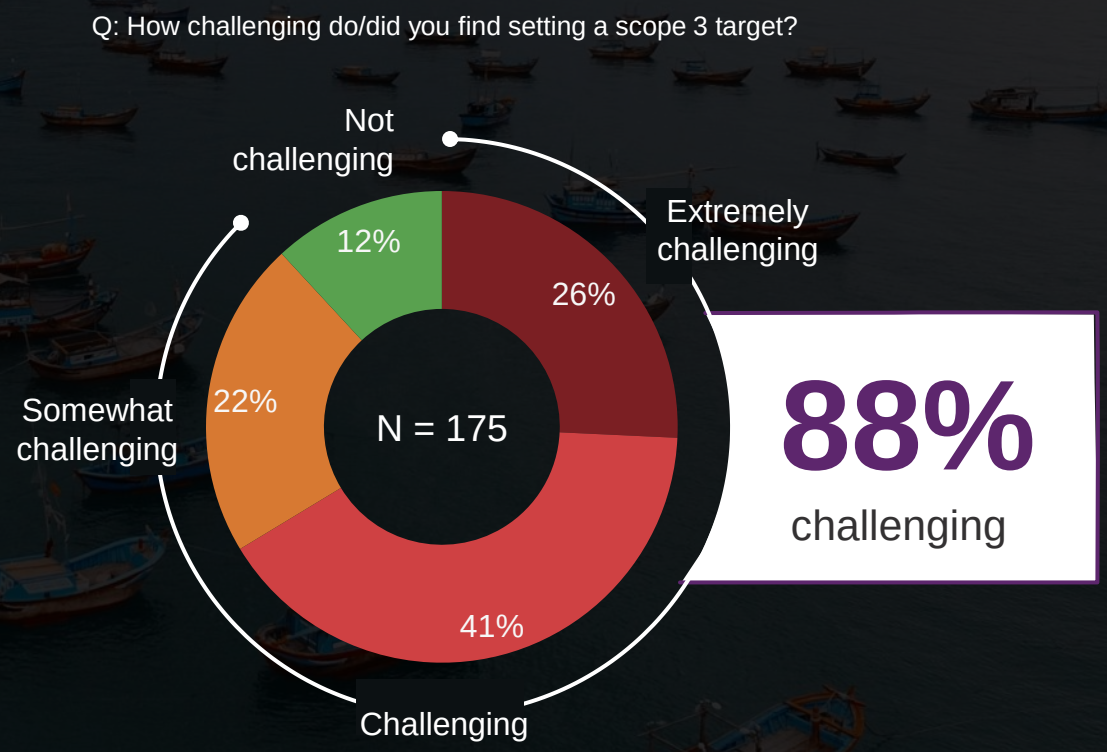
Q: Has your baseline changed in the last 5 years, why?, N=198



1. Emissions factor 2. Changes to a baseline not driven by methodological decisions rather than directly by real economy decarbonization
Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022; BCG analysis

Target Setting

Almost all companies find setting a scope 3 science-based target challenging



Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022; BCG analysis

Target Setting Barrier #1: Confidence

70% of respondents believe lack of confidence in delivery is a barrier to target setting

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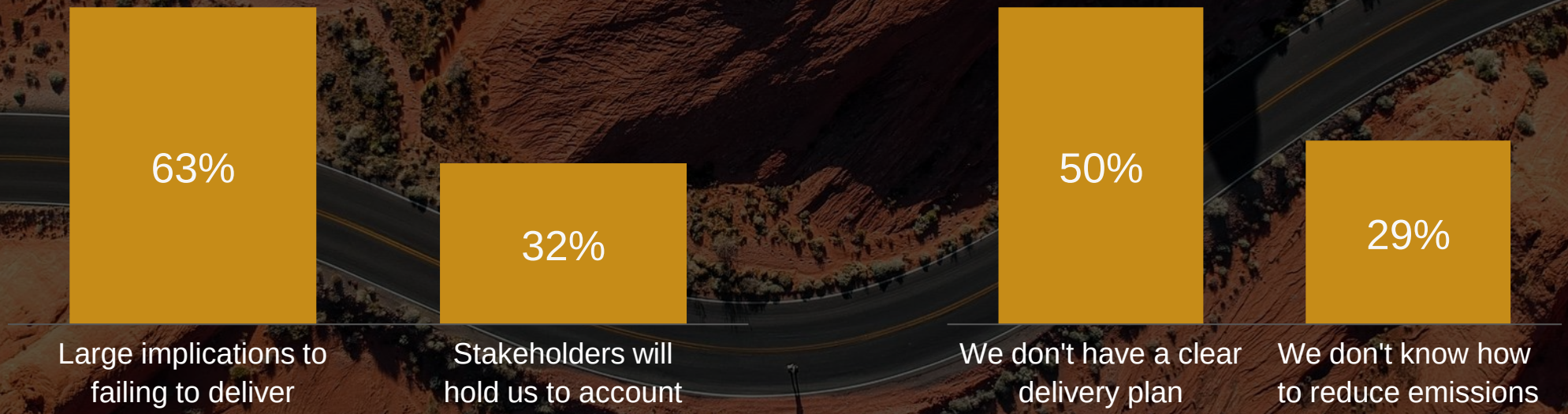
Respondents are concerned about the consequences of failure…

…and lack confidence because of unclear delivery roadmaps



Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022; BCG analysis

Target Setting Barrier #2: Methods

Most respondents utilize absolute contraction as a scope 3 target-setting method

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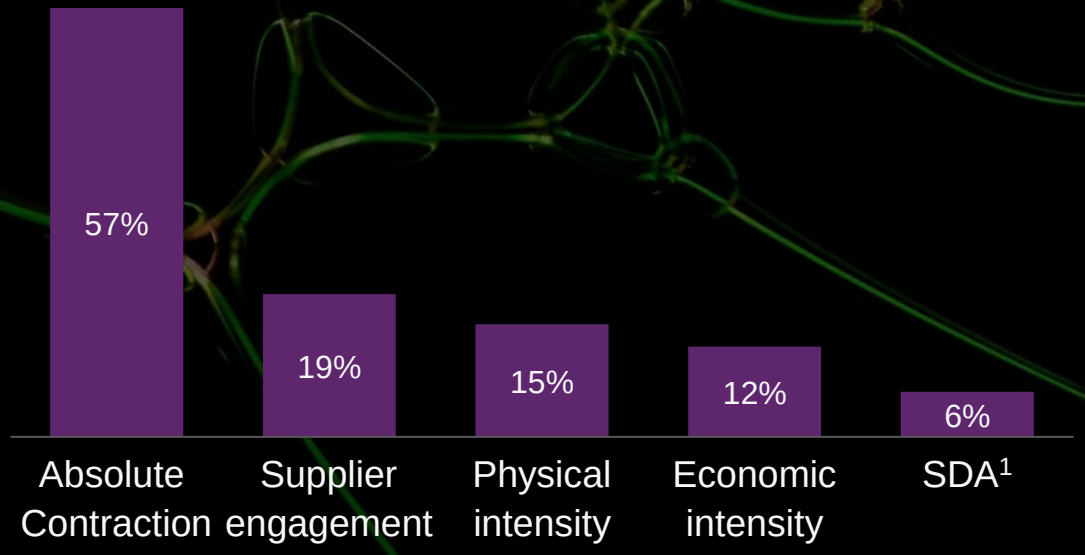
57% of companies use absolute contraction for scope 3 target setting…



…however, tailored sector specific guidance may help address perceived barriers

- Scope 3 emissions originate from many different sources including some high emitting sectors.
- For companies with scope 3 emissions in high emitting sectors, sector specific target-setting guidance may help create more nuanced targets compared to the absolute contraction method.
- In addition, respondents commonly cite growth ambitions as a barrier to target setting.
- Use of intensity-based target-setting methodologies may help to partially decouple planned growth from decarbonization ambition.

1. SDA = Sectoral Decarbonization Approach; Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022; BCG analysis

Target Delivery

70% of scope 3 emissions concentrated in two categories

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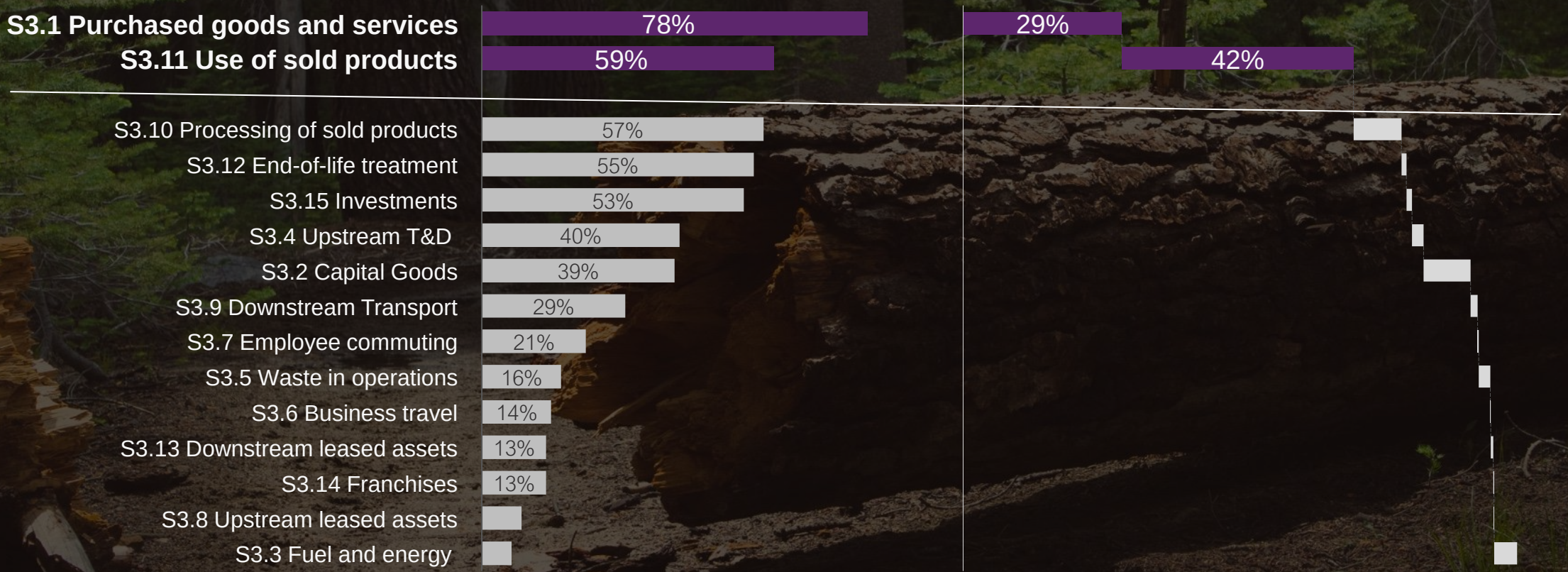
S3.1 & S3.11 seen as the hardest to decarbonize…

…representing >70% of global scope 3

Q. Which scope 3 categories do you find the most challenging to decarbonize
% of respondents, N=168



Source: CDP Climate Change Questionnaire 2022; SBTi Scope 3 Stakeholder Engagement Survey, September 2022; BCG analysis

Delivery Barrier #1: Influence

81% of respondents believe limited influence over supply chains is a barrier to delivery

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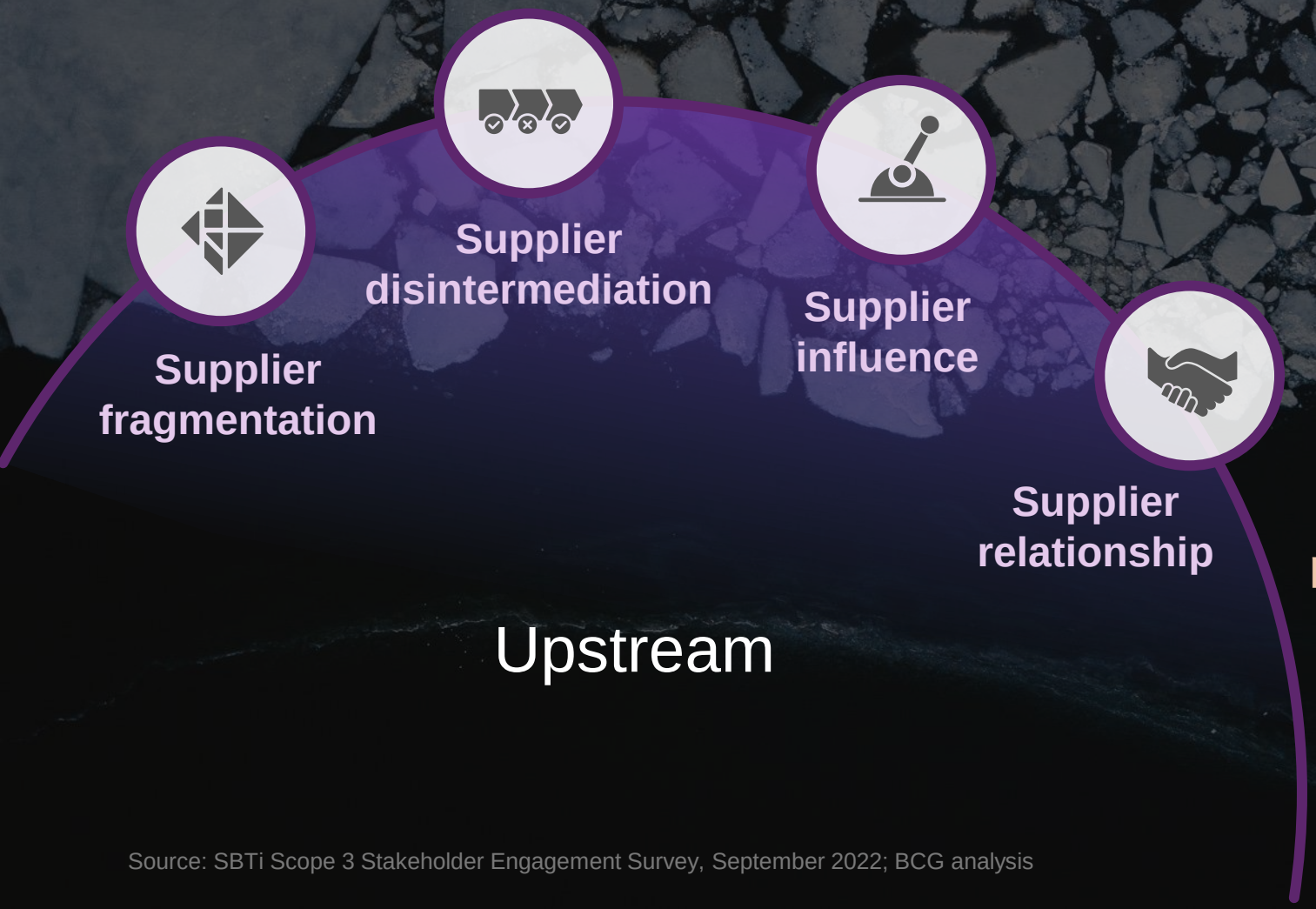

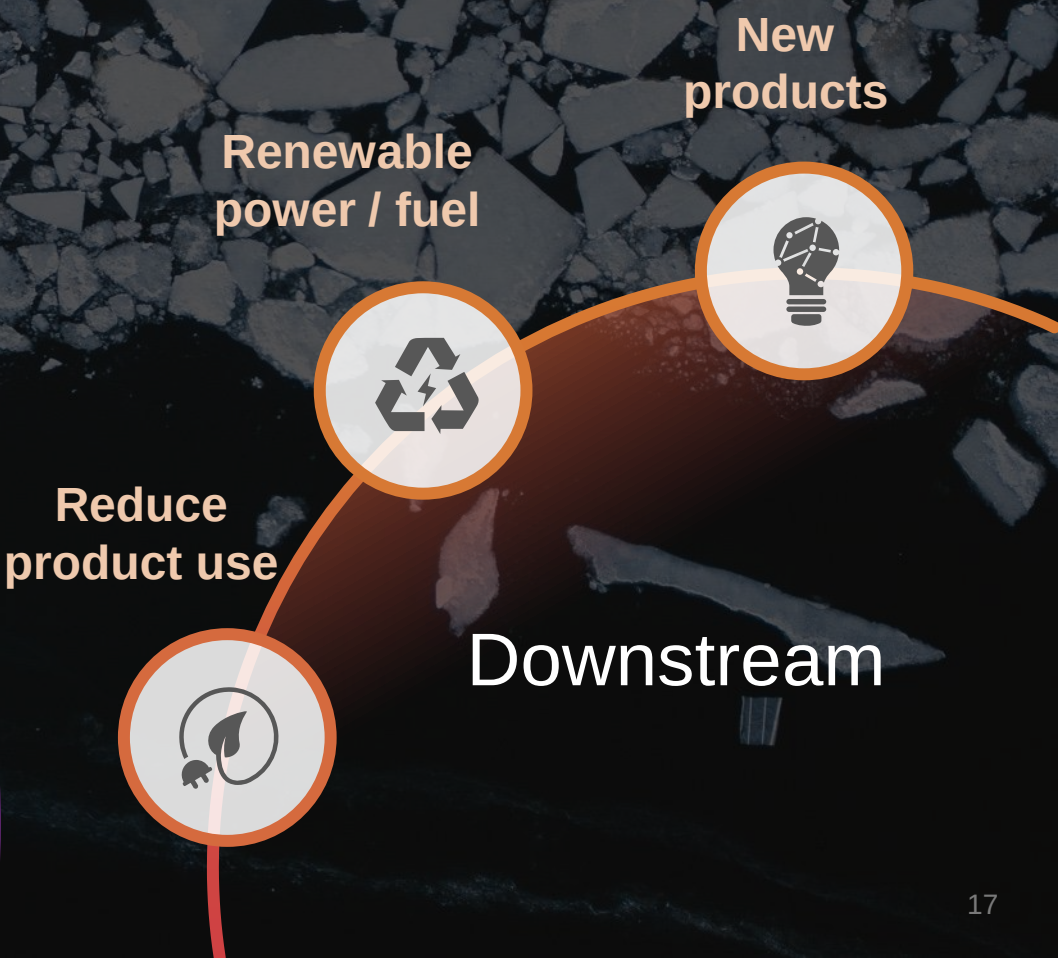

Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022; BCG analysis

Delivery Barrier #2: Cost

61% of respondents are concerned that cost is a barrier to delivering a scope 3 target

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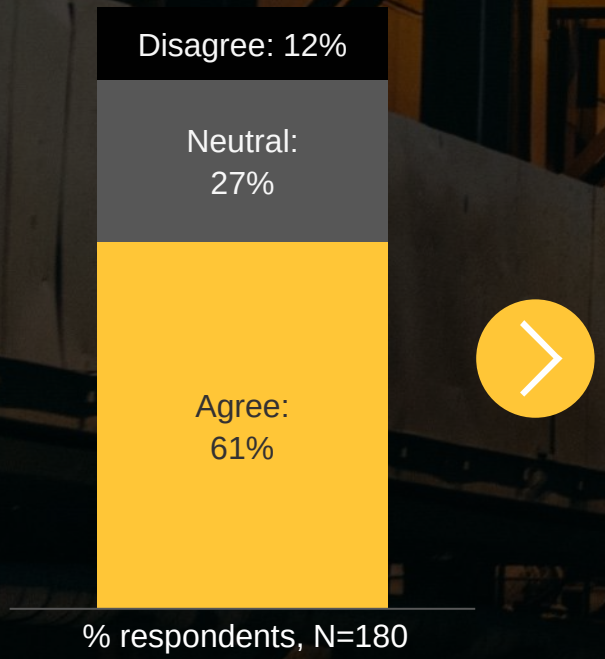
Is cost a challenge to delivering scope 3 targets?



Why is cost a challenge for delivering scope 3 targets?

% respondents, N=117

Buying low carbon products and services will incur a green premium	75% Increased OPEX
Re-designing products will require CAPEX investment	30% Increased CAPEX
Our competitors are slow to act, limiting pressure on us	20% Insufficient business case

Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022; BCG analysis

Delivery Barrier #3: Tracking progress

Access to measured supply chain data is a barrier to tracking the delivery of targets

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Poor measured data availability + **Poor data quality** = **Inability to track progress**

Supplier specific emissions factors not available (63%)

Tier 2 emissions factors are unknown (42%)

Supplier emissions factors are often not robust or verified (61%)

Use of sold product emissions are at best rough estimates (24%)

Hard to recognize the impact of actions with average factors (58%)

Harder to identify and prioritize opportunities to act

Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022; BCG analysis

Delivery Barrier #4: What counts

Some respondents are unclear on "what counts" as a valid scope 3 decarbonization lever

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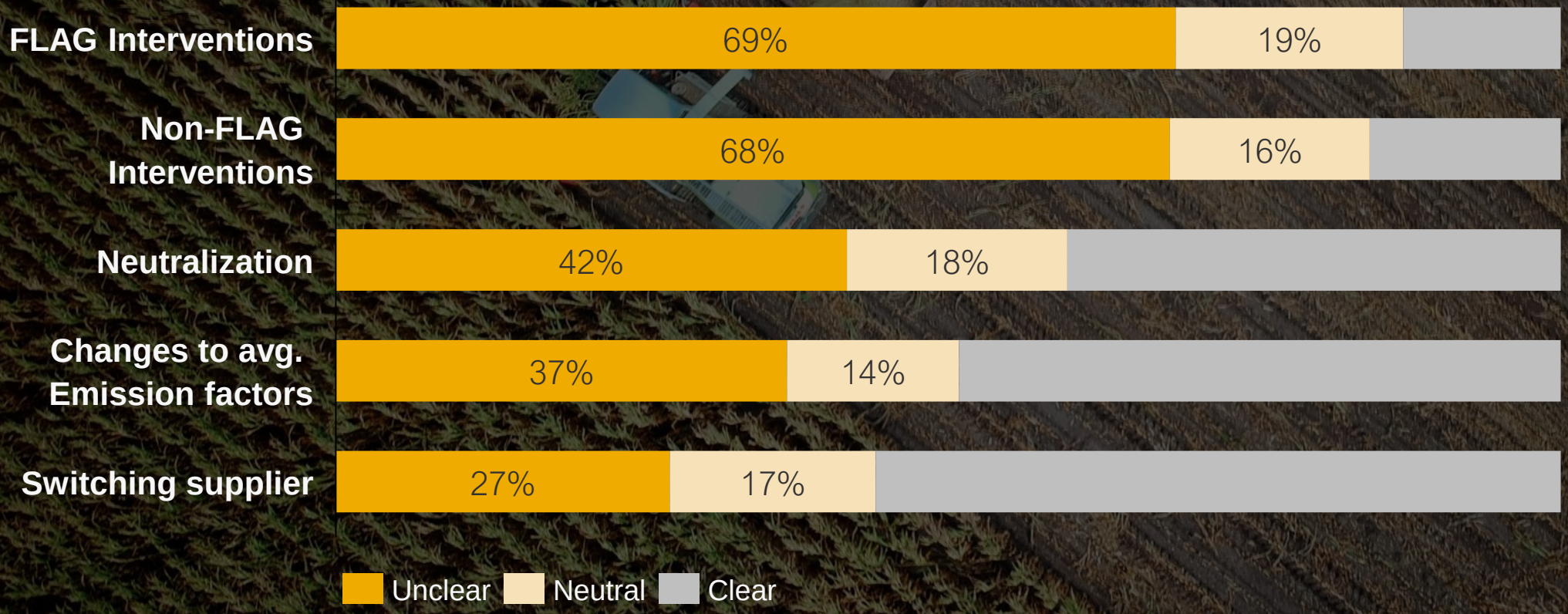
Q: How clear are you about which emission reduction activities can count towards delivery of a scope 3 science-based target? N=140



Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022; BCG analysis

Six high level solutions

Addressing barriers is critical to decarbonization – call to action for the entire ecosystem

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1. **Improved data collection & traceability**
2. **Enhanced accounting frameworks**
3. **Target-setting guidance and methods**
4. **Collective value chain action**
5. **Financiers & regulators**
6. **Internal efforts**

Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022

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Top Barriers Identified

- Baseline : Data access
- Baseline: Baseline comparability
- Setting: Confidence in delivery
- Setting: Methods
- Delivery: Influence
- Delivery: Influence
- Delivery: Cost
- Delivery: Tracking impact
- Delivery: What counts

Source: SBTi Scope 3 Stakeholder Engagement Survey, September 2022