

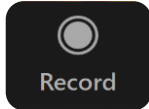
Scope 3 Technical Working Group Meeting

Working draft, do not cite

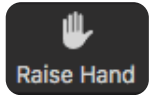
Group B Meeting 5 Optionality and Hotspot Analysis

February 6th, 2025

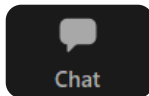
Welcome and Meeting information



This meeting is recorded.



Please mute yourself by default and unmute when speaking
Please use the Raise Hand function to speak during the call.



You can also use the chat function in the main control.



Recording, slides, and meeting minutes will be shared after the call.

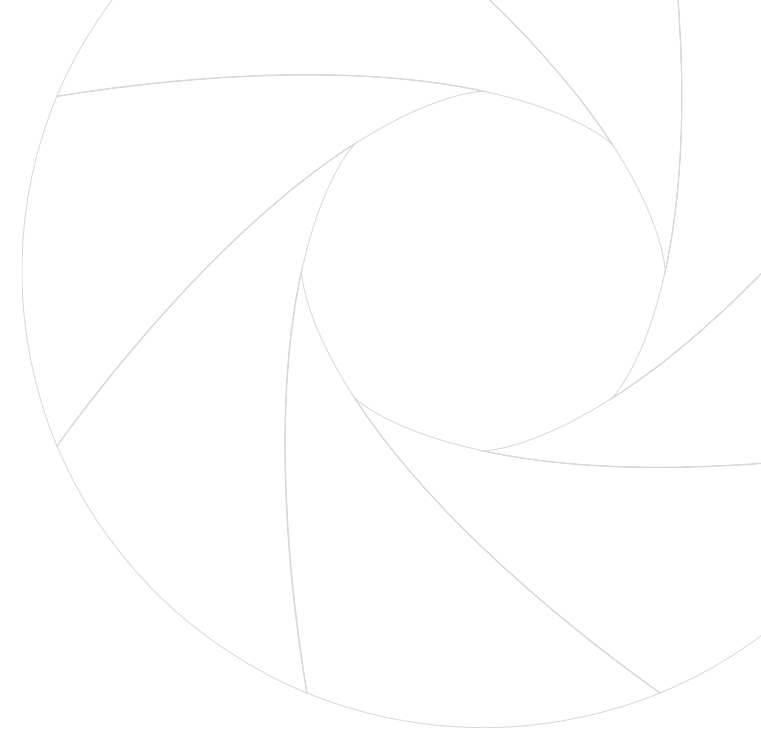
Meetings by topic

Meeting code	Date	Topic(s) (Discussion Paper B1 Question(s))
B.1	31 Oct 2024	Kick-off
B.2	21 Nov 2024	Relevance and significance (Q1, Q2, Q3)
B.3	12 Dec 2024	Significance and de minimis (Q3, Q6)
B.4	16 Jan 2025	Influence and Downstream emissions from intermediate products (Q4 & Q5)
B.5	6 Feb 2025	Optionality and hotspot analysis (Q7, Q8)
B.6	27 Feb 2025	Intermediary parties
B.7	20 Mar 2025	Intermediary parties (continued)
B.8	10 Apr 2025	Target setting updates
B.9	1 May 2025	Base year recalculation & decision pathway
B.10	22 May 2025	Category and other performance metrics
B.11	12 Jun 2025	Disclosure requirements for scope 3 performance communication
B.11	12 Jun 2025**	Leased assets

Agenda

- Attendance and housekeeping (5 min)
- Recap of previous work (5 min)
- Optionality (40 min)
- Hotspot analysis (40 min)
- Reviewing the recommendations package (25 min)
- Next steps (5 min)

Housekeeping



Housekeeping

- TWG members should **not disclose any confidential information** of their employers, related to products, contracts, strategy, financials, compliance, etc.
- In TWG meetings, **Chatham House Rule** applies:
 - “When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.”
- **Compliance and integrity** are key to maintaining the credibility of the GHG Protocol
 - Specifically, all participants need to follow the **conflict-of-interest policy**
 - **Anti-trust rules** have to be followed; please avoid any discussion of competitively sensitive topics*

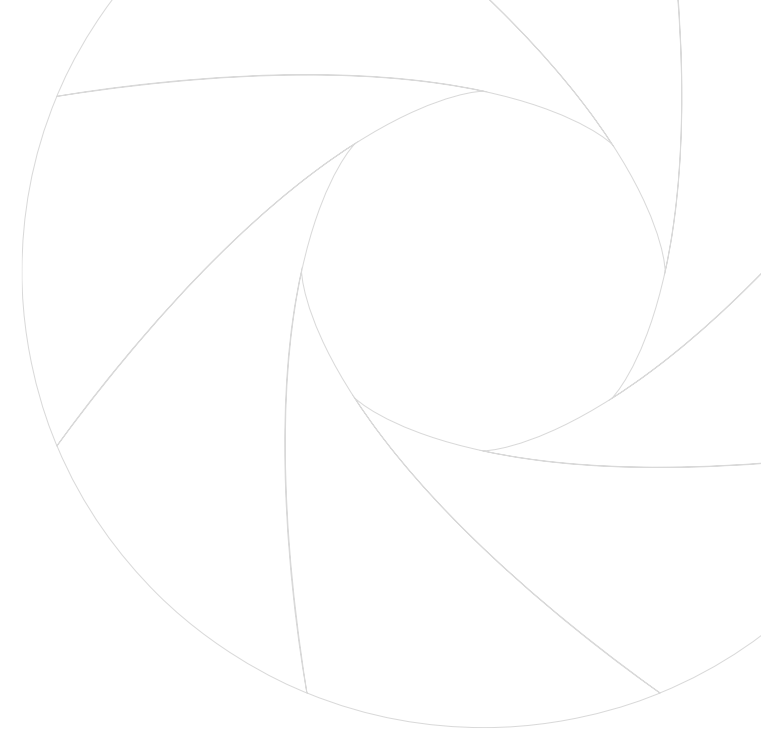
* Such as pricing, discounts, resale, price maintenance or costs; bid strategies including bid rigging; group boycotts; allocation of customers or markets; output decisions; and future capacity additions or reductions

Decision-Making Criteria

- Evaluating options: Describe pros and cons of each option relative to each criterion. Qualitatively assess the degree to which an option is aligned with each criterion through a green (most aligned), yellow (mixed alignment), orange (least aligned) ranking system. Some criteria may be not applicable for a given topic; if so, mark N/A.
- Comparing options: The aim is to advance approaches that ideally meet all decision criteria (i.e. maximize pros and minimize cons against all criteria). If options present tradeoffs between criteria, the hierarchy should be generally followed, such that, for example, scientific integrity is not compromised at the expense of other criteria, while aiming to find solutions that meet all criteria.

<i>Illustrative example</i>	Option A: Name	Option B: Name	Option C: Name
1A. Scientific integrity	<ul style="list-style-type: none"> • Pros • Cons 	<ul style="list-style-type: none"> • Pros • Cons 	<ul style="list-style-type: none"> • Pros • Cons
1B. GHG accounting and reporting principles	<ul style="list-style-type: none"> • Pros • Cons 	<ul style="list-style-type: none"> • Pros • Cons 	<ul style="list-style-type: none"> • Pros • Cons
2A. Support decision making that drives ambitious global climate action	<ul style="list-style-type: none"> • Pros • Cons 	<ul style="list-style-type: none"> • Pros • Cons 	<ul style="list-style-type: none"> • Pros • Cons
2B. Support programs based on GHG Protocol and uses of GHG data	<ul style="list-style-type: none"> • Pros • Cons 	<ul style="list-style-type: none"> • Pros • Cons 	<ul style="list-style-type: none"> • Pros • Cons
3. Feasibility to implement	<ul style="list-style-type: none"> • Pros • Cons 	<ul style="list-style-type: none"> • Pros • Cons 	<ul style="list-style-type: none"> • Pros • Cons

Recap of the previous discussions



Main outcomes of previous Group B discussions

1. Regarding how the relevance principle should be considered in the exclusion of scope 3 activities from the inventory boundary, the TWG prefers option 1C: **Relevance is required based on the criterion of magnitude of emissions only.** *Runner-up: Requiring relevance defined as meeting at least one of the relevance criteria (option 1B + option 2B)*
2. Regarding whether a magnitude threshold should be defined, the TWG prefers option 3C-2: **A default magnitude threshold should be defined by the Scope 3 Standard.** *Runner-up: magnitude threshold defined by the Scope 3 Standard (option 3C-1)*
3. Regarding the value of the magnitude threshold, the TWG prefers a **cumulative threshold** with a preliminary value of **cumulative 5% of total scope 3 emissions**
4. The TWG prefers allowing de minimis, **combining de minimis exclusions with other exclusions under the cumulative magnitude threshold**
5. With regard to refining the influence criterion of emissions relevance, the TWG prefers to **maintain the current definition of influence, and at the same time to provide a list of influence pathways as guidance**
6. With regard to refinement of the allowable exclusions for downstream emissions from intermediate products, the TWG prefers Option 5C. **Editorial change to facilitate interpretation, with removal of the provision to exclude all downstream categories if one of the categories is excluded**
7. The TWG recommendations prompt the **requirement of hotspot analysis**
8. The TWG prefers requirement of **hotspot analysis annually to qualify exclusions**

Group B: Flowchart of Options, Questions 1-2-3-8

1. How should the relevance principle be considered in the exclusion of activities?

2. How do the relevance criteria need to be followed to fulfill relevance?

3. Should a magnitude threshold be defined?

8. Should organizations be required to carry out a hotspot analysis as a step towards setting the inventory boundary?

Option 1A
Maintain current language



n/a



Option 3A Maintain current language	Option 3C Defined by the Standard
Option 3B Defined by preparer	Option 3D All shall be accounted



Option 8A
No, recommended

Option 8B
Yes, required

Option 1B
Relevance is required



Option 2A
Maintain current language

Option 2B
Relevance criteria



Option 3B

Option 3C



Option 8B
Yes, required

Option 1C
Relevance based on magnitude



n/a

Defined by the Standard

Default defined by the Standard

Cumulative 5% of total Scope 3

Group B: Follow up considerations

4. Should the influence criterion be refined?

Option 1: Maintain current definition	Option 2: Define influence pathways	Option 3: Define influence based on control	Option 4: Combination of Options 1-3
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5. Should the guidance on exclusion of downstream categories for intermediate products be revised?

Option 1: Maintain the current language	Option 2: Editorial change to facilitate interpretation	Option 3: Editorial change, remove provision of exclusion of all downstream	Option 4: Remove intermediate products as a special case
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6. Should “de minimis” be formally defined in the Scope 3 Standard?

Option 1: Maintain the language	Option 2: Prohibit de minimis	Option 3: Permit de minimis, set a value	Option 4: Combine with a magnitude threshold
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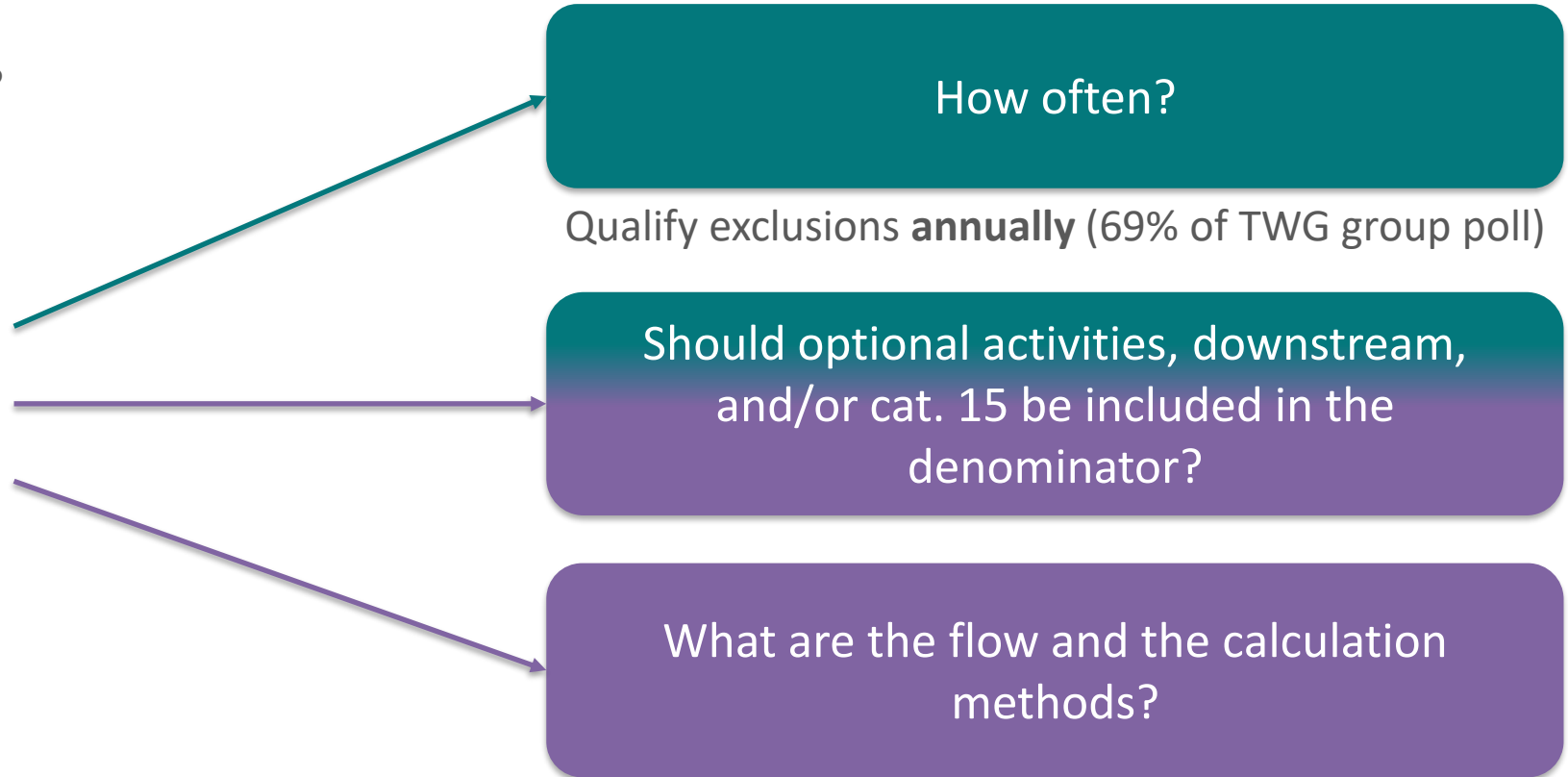
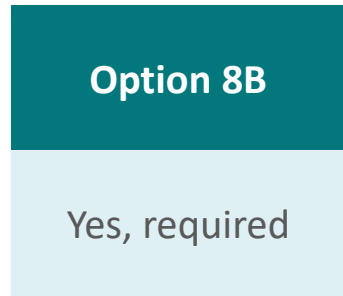
7. Should the minimum boundaries of scope 3 categories be revised to require currently optional activities?*

Option 1: Maintain optionality	Option 2: Dissolve optionality, all relevant emissions shall be reported	Option 3: Consider currently optional activities on case-by-case basis
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* Options presented as in the Discussion Paper B.1 Boundary setting, and are revised (see the slides further)

Hotspot analysis considerations

8. Should organizations be required to carry out a hotspot analysis as a step towards setting the inventory boundary?



Questions being discussed in this meeting:

Should downstream emissions be included in the denominator?

- Q7. Should the minimum boundaries of scope 3 categories be revised to require currently optional activities? (Question 7 of *Discussion paper B1*)

How should the hotspot analysis and magnitude threshold be applied?

- What should the order of operations be ?
- What should the denominator for defining the threshold be?

Review of the recommendations on boundary setting as a whole

Should any of the recommendations be changed?

- Relevance requirement
- Magnitude threshold configuration
- Downstream exclusion for intermediate products

Cross-cutting considerations in the Corporate Standard TWG

1. Should there be a scope 3 requirement in the Corporate Standard?
(Single choice)

13/13 (100%) answered

No - Maintain Corporate Standard optionality for scope 3 reporting (0/13) 0%

Yes - Adopt a scope 3 requirement in the Corporate Standard (13/13) 100%

Majority support for a **layered approach** where scope 3 reporting is differentiated by **company size**, with **high-emitting sectors excluded**

1. Should different levels of scope 3 reporting requirements be defined for the following reporter types? (Rank order) *

13/13 (100%) answered

A. Differentiated scope 3 reporting levels should be open to all reporter types 13/13 100%

B. Small companies 13/13 100%

C. Specific company sectors (requirements defined by sector) 13/13 100%

D. Sectors (excluding select high-emitting sectors from less stringent reporting) 13/13 100%

E. New reporters 13/13 100%

F. Reporters located in specific geographies 13/13 100%

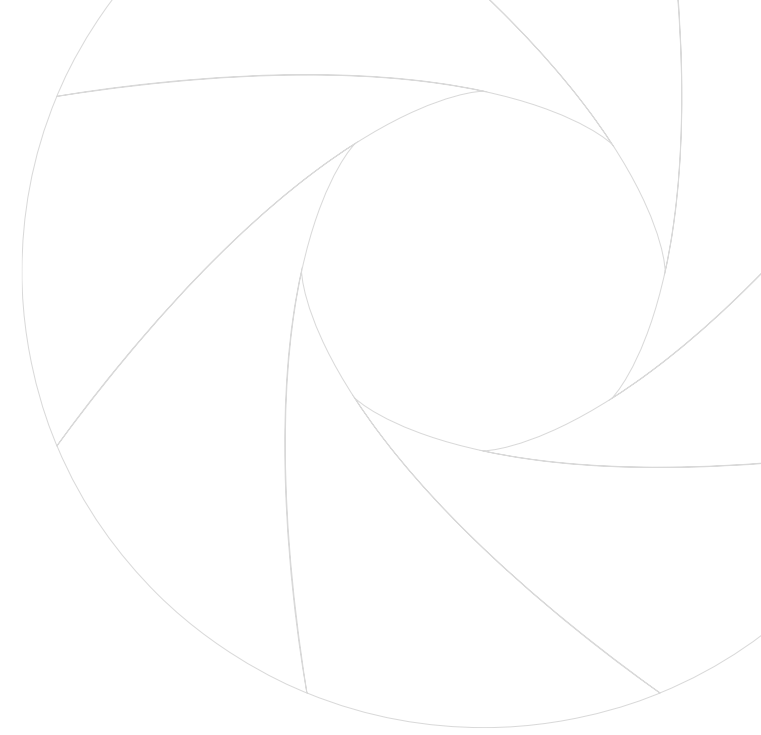
G. Other/combination of options 13/13 100%

H. NA – This is not the role of GHG Protocol 13/13 100%

I. NA – Scope 3 reporting should not be differentiated 13/13 100%

● No - strongly oppose ● No - somewhat oppose
● Neutral ● Yes - somewhat support
● Yes - strongly support ● Abstain

Optionality of activities



Optional activities (I)

Category	Optional activities	Source
1. Purchased goods and services	For franchisees: upstream scope 3 emissions associated with the franchisor’s operations	Technical guidance, p. 51
4. Upstream transportation and distribution	Upstream emissions of fuels (in fuel-based method)	Technical guidance, Appendix D, p. 167
	The life cycle emissions associated with manufacturing vehicles, facilities, or infrastructure	Scope 3 Standard, Table 5.4
5. Waste generated in operations	Unladen backhaul	Technical guidance, p. 52, 55
	Emissions from transportation of waste	Scope 3 Standard, Table 5.4
6. Business travel	The life cycle emissions associated with manufacturing vehicles or infrastructure	Scope 3 Standard, Table 5.4
	Hotel stays of business travelers	Scope 3 Standard, p. 46
7. Employee commuting	Emissions from employee teleworking	Scope 3 Standard, Table 5.4
	Commuting for workers that are not employees: interns, franchises, outsourced operations, etc. Commuting of individuals who are not employees of the company, but commute to facilities owned and operated by the company (consultants, contractors, etc.)	Scope 3 Standard, p. 57
8. Upstream leased assets	The life cycle emissions associated with manufacturing or constructing leased assets	Scope 3 Standard, Table 5.4

Optional activities (II)

Category	Optional activities	Source
9. Downstream transportation and distribution	The life cycle emissions associated with manufacturing vehicles, facilities, or infrastructure	Scope 3 Standard, Table 5.4
	Downstream transportation of customers	Scope 3 Standard, p. 47
	Upstream emissions of fuels (in fuel-based method)	Technical guidance, Appendix D, p. 174
11. Use of sold products	The indirect use-phase emissions of sold products over their expected lifetime (i.e., emissions from the use of products that indirectly consume energy (fuels or electricity) during use)	Scope 3 Standard, Table 5.4
	Maintenance of sold products during use	Scope 3 Standard, p. 48
13. Downstream leased assets	The life cycle emissions associated with manufacturing or constructing leased assets	Scope 3 Standard, Table 5.4
14. Franchises	The life cycle emissions associated with manufacturing or constructing franchises	Scope 3 Standard, Table 5.4
	Scope 3 emissions of franchisees	Technical guidance, p. 131
15. Investments	Debt investments (without known use of proceeds), managed investments and client services, other investments or financial services	Scope 3 Standard, Table 5.4
	Where relevant, companies should also account for the scope 3 emissions of the investee or project	Scope 3 Standard, Table 5.4

OTHER: Emissions from scope 3 activities not included in the list of scope 3 categories reported separately (p. 57, p.120):

“In certain cases, assets controlled by the reporting company that are excluded from its organizational boundary may not be captured by the list of scope 3 categories. In such a case, emissions from these assets should be reported separately as an “other” scope 3 activity”

Optional activities

From the Scope 3 Standard, p. 31:

*"Table 5.4 identifies the minimum boundaries of each scope 3 category in order to standardize the boundaries of each category and help companies understand which activities should be accounted for. **The minimum boundaries are intended to ensure that major activities are included in the scope 3 inventory, while clarifying that companies need not account for the value chain emissions of each entity in its value chain, ad infinitum. Companies may include emissions from optional activities within each category.**"*

1. Optionality of activities in many instances was based on their expected low contribution, referring to the "no ad infinitum" argument. That might not be the case, at least, for category 11 (indirect use phase emissions) and 15 (optional investments types).
2. Following the accounting principles, however, companies still should quantify and report these optional activities if they are relevant.

Stakeholder feedback

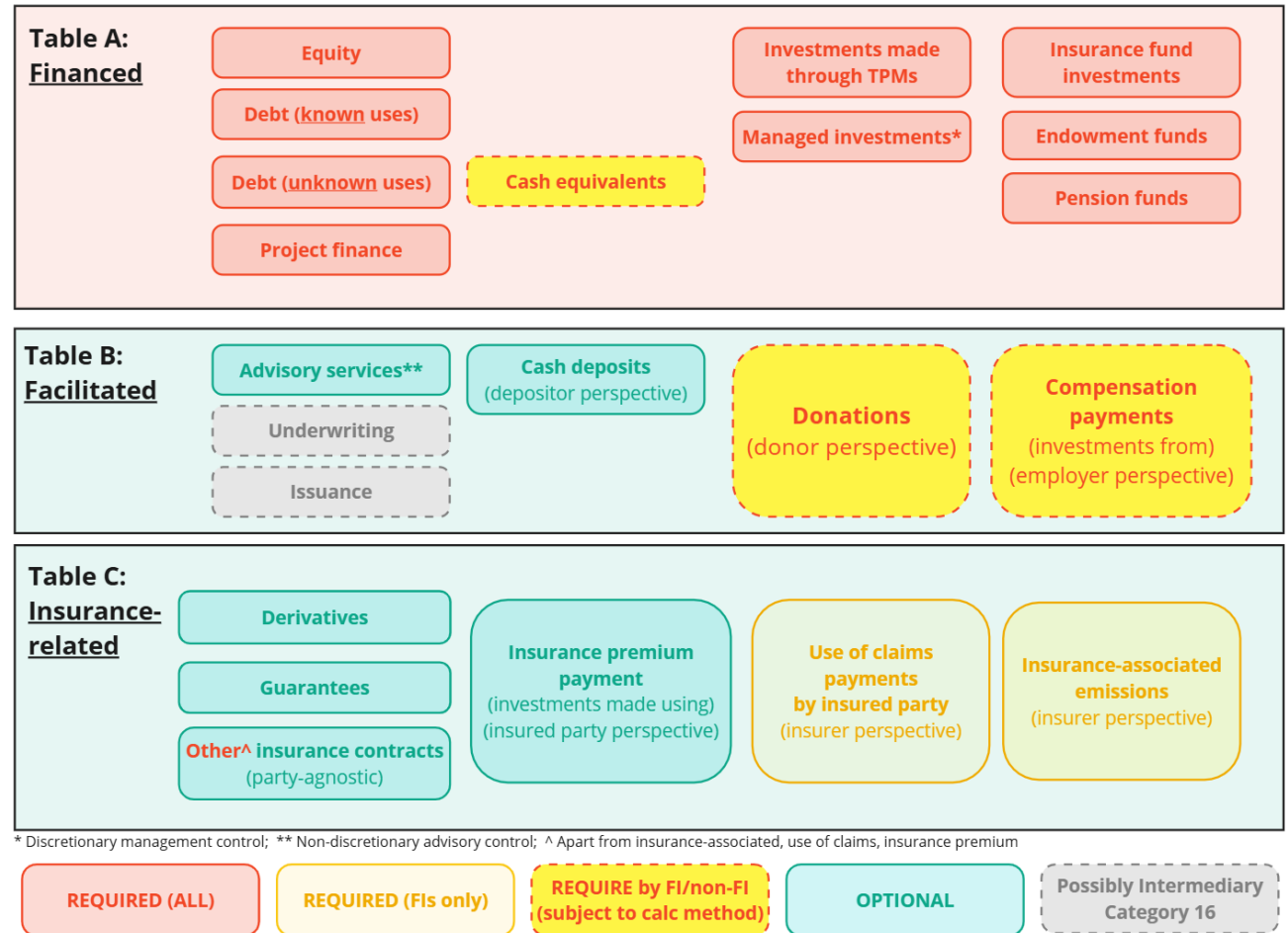
1. Several respondents expressed concern that differences in the optionality of activities and accounting boundaries can give rise to year-over-year GHG inventory fluctuations, including regarding inclusion or exclusion when assets are owned, leased, outsourced, or franchised. Several asserted that this compromises the principles of consistency and relevance.
2. Some stakeholders noted potential inconsistencies of the optional scope 3 activities between different frameworks.

SBTi: “Well-to-Wheel/Wake” boundary in transport activities is not optional.

PCAF: differences in classification, and optionality of emissions related to cat. 15.

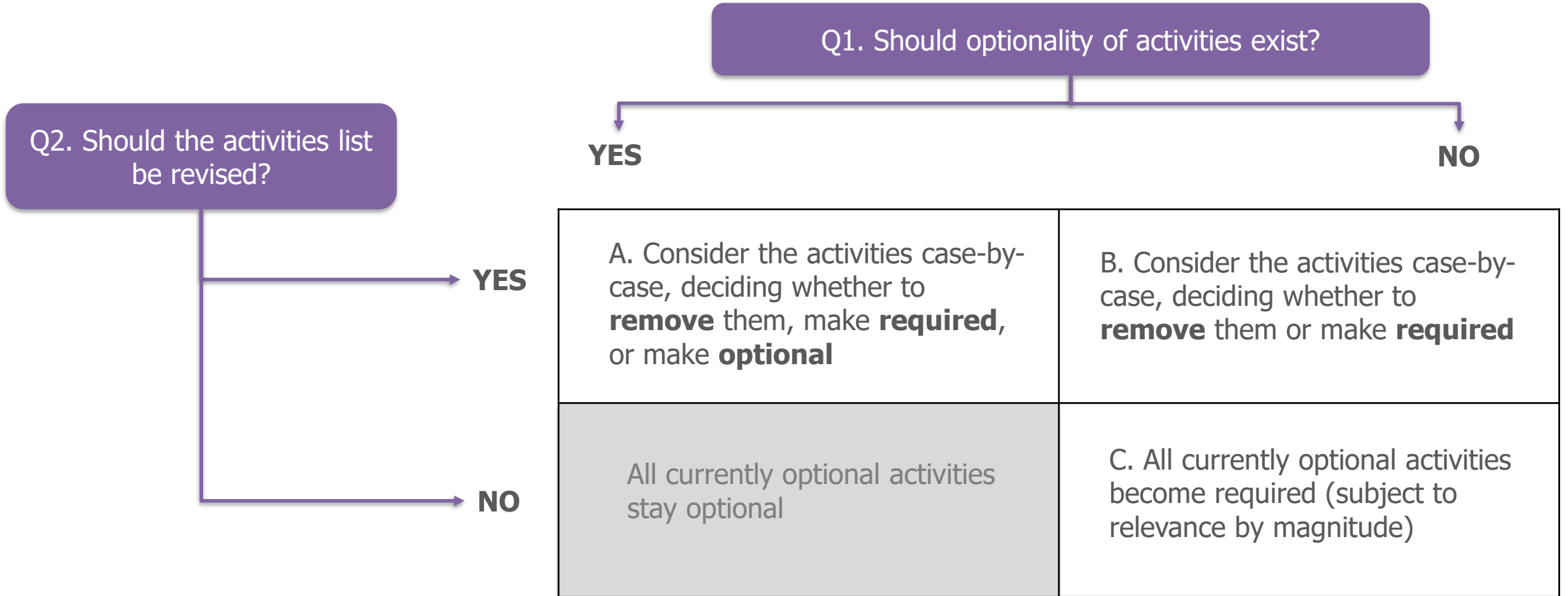
Current considerations of subgroup C

- Subgroup C is currently updating the classification of activities (investment types) in category 15*
- For each activity, the subgroup is determining a recommendation for it to be:
 - Required for both financial and non-financial institutions
 - Required for financial institutions and optional for non-financial institutions
 - Optional for both financial and non-financial institutions



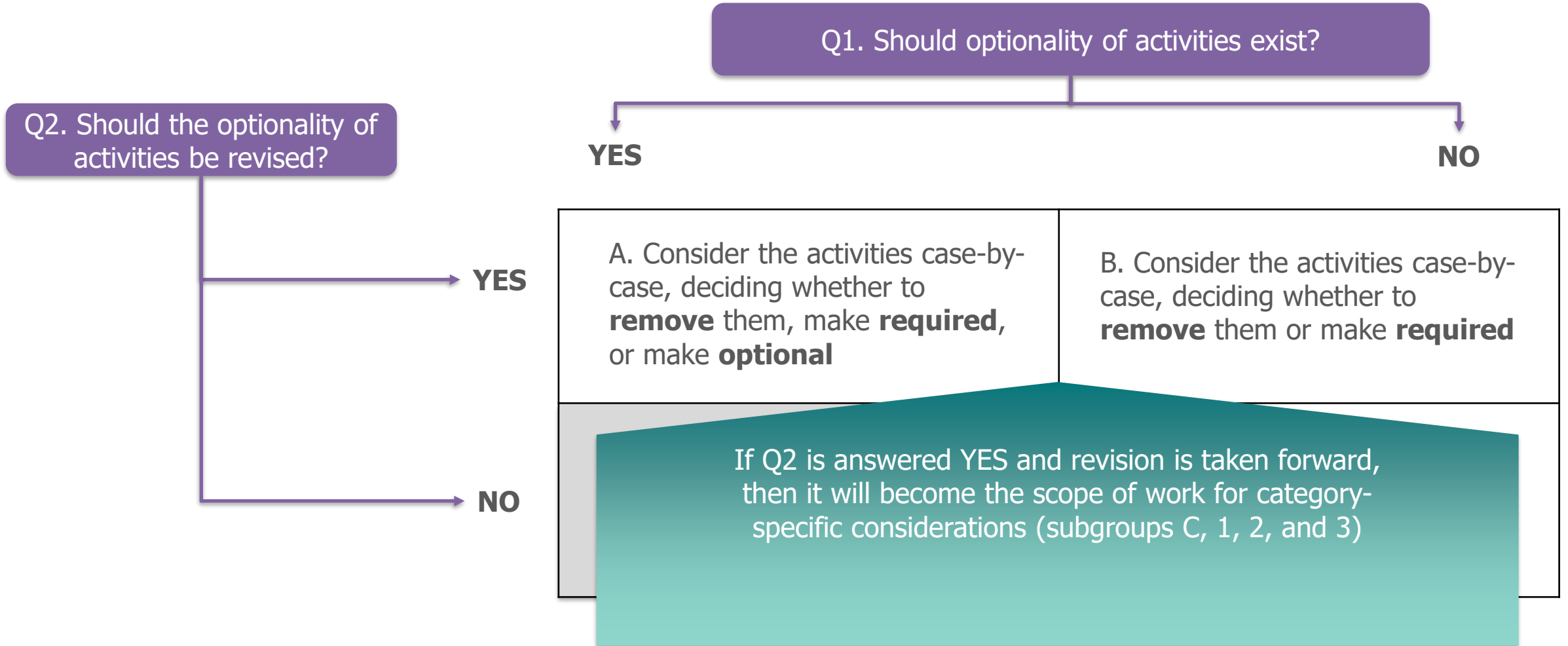
- Figure on the right is a working draft presenting a potential reorganization of activities. The figure is not conclusive, 2/10/2025 | 20 neither complete, nor final, and shall not be used for drawing conclusions on the outcomes of the TWG recommendations

Questions of optionality



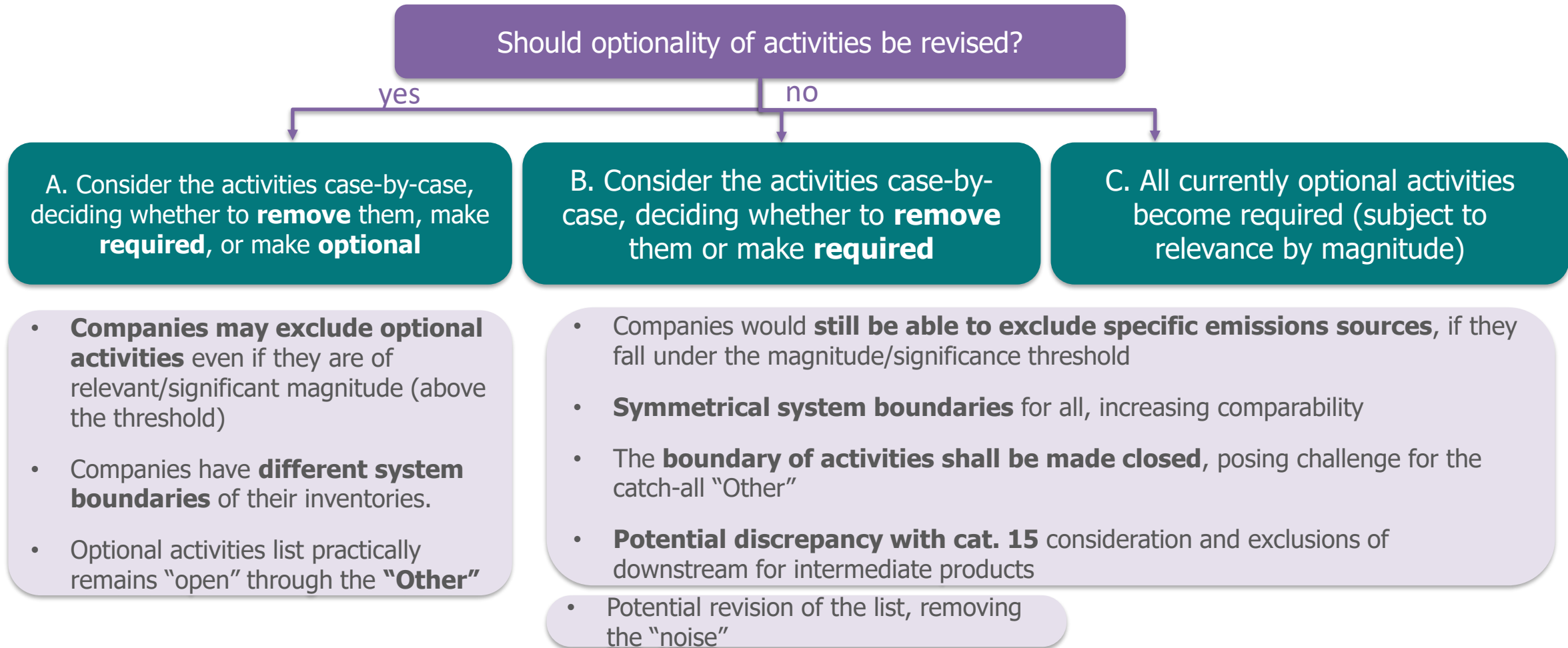
Based on the stakeholder feedback, some of the activities will be included into the phase 2 scope of work, and thus the option is not applicable

Questions of optionality



Based on the stakeholder feedback, some of the activities will be included into the phase 2 scope of work, and thus the option is not applicable

Implications of considerations

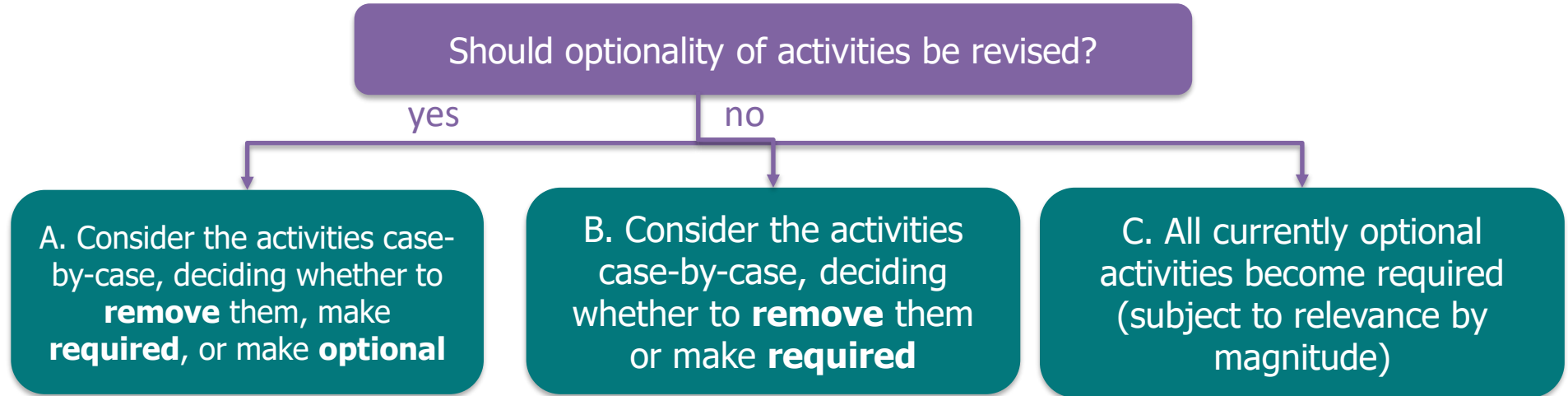


Mitigating the disadvantages

If optionality is kept, the boundary inconsistency could be mitigated via:

- Separate reporting of required and optional emissions
- Set the magnitude threshold denominator based on required activities only

Implications of considerations

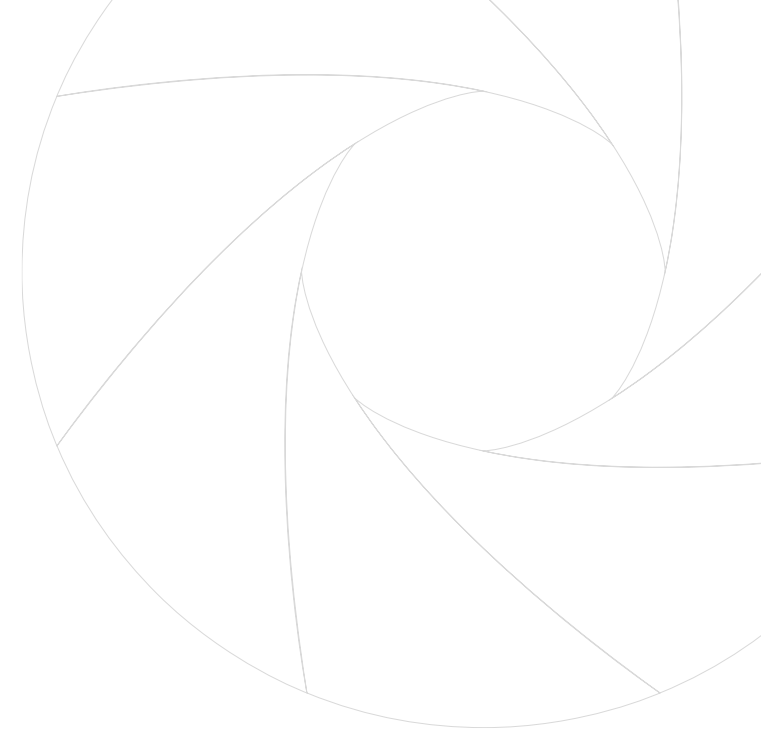


Scientific integrity			
GHG accounting and reporting principles			
Support decision making that drives ambitious global climate action			
Support programs based on GHG Protocol and uses of GHG data			
Feasibility to implement			

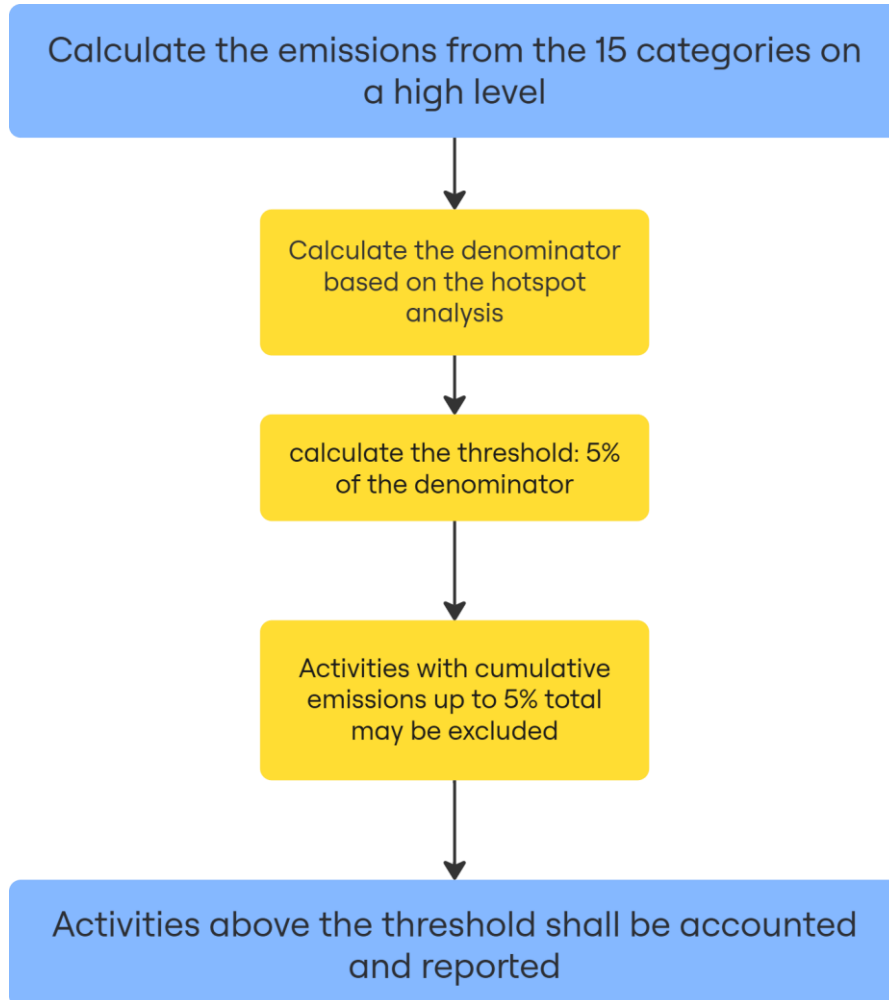
Discussion

- Should the current list of activities in categories boundaries be revised?
- Should optionality of activities be maintained?
- Which mitigation actions can be taken to limit disadvantages of the choice?
 - Keeping optionality: boundary inconsistency, potential exclusion of relevant optional activities
 - Removing optionality: rigidity of the boundaries, potentially lower certainty of the data and “water-down” of the threshold

Hotspot analysis



Order of operations:



Defining denominator

	Required	Optional activities
Category 1. Purchased goods and services		
Category 2. Capital goods		
Category 3. FERA		
Category 4. Upstream transportation and distribution		
Category 5. Waste generated in operations		
Category 6. Business travel		
Category 7. Employee commuting		
Category 8. Upstream leased assets		
Category 9. Downstream transportation and distribution		
Category 10. Processing of sold products		
Category 11. Use of sold products		
Category 12. End-of-life treatment of sold products		
Category 13. Downstream leased assets		
Category 14. Franchises		
Category 15. Investments		
Other		

Option 4

Option 3

Option 2

Option 1

Denominator options

- Option 1: all reported activities

- Most complete inventory

- Discrepancies in boundaries across companies
- Potential loophole of intended increase of threshold

- Option 2: all required activities

- Relatively complete inventory

- If exclusions are allowed for intermediate products, or optionality maintained in cat. 15, discrepancies in boundaries across companies

- Option 3: sum of required activities of categories 1-14

- Relatively complete “operational” inventory
- Addressing potential optionality in cat. 15

- If exclusions are allowed for intermediate products, discrepancies in boundaries across companies
- Not appropriate for financial institutions, for who cat.15 may account for >90% of scope 3

- Option 4: sum of required activities of upstream categories

- Equal boundaries across companies
- Addressing potential optionality in cat. 15

- Incomplete inventory
- Not appropriate for “downstream”-intensive companies

Discussion

- Are there any alternative options?
- Assuming the previously taken recommendations, what should be included into the denominator? Why?

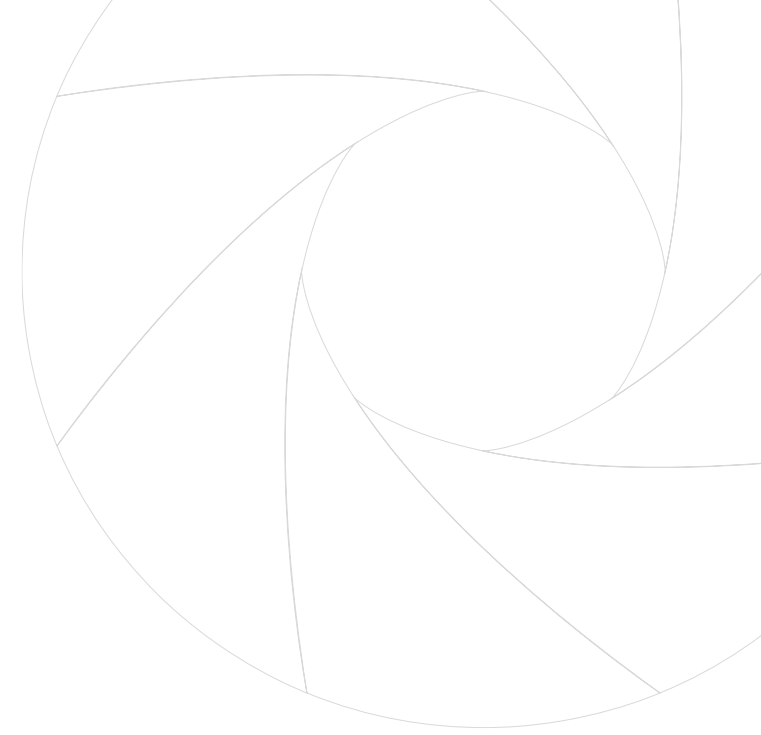
Applicable calculation methods

- “If the company’s main goal is to understand the relative magnitude of various scope 3 activities, identify hot spots, and prioritize efforts in primary data collection, the company should select secondary data” (*Scope 3 Standard*, p. 75)
- Table 7.4 provides examples of secondary data
- To prioritize activities based on their expected GHG emissions, companies should: use initial GHG estimation (or screening) methods to estimate the emissions from each scope 3 activity (e.g., by using **industry-average data**, **environmentally extended input output data** (see box 7.1), **proxy data**, or **rough estimates**) (*Scope 3 Standard*, p. 66)
- Proxy data can be **extrapolated**, **scaled up**, or **customized** to be more representative of the given activity *Scope 3 Standard*, p. 83
- EEIO data are particularly useful in screening emission sources when prioritizing data collection efforts (*Scope 3 Standard*, Box 7.1)

Discussion

- Can and should companies be permitted to calculate the hot spot analysis using **spend-based** only?
 - *Should new calculation method(s), e.g., revenue-based emissions be derived for downstream categories, to perform hotspot analysis?*
- What **additional calculation guidance** can / should be given?
 - Is it necessary to distinguish upstream vs. downstream scope 3 hotspot analysis
- Should any **methodological constraint(s)** be posed?
 - E.g., organizations should use the extrapolations of the previous year(s) inventory calculations to estimate the activities found out significant previously, unless it is found not reasonably possible or of potentially lower quality than other methods.
- Should hotspot analysis be reported (separately from the inventory)?

Reviewing the recommendations package



Main outcomes of previous Group B discussions

1. Regarding how the relevance principle should be considered in the exclusion of scope 3 activities from the inventory boundary, the TWG prefers option 1C: **Relevance is required based on the criterion of magnitude of emissions only.** *Runner-up: Requiring relevance defined as meeting at least one of the relevance criteria (option 1B + option 2B)*
2. Regarding whether a magnitude threshold should be defined, the TWG prefers option 3C-2: **A default magnitude threshold should be defined by the Scope 3 Standard.** *Runner-up: magnitude threshold defined by the Scope 3 Standard (option 3C-1)*
3. Regarding the value of the magnitude threshold, the TWG prefers a **cumulative threshold** with a preliminary value of **cumulative 5% of total scope 3 emissions**
4. The TWG prefers allowing de minimis, **combining de minimis exclusions with other exclusions under the cumulative magnitude threshold**
5. With regard to refining the influence criterion of emissions relevance, the TWG prefers to **maintain the current definition of influence, and at the same time to provide a list of influence pathways as guidance**
6. With regard to refinement of the allowable exclusions for downstream emissions from intermediate products, the TWG prefers Option 5C. **Editorial change to facilitate interpretation, with removal of the provision to exclude all downstream categories if one of the categories is excluded**
7. The TWG recommendations prompt the **requirement of hotspot analysis**
8. The TWG prefers requirement of **hotspot analysis annually to qualify exclusions**

Discussion

Considering all recommendations:

- Should the value of the magnitude threshold be maintained (5%)?
- Should the denominator of the magnitude threshold be maintained (total scope 3 emissions)?
- Should the threshold be fixed for all, or allow deviations from default?
- Should downstream emissions from intermediate products maintain a provision for possible exclusion of a downstream category, or should the provision be removed?

Next Steps



Next steps

- GHG Protocol Secretariat:
 - Distribute the recording, feedback form and poll (as needed) (by Feb 13)
 - Prepare and distribute minutes of the meeting (by Feb 13)
 - **Form the package of recommendations on Boundary Setting, and distribute together with the consensus poll (by Feb 20)**
 - **Distribute updated draft of Chapter 6 for feedback (tbd)**
- TWG members:
 - Provide feedback on the discussion if relevant, via the feedback form (by Jan 27)
 - **Respond to the consensus poll (by Feb 27)**
 - **Provide feedback on the updated draft of Chapter 6 (tbd)**

The next meeting B.6 is on February 27th

- TWG members:
 - Please advise if you will *not* be able to attend the meeting

Thank you!

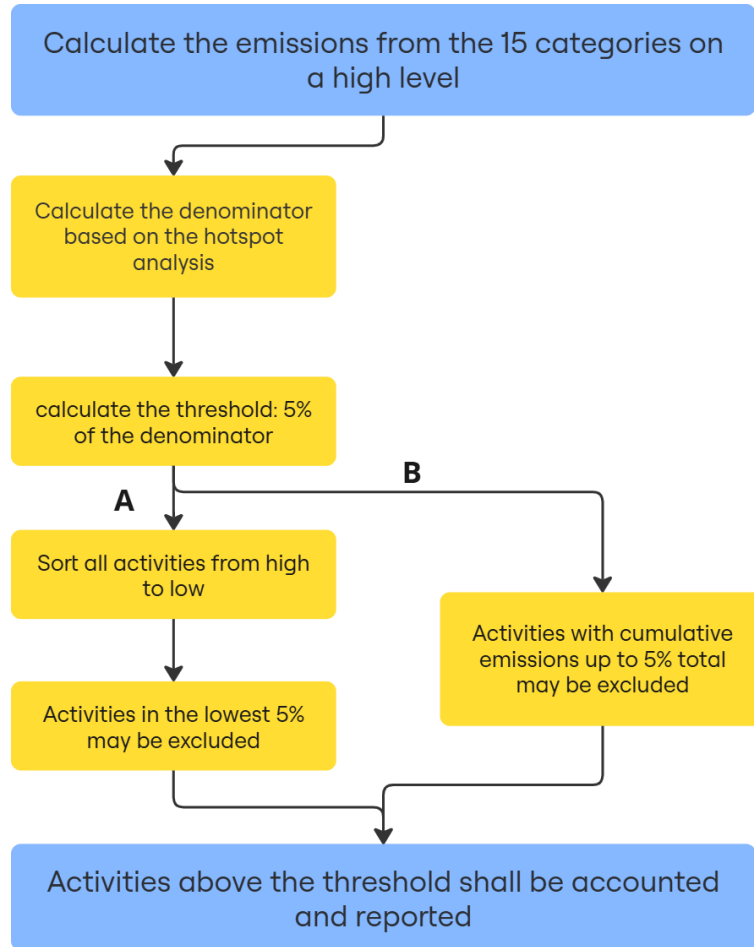
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Order of operations: Which of the ways (A or B) should be applied?



Option A:

TOTAL	31026	% of the total
Activity 1	5292	19.0%
Activity 2	4981	17.9%
Activity 3	3971	14.3%
Activity 4	2491	9.0%
Activity 5	2398	8.6%
Activity 6	2391	8.6%
Activity 7	1927	6.9%
Activity 8	1204	4.3%
Activity 9	983	3.5%
Activity 10	832	3.0%
Activity 11	374	1.3%
Activity 12	359	1.3%
Activity 13	248	0.9%
Activity 14	139	0.5%
Activity 15	123	0.4%
Activity 16	45	0.2%
Activity 17	24	0.1%

4.3%

Preparer is allowed to exclude only activities 11 to 17

Option B:

TOTAL	31026	% of the total
Activity 1	5292	19.0%
Activity 2	4981	17.9%
Activity 3	3971	14.3%
Activity 4	2491	9.0%
Activity 5	2398	8.6%
Activity 6	2391	8.6%
Activity 7	1927	6.9%
Activity 8	1204	4.3%
Activity 9	983	3.5%
Activity 10	832	3.0%
Activity 11	374	1.3%
Activity 12	359	1.3%
Activity 13	248	0.9%
Activity 14	139	0.5%
Activity 15	123	0.4%
Activity 16	45	0.2%
Activity 17	24	0.1%

Sum 4.9%

Preparer is allowed to exclude any combination of activities as long as cumulatively it is less than 5%

As long as "activity" remains largely undefined, enforcing option A is void: any activity can be broken down into smaller activities to "game" it