Navigating Europe's New Scope 3 Reporting Requirements

The Guide

Ignite Procurement

With clear evidence of global warming affecting every country on Earth, governments are starting to prioritize corporate sustainability so they can reach their own and international environmental targets. In Europe, a significant jump in required carbon accounting came into force on 5 January 2023 with the Corporate Sustainability Reporting Directive (CSRD).

This guide provides an overview of Scope 3 emissions, the new EU regulations, and provides a roadmap of milestones you need to reach to be compliant in time.

However, reporting on your indirect emissions isn't just a requirement—it can also offer you significant commercial benefits.

What needs to be done

Understanding Scope 3 emissions

Scope 3 emissions refer to indirect greenhouse gas (GHG) emissions that occur throughout an organization's value chain, involving activities outside of its direct control. They come from sources such as business travel, employee commuting, purchased goods and services, waste disposal, transportation, and distribution. By including Scope 3 emissions in their reporting, organizations gain a more comprehensive understanding of their environmental impact and are better equipped to implement effective sustainability strategies. For more information on Scope 3 emissions, read our guide here.

New EC reporting requirements

The CSRD is a revised version of the EU's Non-Financial Reporting Directive. Companies under the CSRD will need to report using the European Sustainability Reporting Standards (ESRS). These changes bring a whole new way of doing sustainability reporting.

The ESRS will make companies pay even more attention to traceability and transparency during the reporting process. Unlike the GRI (Global Reporting Initiative), the ESRS takes a broader approach to what's considered important, considering both impact and financial aspects. This means companies can understand their impacts, risks, and opportunities across their entire value chains, including business relationships and locations.

In short, sustainability reporting will now be as important as financial reporting.

If you hope to meet the 2025 deadline, while also maximizing the benefits of doing so early, you need to start the process of data collection and analysis now.

Which organizations have to report in 2025?

The CSRD introduces reporting requirements primarily for companies with securities listed on regulated markets. However, companies that meet at least two of the following three conditions will also have to comply with the CSRD:

- €40 million in net turnover
- €20 million in assets
- 250 or more employees

Likewise, non-EU companies that have a turnover of above €150 million in the EU will also have to comply.

Smaller companies generally don't have extra reporting requirements under the CSRD, except if they're listed. Listed small- and medium-sized enterprises (SMEs) can use a simpler set of standards.

The reporting requirements will apply to a wide range of sectors, including manufacturing, transportation, retail, and services. Large organizations will be obliged to collect and report data on their Scope 3 emissions annually, in addition to the existing reporting on Scope 1 (direct) and Scope 2 (indirect) emissions. This approach aims to provide a comprehensive picture of an organization's environmental impact, leaving no room for overlooking less-obvious emission sources.

Potential penalties for missing the deadline

To ensure compliance and uphold the integrity of the reporting framework, individual member states of the EU may decide to issue penalties for organizations failing to meet the Scope 3 emissions reporting deadline and potentially for significant errors. While specific penalties may vary across EU member states, potential consequences can include fines, reputational damage, and the possibility of legal action. These penalties underscore the importance of timely and accurate reporting, emphasizing the commitment required from organizations to drive sustainable practices.

Benefits

The deadline may threaten punishment for non-compliance, but there are significant advantages for being ready on time or even early. Here are three of the most immediate:

Automation for efficiency

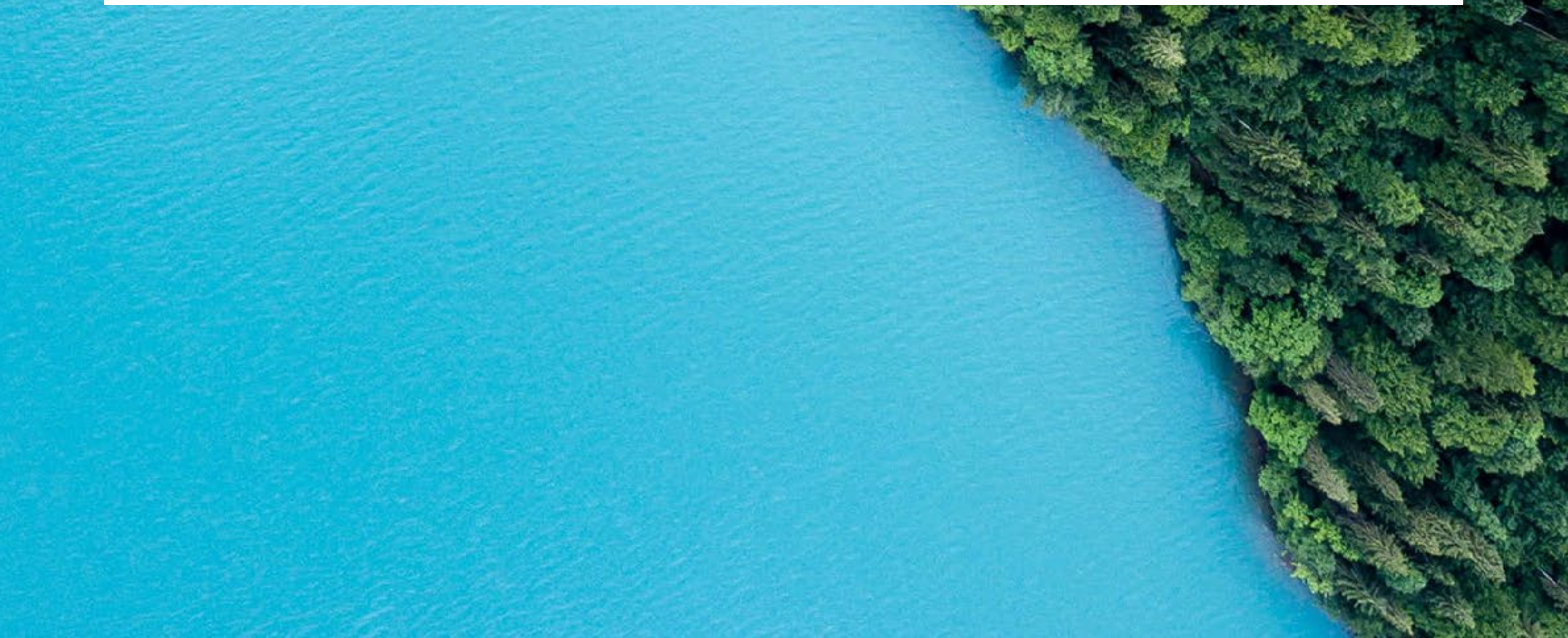
Implementing carbon-accounting software or tools automates many aspects of emissions calculations and data management. This streamlines the reporting process, saving time and resources, and reduces the likelihood of errors associated with manual data entry. Automation frees up valuable staff time for focusing on strategic sustainability initiatives rather than mundane data-collection and data-processing tasks.

Increased transparency and auditability

It enhances transparency by providing a comprehensive view of an organization's environmental impact across its value chain. The availability of accurate and auditable emissions data increases accountability and trust, both internally and externally. It enables internal audits and external verification, reinforcing the credibility of reported emissions and ensuring adherence to sustainability commitments.

Simplified external reporting

It facilitates the process of reporting externally to regulatory bodies, industry associations, or voluntary initiatives. Organizations can leverage the collected data to meet reporting requirements more efficiently, demonstrating their commitment to transparency and sustainability.



How to get there

You have several options for how to collect, analyze, and report your emissions. Each comes with its own set of pros and cons, allowing you to choose the approach that best fits your organization's resources, expertise, and goals:

Emissions Software Solutions

Using carbon-accounting software, such as Ignite's platform, provides a middle ground between hiring consultants and using spreadsheets:

PROS

More affordable compared with consultant services; knowledge and control remain within your organization; empowers internal teams to actively engage in emissions reporting.

CONS

Requires some initial learning and understanding of emissions regulations and the implications of Scope 3 emissions; may involve a learning curve for implementation and effectively using the software.

Consultant Services

Hiring consultants to handle your emissions reporting offers the advantage of outsourcing the challenge to experts in the field. This option relieves your organization of the burden of managing the process internally.

PROS

Access to specialized expertise, ensuring accurate and comprehensive reporting; saves time and internal resources.

CONS

Higher cost compared to other options, especially on an annual basis; reliance on external experts may limit internal learning and understanding of emissions reporting.

Spreadsheets

This offers a cost-effective option, but it also comes with inherent challenges:

PROS

No significant upfront costs, as most organizations already possess spreadsheet software; allows knowledge to remain in-house, especially for those already dedicated to monitoring and minimizing their carbon emissions; provides flexibility and control over the reporting process.

CONS

Implementation and maintenance can be challenging, especially as the complexity of emissions reporting increases; greater risk of errors due to manual data entry and formula management.

Choosing the right approach depends on your organization's budget, internal capabilities, and long-term sustainability objectives. It's important to evaluate the trade-offs of each option to make an informed decision. You will also want to consider the following:

Resource allocation

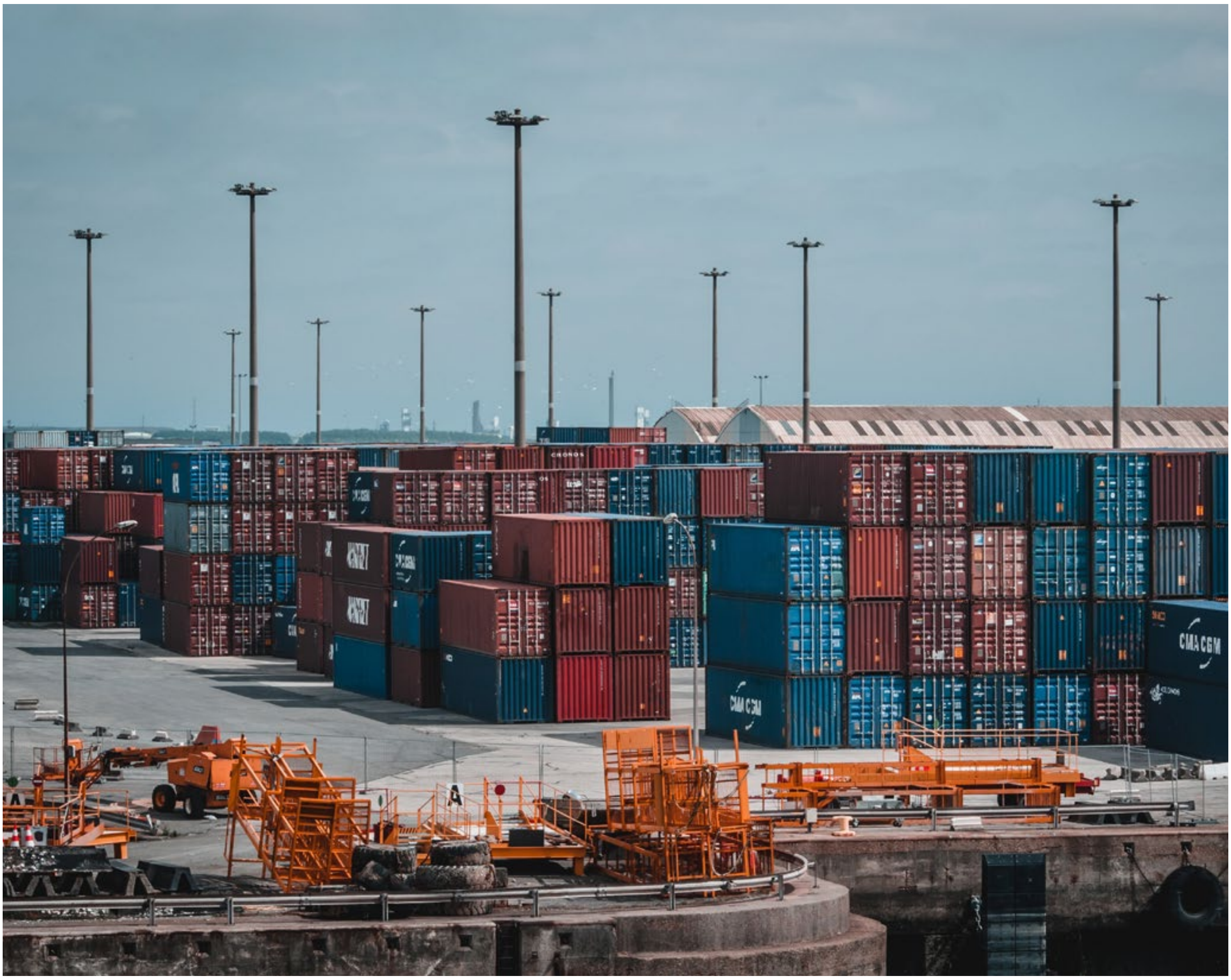
What is your organization's capacity to allocate internal resources for emissions reporting? What is the availability of staff with the necessary expertise and their ability to manage the process effectively?

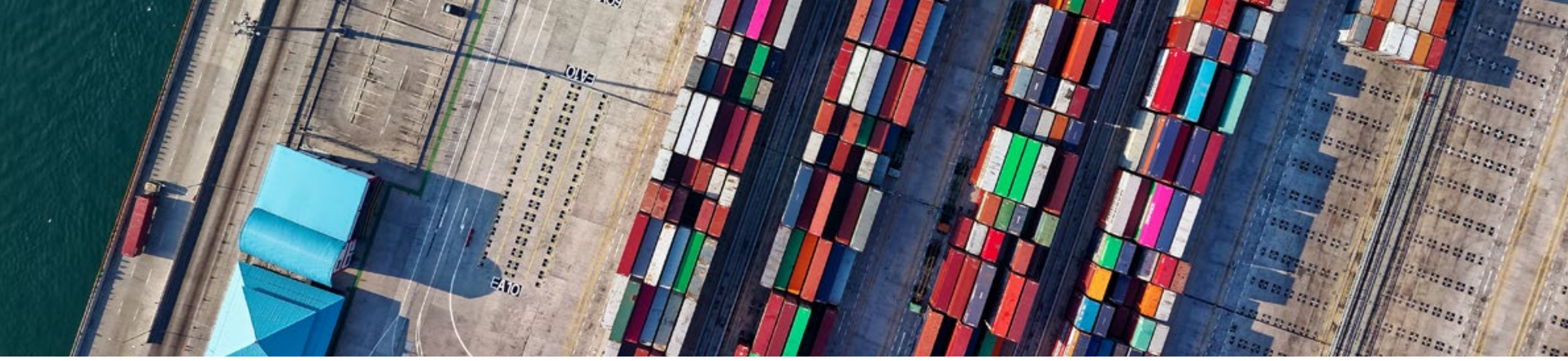
Data complexity

How much and complex is your emissions data? Can spreadsheets handle the level of data collection, analysis, and reporting required or is specialized software or external expertise necessary?

Long-term strategy

What is your organization's long-term sustainability goals and how important is building internal knowledge and capabilities in emissions reporting for your organization? Will a shift to software solutions or internal expertise better align with your strategic direction?





Timetable to ensure you're ready for the Scope 3 emissions reporting deadline

To meet the deadline, while minimizing the risk of reporting errors, organizations need to start their Scope 3 project implementation in the second half of 2023. Here are the milestones you need to reach from now until the deadline:

Q3-4 2023 First six-month period

1. Secure stakeholders' buy-in: Communicate the importance of carbon accounting and reporting to all stakeholders, ensuring their support and commitment to the process.
2. Invest in carbon-accounting tools: Acquire reliable carbon-accounting software that simplifies calculations and enhances the robustness of your emissions data.
3. Collect spend data: Gather data on expenditures and establish a centralized repository as the single source of truth for future emissions calculations.
4. Make initial emissions estimates: Use the spend data to generate initial estimates of your organization's carbon emissions across different categories.

Q1-2 2024 Second six-month period

1. Integrate with ERP Systems: Set up integrations between your carbon-accounting software and enterprise resource planning (ERP) systems to enable real-time emissions calculations and streamline data collection.
2. Conduct activity-based calculations: Refine your emissions calculations by incorporating activity-based data for relevant categories, ensuring greater accuracy in estimating emissions.
3. Source downstream Scope 3 data: Start gathering data related to the use and end-of-life disposal of your products or services, extending your emissions accounting to downstream activities.
4. Collaborate with suppliers: Initiate collaborative efforts with major suppliers to develop product-lifecycle assessments, capturing emissions associated with raw materials and supply-chain processes.

Q3-4 2024 **Third six-month period**

1. Finalize product-lifecycle assessments: Complete product-lifecycle assessments to ensure comprehensive coverage of emissions throughout the entire lifecycle of your products or services.
2. Consolidate data and analysis: Gather all the emissions data, analysis, and insights into a unified view, facilitating the reporting process.
3. Prepare reports: Use the collected data to generate comprehensive reports on your organization's Scope 3 emissions, highlighting key findings and trends.
4. Conduct carbon-accounting audit: Engage an independent auditor to verify the accuracy and integrity of your carbon-accounting practices, ensuring compliance and boosting the credibility of your reporting.

You're done!

By sticking to this timetable, your organization can effectively navigate the requirements of Scope 3 emissions reporting, ensuring readiness well in advance of the 2025 deadline.

Additional benefits of Scope 3 emissions reporting

There are more advantages to early compliance with the regulations than the automation, transparency, and ease of reporting we mentioned earlier. Here are even more!

Facilitates emission-reduction efforts

It gives organizations a clearer understanding of their indirect emissions sources, helping them to identify areas for improvement and implement targeted emission-reduction strategies to achieve their carbon-reduction goals.

Enhanced cost and emission comparisons

Integrating costs and emissions data in a single view allows organizations to make more accurate cost-emission comparisons. This enables better-informed decision-making, such as choosing suppliers or making operational changes that align with both financial and environmental objectives.

Supplier evaluation and collaboration

It allows organizations to compare and evaluate suppliers based on their emissions performance. This can lead to opportunities for collaboration to reduce emissions throughout the supply chain.

Meeting customer and investor expectations

Sharing your emissions data with customers and investors has become increasingly common and may even be requested on short notice. Being able to provide transparent and reliable emissions information can give your organization a competitive advantage, positively influencing customer decisions, securing contracts, obtaining loans, and attracting investments.

Compliance with international requirements

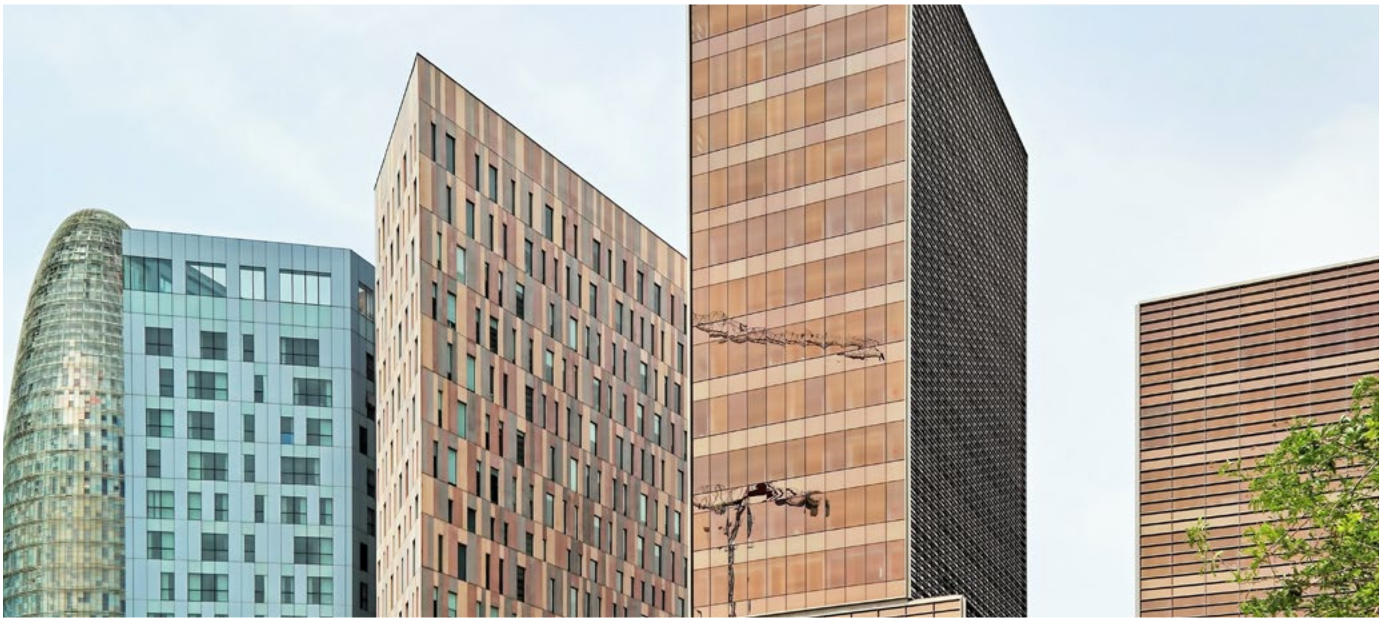
Reporting Scope 3 emissions not only ensures compliance with EU regulations but also helps organizations prepare for other international reporting frameworks. While different requirements may exist, having a solid foundation of data, cleaned, and analyzed, streamlines the reporting process for subsequent governance frameworks, reducing the time and effort required for compliance.

For almost all, this will be the first time they have had to do this, which will make the task challenging. If your company is one of these, you need to start immediately if you hope to meet that deadline: the start of 2025.

By embracing Scope 3 emissions reporting, you can unlock a host of benefits that extend beyond compliance. From driving emission reductions to attracting customers and investors, the comprehensive data and insights gained through reporting contribute to improved sustainability performance and a competitive edge in a rapidly evolving business landscape.

It’s essential to maintain accuracy, consistency, and transparency in your emissions reporting. Regularly review and refine your approach to ensure it aligns with evolving regulations, industry standards, and best practices.

However, you need to start now! Carbon-accounting software will help you reach the milestones on your way to meeting the deadline while minimizing user errors and highlighting areas to improve. Contact Ignite to learn more.



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