



# Scope 3 Working Group

## Terms of Reference

### Background

Verra develops and manages standards that help countries, the private sector, and civil society achieve sustainable development and climate goals. Verra's flagship program - the Verified Carbon Standard (VCS) - allows independently assessed projects to turn their greenhouse gas emission reductions into tradable carbon credits. Since its launch in 2006, the VCS has grown into the world's largest voluntary carbon credit program, registering over 1,700 carbon reduction projects worldwide that have reduced or removed more than 800 million tons of CO<sub>2</sub> equivalent from the atmosphere. Verra also manages the [Climate, Community & Biodiversity \(CCB\) Standard](#) and the [Sustainable Development Verified Impact Standard \(SD VISta\)](#).

To limit global warming to 1.50C and avoid the catastrophic impacts of climate change, companies must reduce their emissions in alignment with science. For most sectors, this means directly abating their Scope 1, 2 and 3 emissions by approximately 80-90 percent by 2050. Over 1300 companies have set 1.50C, or science-based targets (SBTs) with the [Science-based Targets Initiative \(SBTi\)](#) and over 5000 companies have joined the UNFCCC's [Race to Zero](#) Campaign. These initiatives require companies to prioritize abatement over purchasing carbon credits (compensation), according to the 'Mitigation Hierarchy' and are expected to increase corporate interest in Scope 3 interventions significantly since Scope 3 interventions can be used towards abatement targets, while carbon credit purchases and retirements cannot<sup>1</sup>.

Simultaneously, carbon markets are rapidly expanding. In most cases, the credited activities are located in corporate supply chains (e.g., an agricultural land management project implemented on farms that supply a food retailer or even interventions in hard-to-abate sectors like steel). As a result, the risk of double-counting project activities as both carbon credits and corporate Scope 3 interventions is growing. To help manage this risk, the GHG Protocol is drafting guidance<sup>2</sup> that will likely require companies to adjust their inventories for any carbon credits sold. However, no clear pathway exists to transition the emission reduction and removals (ERRs) generated from carbon credit projects

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<sup>1</sup> The GHG Protocol Corporate Standard classifies GHG emissions into three scopes: Scope 1 - direct emissions from owned or controlled assets; Scope 2 - indirect emissions from purchased energy; and Scope 3 - all indirect upstream and downstream value chain emissions.

<sup>2</sup> Note: The draft guidance had not yet been posted for public comment.

to Scope 3 interventions that can be counted in a corporate inventory. Consequently, many companies may lose opportunities to reduce emissions in their supply chains and become stuck with emissions that they cannot abate.

As interest in Scope 3 emission reductions grows, demand for greater guidance, infrastructure, and standardization also increases. As the world's leading standard for certifying carbon credit projects, Verra is uniquely positioned to explore the potential to apply existing knowledge and infrastructure from the [VCS Program](#) to standardize the implementation, quantification and accounting of Scope 3 interventions. Therefore, Verra is seeking the insights of experts with experience in implementing and accounting emission reductions within corporate GHG inventories to help identify and advance opportunities for standardization and scaling Scope 3 interventions.

## Objectives

The goals for the Scope 3 Working Group (S3WG) are to:

1. Identify critical barriers and gaps preventing the realization of material Scope 3 climate action at scale; and,
2. Develop a set of recommendations for how Verra, and its existing and emerging standards frameworks, could help to scale robust Scope 3 climate action.

## Scope of the Scope 3 Working Group

The S3WG will identify and help prioritize the most impactful actions Verra could potentially take over the next 12-18 months to enable high-quality Scope 3 emission reductions at scale. To begin its work, the S3WG will help define the most important topics, issues, and opportunities to assess to set priorities for deeper discussion and development. The following are potential high-level topics the WG may consider:

- **Identification of critical gaps and barriers in existing standards and guidance regarding Scope 3 interventions accounting**
  - How to credibly quantify and account for supply chain emission reductions against Scope 3 inventories (including the application of project-based accounting, additionality/causality, permanence, emissions boundaries, and accounting approaches);
  - How to deal with changing suppliers and supply chains;
  - How to account for temporal changes in land-based products/commodities (e.g. crop rotations) using project-based accounting in Scope 3 inventory accounting.
  - As far as possible, how to flexibly claim emission reductions as carbon credits or Scope 3 reductions;

- How to address double-counting risks between carbon credits and Scope 3 reductions.
- **Characterize barriers to scaling investment in and implementation of Scope 3 emission reductions**
  - Potential for the development of a market-based mechanism for tracking and trading low-emissions commodities through supply chains;
  - How to encourage 'collective action' or co-investment in emission reduction activities and allocate the claims;
  - The infrastructural components that could facilitate investment through greater assurance and market frameworks.
- **Determine potential steps Verra could take to overcome barriers and capitalize on the opportunity to scale greater corporate climate action**
  - As a standard-setter, how Verra could help to address gaps and barriers, potentially through:
    - Development of a standard or guidance to address the identified critical gaps and barriers;
    - Extension or development of the VCS Registry to address double-counting risks and provide flexibility for emissions reductions to be claimed as carbon credits or Scope 3 reductions;
    - Revision of existing VCS methodologies for application to Scope 3 interventions and/or development of guidance or a standard for doing so;
    - Any other roles or support Verra could provide.
  - Prioritization of next steps.

More specific themes and associated questions will be developed and refined with the input of the S3WG.

## Structure of the Scope 3 Working Group

S3WG members have been carefully selected from leading companies pioneering Scope 3 emission reduction projects in various sectors and geographies to support thoughtful and innovative discussion. Verra anticipates that 15-20 stakeholders will join the S3WG, consisting of a single point person per EOI received. Therefore, each member will represent one or more Scope 3 projects currently under development or implementation. On occasions where the point person cannot attend a meeting, members are encouraged to find a replacement for that meeting.

Two S3WG meetings will be held each month to accommodate diverse time zones and provide two options for participation; both instances will address the same key theme. The meetings will begin with a 15-20 minute introduction to the theme given by Verra, followed by a facilitated 60-70 minute

discussion. S3WG meetings will employ the [Chatham House Rule](#) to enable open and honest discussion.

A backgrounder document will be drafted by Verra and circulated to all S3WG members at least three working days before the meetings for review by the S3WG members and their broader project teams. Backgrounder Documents will include a description of the key theme for discussion and its scope, why it is being discussed, and questions for consideration and deliberation during the meeting. S3WG members are encouraged to collect feedback from their colleagues and project partners on the contents and questions in the backgrounder document and represent them at the meetings.

Key points from the S3WG meetings will be captured in Summary Documents and circulated to the S3WG members each month for review, before being distributed to the Scope 3 Consultation Group.

The working language of the S3WG will be English. Verra aims to form the working group by 31st March 2022 and hold the first meeting in April 2022.

## Expectations of S3WG Members

S3WG Members are expected to:

- Review and adhere to this Terms of Reference document;
- Commit a limited amount of time contributing to the S3WG without financial remuneration. This will include occasionally responding to emails and remote participation in monthly (60-90 minute) meetings over an approximately one-year period starting April 2022, with the possibility of extension if deemed appropriate and the group wishes to continue. Therefore, the minimum total time commitment is estimated to be three hours per month (1.5 hours participating in meetings, 1.5 hours reviewing the backgrounder and summary documents) with optional additional ad-hoc individual consultations and correspondence with Verra staff as appropriate;
- Provide feedback on Summary Documents within ten business days of their distribution;
- Contribute guidance and advice to Verra but will not have decision-making power.

## Expectations of Verra

Verra will:

- Convene the S3WG;
- Prepare Backgrounder Documents and circulate them to the S3WG at least three business days before the relevant meeting;
- Organize the input received from S3WG members in Summary Documents;
- Facilitate communication and consultation with other stakeholders as needed;

- Develop a set of key learnings and recommendations for advancing Verra's Scope 3 outcomes.

Verra may create smaller ad hoc sub-groups to consider additional topics depending on needs and participant interest, availability, and expertise.