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New scope emission classes and the impact on ESG reporting

Faced with the growing climate crisis, companies must increasingly dedicate themselves to sustainability and lead the global economy towards comprehensive decarbonisation. The European Commission has taken a decisive step by actively promoting regulatory improvements to support this transformation. The adoption of the European standards for corporate sustainability reporting (CSRD) is an important milestone in this direction.

The GHG Protocol (established in 1998) represents a global standard for carbon accounting and reporting. It was developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), together with companies, non-governmental organisations and governments. The main goal was to define universal standards for measuring and reporting greenhouse gas emissions (GHG). Regarding the reporting and calculation of carbon emissions according to the Greenhouse Gas (GHG) Protocol, it is important to consider that emissions are divided into three different areas ("scopes").

- Scope 1: Emissions that are directly caused by the company's systems, including all vehicles that belong to or are operated by the company.
- Scope 2: Also includes emissions that are caused by the company's consumption of electricity
- Scope 3: Also includes emissions that are caused by the entire supply chain for the products and services that are provided by the company. This also includes the sale and distribution of products and even the emissions at the end of the product life cycle, along with all processes that are associated with the manufacture and provision of the product or service.

Naturally, it is not easy to measure and assess Scope 3 emissions. It is one reason for the lack of structural reporting on Scope 3 emissions thus far. The other reason is that many companies outsource much of their supply chain, particularly with regard to the production of raw materials and semi-finished products. This means that the Scope 1 and Scope 2 emissions of many brands account for less than 10% of the entire carbon footprint of a product. Against this background, it is understandable that companies prefer not to disclose their Scope 3 emissions unless all other companies do the same.
The EU has completed the directive for corporate sustainability reporting (CSRD). Starting on 1 January 2024, the rules will be gradually implemented for large designated EU companies and companies listed in the EU, and they will apply to all companies as of 1 January 2028.
Climate reporting will include the GHG emissions under the scopes 1, 2 and 3. Moreover, environmental factors such as water/ocean resources, circular economy, environmental pollution and biodiversity will also be included. New methods are being developed for measuring Scope 3 emissions, including remote sensing (e.g. for widely used agricultural activities) and AI. These instruments and methods are expected to improve the transparency and comparability of reporting.

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