# HIGH EMISSIONS, LOW TRANSPARENCY:

## The U.S. Scope 3 Reporting Dilemma

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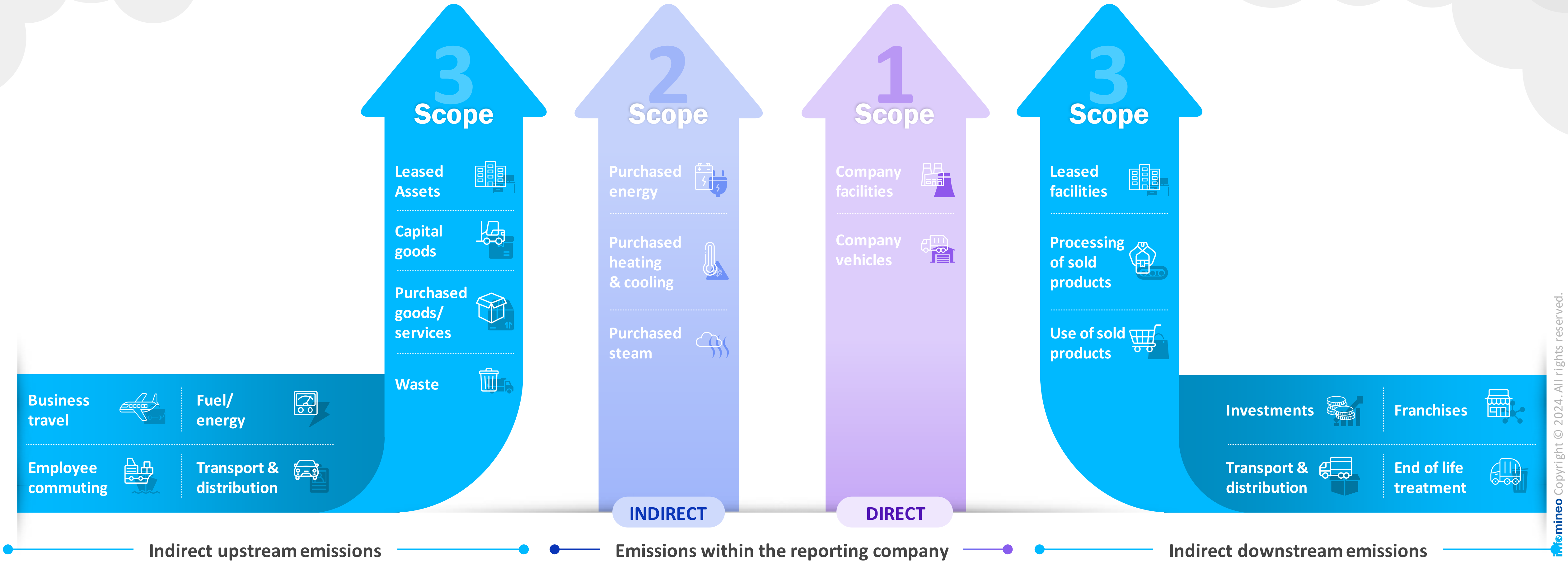
# Scope 3 emissions include the full range of upstream and downstream value chain emissions that are not directly controlled by a company

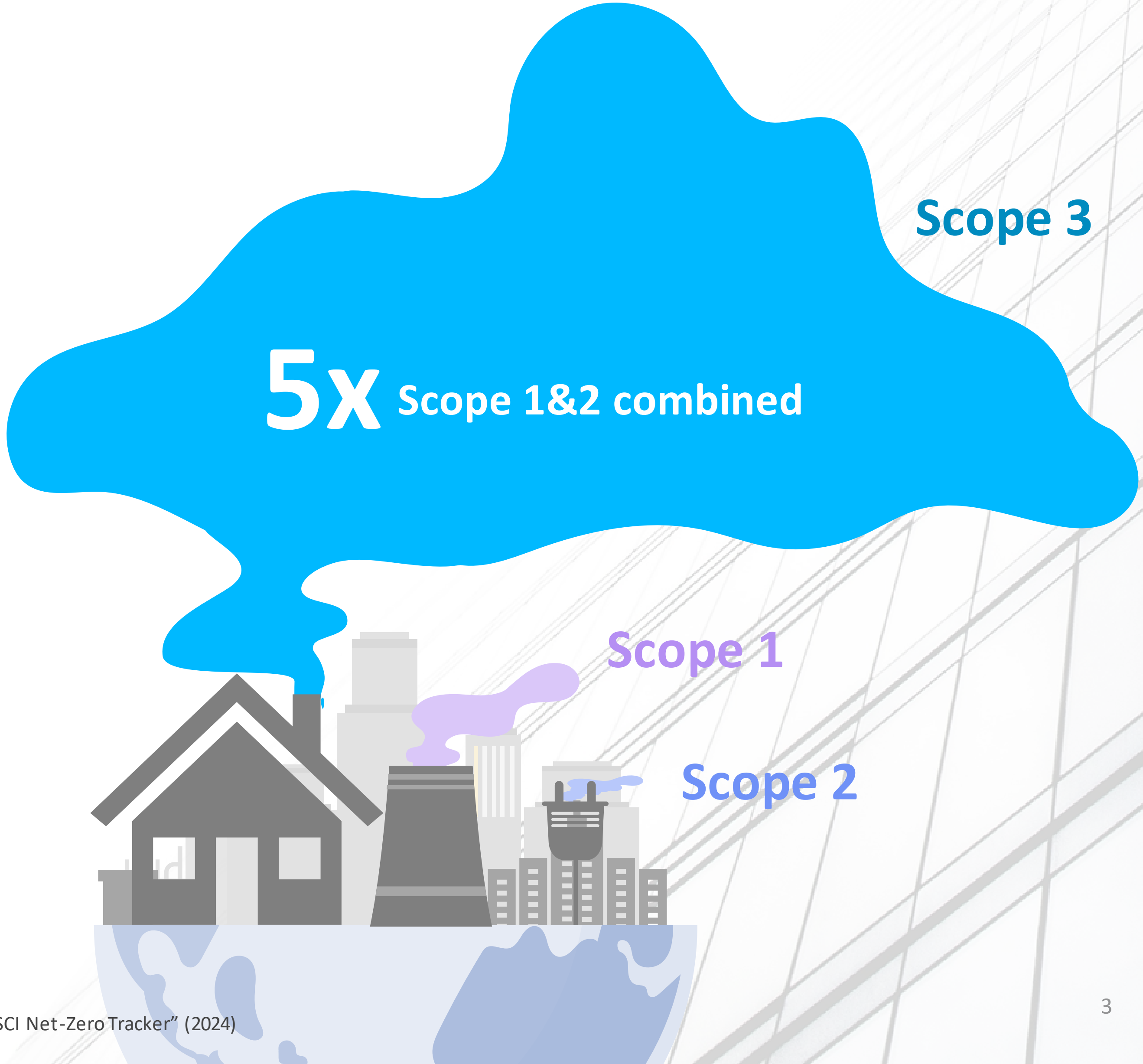
The challenge in estimating and addressing Scope 3 emissions lies in the indirect ownership of these emission sources by the reporting company




Source: GHG Protocol

# Scope 3 emissions far exceed those of Scope 1 and 2 combined, yet Scope 3 reporting is not a common practice

- In 2022, global Scope 1 and 2 GHG emissions totaled **53.8 Gt CO2eq. The U.S**. is **the second-largest emitter** with 6 GT CO2eq
- Global Scope 3 emissions are estimated to be **5X Scope 1 and 2 combined**
- **The U.S.** Scope 3 emissions could amount to **at least 30 GT CO2eq**, equivalent to the combined emissions of the **top six highest emitting Scope 1 & 2 countries**
- Yet only **29% of U.S. public companies** report Scope 3 emissions, compared to 54% of developed market counterparts




* For companies in the ISS ESG Climate universe.

Source: ISS "Scope 3 Data Quality" (2023), SBTI "Catalyzing Value Chain Decarbonization" (2023), MSCI "The MSCI Net-Zero Tracker" (2024)

# While many developed countries have started requiring Scope 3 disclosure, the U.S. waived its proposed mandate

- **Many developed countries** have started to **mandate Scope 3 disclosure,** such as Europe, the UK, and Singapore
- In the U.S., **the SEC initially proposed a mandate** in 2022 but ultimately **withdrew it in 2024** due to compliance costs and data reliability concerns
- While this may exacerbate the reporting gap in the U.S., the momentum toward full transparency is already underway:
  - **Some states are starting to pass their own set of climate disclosures**, such as California's SB 253[1]
  - **Large U.S. companies are likely to still report Scope 3 emissions to comply with other rules,** such as the EU's CSRD[2] and the ISSB[3] framework
  - Companies are **under increasing pressure** from **investors and stakeholders** to disclose and mitigate Scope 3 emissions

### Examples of jurisdictions implementing or suggesting mandates for reporting Scope 3 emissions

**Europe**

Europe's adoption of the **CSRD**[2] in 2022 mandates large/mid sized companies to start reporting Scope 3 emissions, beginning in 2025

**United Kingdom**

The **UK's Sustainability Disclosure Standards (SDS)** will follow **ISSB**[1] **standards** and include mandatory Scope 3 reporting starting 2025

**Singapore**

Singapore approved new reporting rules that will **mandate climate-related disclosures**, including Scope 3 emissions. It is set to be effective in 2025

**Australia**

Australia's government revealed **draft legislation** requiring companies to report on climate-related risks, opportunities, and GHG emissions (including Scope 3) starting 2024

Signed | Proposed

**1** Climate Corporate Data Accountability Act **2** Corporate Sustainability Reporting Directive **3** International Sustainability Standards Board

Source: Europa, UK Gov, Press Search

# Despite the lack of formal requirements, many prominent companies in the U.S. are assessing and communicating their Scope 3 emissions

- Scope 3 emissions disclosure is on the rise globally. In Europe, where it will be mandatory, companies are increasingly setting **targets across their value chains**
- As the drive for greater transparency and due diligence gains momentum, **some U.S. companies are starting to follow in their footsteps**

| | KERING | Schneider Electric | Walmart | Ford |
|---|---|---|---|---|
| | First European luxury giant to fully report Scope 3 emissions | Addresses the toughest Scope 3 emissions from consumers | Cut suppliers' carbon footprint by 1 billion MT | Targets 50% reduction in Scope 3 emissions per vehicle km by 2035 |
| **HQ** | **Europe** | **Europe** | **U.S.** | **U.S.** |
| **CDP Climate change score 2023*** | **A** | **A** | **B** | **A** |
| **Scope 3 initiatives** | • Prioritize **eco-friendly raw materials**<br>• Eliminate **single use plastic** packaging<br>• Set to convert 100% **supply chain electricity to green** | • Switch to **SF6-free products** by 2025 due end-of-life emissions mainly from SF6<br>• Eliminate single-use plastic in **secondary packaging** by 2025 | • Sustainably source **20+ agricultural commodities** by 2025<br>• Continue **Project Gigaton** to exceed the achieved 1 billion MT supplier emissions reduction goal | • Research **alternative powertrains** and fuels for **eco-friendly vehicle options**<br>• Include **20% recycled and renewable plastics** in new NA/EU vehicle designs |

*assesses the comprehensiveness of the company's climate content and actions taken to mitigate climate effects. An A score entails that the company is disclosing its Scope 1,2 and 3

Source: Kering "Climate strategy" (2023), Schneider Electric "Climate report" (2022), Walmart Sustainability Hub, Ford "Integrated Sustainability And Financial Report" (2023), Press Search

# Although the SEC's final Climate Disclosure rule excludes Scope 3 emissions, U.S. companies keep working towards full transparency

- Scope 3 emissions stem from **indirect value chain activities**. Their **substantial scale**, accounting for roughly 84% of total emissions, is **attracting global scrutiny and driving efforts** to measure and mitigate them
- However, their **indirect origins** make them particularly challenging to assess and address. This is pushing companies to explore **alternative strategies,** including offsetting
- Regulators are increasingly mandating the disclosure of Scope 3 emissions to foster transparency. While **the U.S**., a major emitter, notably decided to **exclude Scope 3 emissions from its reporting mandate**
- **The transparency push in the U.S.** is gaining momentum, with California's **SB 253** and the European Union's **CSRD** requiring 5,000 and 3,000 companies to disclose Scope 3 emissions, respectively
- Additionally, mounting **pressure from investors and stakeholders** is prompting U.S. companies to not only disclose but also actively **mitigate their Scope 3 emissions**
- For instance, **ExxonMobil**, whose **720 million MT Scope 3 emissions** exceed every country's emissions except those of the top 5, has been subjected to public **scrutiny. This has prompted the company to sue investors** who are demanding the establishment of Scope 3 targets. Exxon is the only one of the five Western oil majors that does not have such targets

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**COMPANY/ENTITY**
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**MARKET**
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**CONSUMER/EXPERT**
Getting insights from social listening, organizing expert interviews

# THREE TYPES OF SUPPORT

### AD-HOC
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### TRACKING
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### CONTENT DEVELOPMENT
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