A Partnership Opportunity on APAC Scope 3 Research Report

PBEC, the Pacific Basin Economic Council, completed and published its report titled "Chartering a New Course in Asia Pacific – Global Sourcing Regional Trends in APAC" in April 2023. Now, PBEC is conducting a follow-up research project focused on current Scope 3 reporting by multinational corporations (MNCs) in the Asia Pacific region.

The objective is to gather comprehensive data on voluntary initiatives undertaken by MNCs to combat their own emissions and engage with suppliers in their value chains. The research will evaluate whether there is a balance between strategy and compliance in MNCs' efforts to achieve emissions reductions.

The report will also explore motivators and incentives for integrating sustainability into company strategy and reporting Scope 3 initiatives before they become mandatory requirements. PBEC is collaborating with professors from Edith Cowan University and the University of Hong Kong, and the research involves interns and staff from PBEC. In the previous Global Sourcing report, PBEC worked closely with Monash University Malaysia, KPMG Global Insights, the Hinrich Foundation, and received contributions from KPMG's AsPAC senior partners and other experts.

For this new report, PBEC will focus on Scope 3 emissions and include the same 142 companies from the previous report, as well as additional companies, totalling 343 publicly listed companies from major Asian exchanges. These companies are selected based on their significant manufacturing operations across various industries. The research will analyze Scope 3 emissions disclosures, data quality, calculation methods, challenges faced, and voluntary initiatives taken by companies to engage with suppliers and disclose their strategies transparently.

> ***Where are we in the APAC region on this area of disclosures and initiatives in 2023 and how can Asian based businesses better prepare and source the right solutions and avail of the resources available to reach the net zero targets in the years to come?***

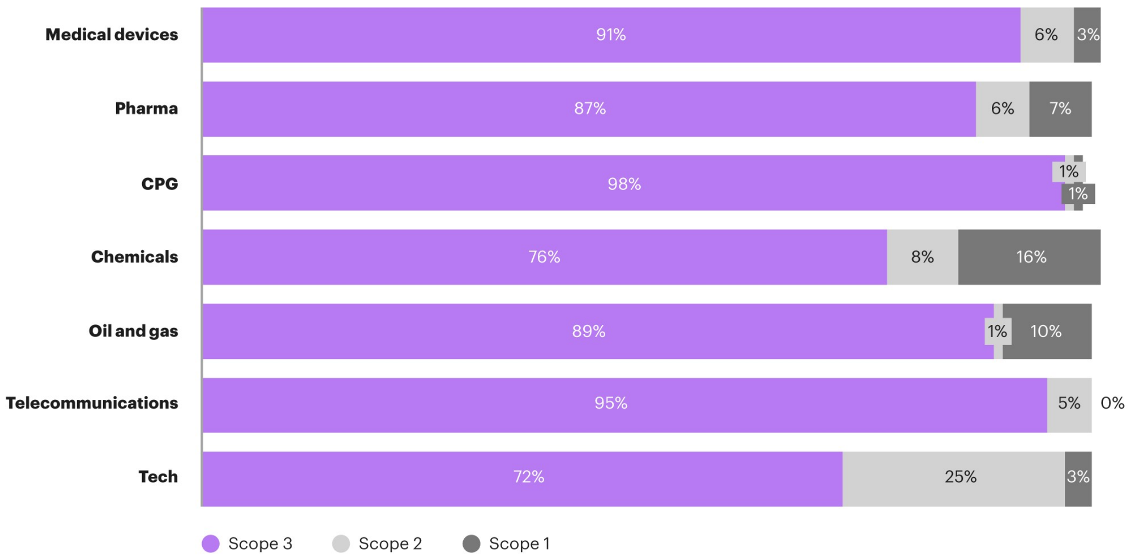
We will engage with subject matter experts, exchange regulators, and industry leaders who have already taken the lead in reporting their Scope 3 initiatives with comprehensive detail and demonstrated positive outcomes. We will explore their experiences and gather insights into the challenges they faced in achieving a balance between their ongoing strategic objectives and supplier engagement while staying ahead of compliance requirements.

A Call to Action:

PBEC seeks your financial support to help in fully publishing this report on time and by mid-April 2024 latest. Governments, investors, and consumers are increasingly demanding accountability from companies regarding their carbon footprints. However, the majority of emissions, as defined by the Greenhouse Gas Protocol, fall under scope 3—indirect emissions originating from a company's upstream and downstream operations.

While companies have made progress in tracking and reporting scope 1 (emissions from their own activities) and scope 2 (indirect emissions from purchased energy sources), addressing scope 3 emissions presents a more complex challenge. Scope 3 emissions are beyond a company's direct control.

Figure 1
Scope 3 makes up the bulk of companies' emissions across industries



Note: Based on a sample size of 36 clients
Source: CDP reports; Kearney analysis

Few companies have established strategies to effectively reduce scope 3 emissions. However, several multinational corporations (MNCs) have begun disclosing their measures and initiatives, though there is significant variation in the types and level of detail disclosed. Figure 1 illustrates the importance of a scope 3 strategy in achieving emissions reduction goals.

For instance, let's assume your scope 1 and 2 emissions amount to one million tons of carbon dioxide (CO2). If you set a 50 percent reduction target, aiming to reduce emissions by 500,000 tons by 2030, your scope 3 emissions could potentially be as high as 20 million tons. Even with a more modest 15 percent reduction target, you would still need to eliminate 3 million tons—a six-fold increase in measured achievement. This highlights the substantial impact of scope 3 emissions and their potential to significantly contribute to overall emissions reduction goals.

An ambitious scope 3 strategy leads to broader benefits

The benefits of these changes extend beyond environmental conservation. Collaborative efforts can foster radical innovations that drive future growth. Strengthened relationships with suppliers and customers enable better adaptation to evolving consumer demands. By satisfying environmentally conscious consumers, you not only meet their needs but also position your organization to navigate future consumer trends effectively.

When communicating your emissions strategy to stakeholders, it is crucial to present the big picture from the outset. This allows employees, suppliers, shareholders, and customers to recognize your commitment to sustainability and long-term business growth. Your carbon footprint reduction strategy will drive coordinated innovations, resulting in adaptable business models powered by technological advancements.

However, it is essential to lay a solid foundation for change to support your expanding initiatives. Both inside and outside your organization, credibility is built upon three core beliefs: recognizing the urgency of slowing global warming, understanding that long-term business growth justifies investments, and acknowledging the importance of being a climate leader to uphold and enhance brand reputation.

What falls under Scope 3?

Scope 3 encompasses 15 categories, including upstream and downstream emissions. Upstream categories involve external parties involved in sourcing, production, and transportation of raw materials, as well as business travel, employee commuting, waste generation, and leased assets. Downstream emissions include logistics, product use, disposal, and activities like investing and franchising.

For most companies, categories 1 and 11 (related to the supply chain and product use) are the most significant. However, other categories may be relevant based on the industry. For instance, financial services firms prioritize category 15, while retailers or hotel groups with franchisees focus on category 14.

Companies' supply chains produce 11 times more emissions compared to their own operations.

Figure 2 **Image Source:** ***PwC and World Business Council for Sustainable Development, Reaching net zero: Incentives for supply chain decarbonization***

What scope 3 covers –

How to get started

Here are five steps to take as you begin shaping your company's Scope 3 strategy:

1. **Engage the C-suite and board.** Confirm that everyone understands the implications of Scope 3 and how it will affect their area of the business. Some companies have created cross-functional steering committees to better mobilize the business.

2. **Measure emissions.** You'll want to identify high-emission hot spots and work on those decarbonization programs first.

3. **Model supply chain risk.** Assess how climate change and other disruptions create risks specific to your business. Then prioritize ways to address these vulnerabilities swiftly.

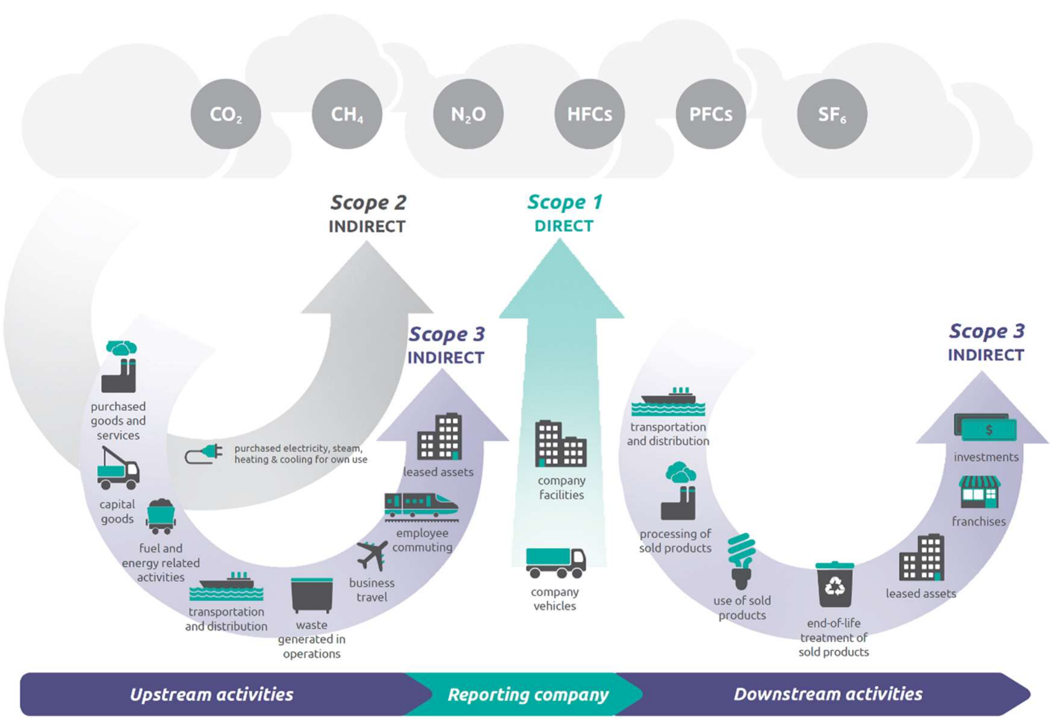
4. **Find low-carbon opportunities.** For manufacturing companies, these opportunities may be related to product design, sourcing and production. Put these into action to achieve resilient decarbonized value chains.

5. **Work with your suppliers.** Collaborate with your suppliers to measure and manage Scope 3 emissions. Some key activities here may include helping them establish concrete metrics to reliably measure emissions and helping them determine their potential ROI for decarbonization.

To fully meet Green House Gas (GHG) Protocol standards, an organization must report emissions from all relevant scope 3 categories. More organizations are reaching into their value chains to understand the full GHG impact of their operations.

In addition, because scope 3 sources typically represent most of an organization's GHG emissions as per figure 1, they often offer emissions reduction opportunities. Although these emissions are not under the organization's control, the organization may be able to affect the activities that result in the emissions. The organization may also be able to influence its suppliers or choose which vendors to contract with based on their practices.

Figure 3 image source: ***SP Global –TCFD Reporting & ESG Solutions***



Key takeaways:

- Supply chain ESG should be acknowledged and accounted for in sustainability-related financial disclosures. Understanding emissions from transport and social issues in the value chain is crucial for compliance with proposed standards.

- A clear definition of the value chain is necessary for transparency and comparability. Including transport-related emissions and other factors like labor management will contribute to responsible value chains.
- Guidance should cover the incorporation of less significant long-term risks and opportunities that can impact enterprise value.
- A reasonable transition period is needed for organizations to migrate to this type of reporting, considering data availability and gathering challenges in the sustainability sphere.
- Collaboration and data sharing among industry participants are vital for the successful adoption and implementation of the new standards.

Process of Filtering Companies for this PBEC Scope 3 disclosures report

1. Retained companies from HKEX, SSE and SZSE, JPX and KRX from the original 142 companies spreadsheet used for the global sourcing report. Remaining companies from the above exchanges - 59.
2. Region of focus - we chose the 6 largest exchanges of Asia - HKEX, ASX, JPX, KRX, SGX and (SSE, SZSE -together)
3. Selected the top 100 companies from each of these exchanges based on market capitalization to see what the companies with the most influence were doing in terms of Scope 3 emissions capture and reporting.
4. From the 100 companies, we retained companies that had the word "manufacturing*" in their companies description because they benefit from supplier specific and product specific emissions capture - **Scope 3.**
   **The term manufacturing refers to the processing of raw materials or parts into finished goods through the use of tools, human labour, machinery, and chemical processing.*
5. We removed companies that fell into the categories of consulting, hospitality, and service providers etc. because they do not have a clear upstream supply chain.
6. After filtering companies based on the aforementioned criteria and adding the companies from the global sourcing spreadsheet, we attained a total count of MNC companies of **343.** Broken down by respective exchange as follows - 47 HKEX Companies, 41 Chinese exchange Companies (SSE & SZSE), 86 ASX, 80 JPX, 68 KRX, 21 SGX.
7. We then categorised all companies based on the following 10 broad categories – Electrical & Electronics, Biochemical Services, Minerals & Mining, Automotive, Food & Beverages, Information & Media Services, Utilities, Energy, Household, Transportation & Logistics.
8. After compiling a final list of companies to work on and having collected the following data their most recent ESG report and its on-line link.
9. Based on such ESG reports being available, we collected data on - scope 3 emissions mentioned, upstream/downstream mentions, scope emissions disclosure data mentioned, and the earliest year since scope 3 data was first available.

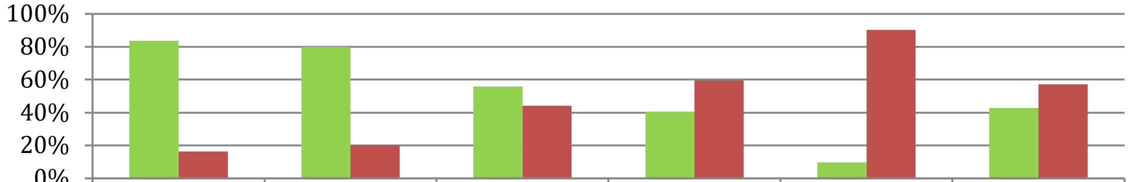
By following this comprehensive selection process, we ensured a focused and representative set of companies for our Scope 3 report analysis.

The following graphs provide a brief snapshot of some of the data we have collated and analyzed at the country level by public exchange of the 343 MNC's that form the basis of the report. The full report will reveal a lot more including sectoral trends, compliance, emission targets and benchmark companies current strategies and future actions.

Scope 3 Emissions Mentions

% of firms that provide Scope 3 emissions data

Scope 3 Emission Disclosure Data (n=343)



	Australia	Japan	South Korea	Hong Kong SAR	China	Singapore
Yes	84%	80%	56%	40%	10%	43%
No	16%	20%	44%	60%	90%	57%

% of firms that have made clear whether it is upstream or downstream

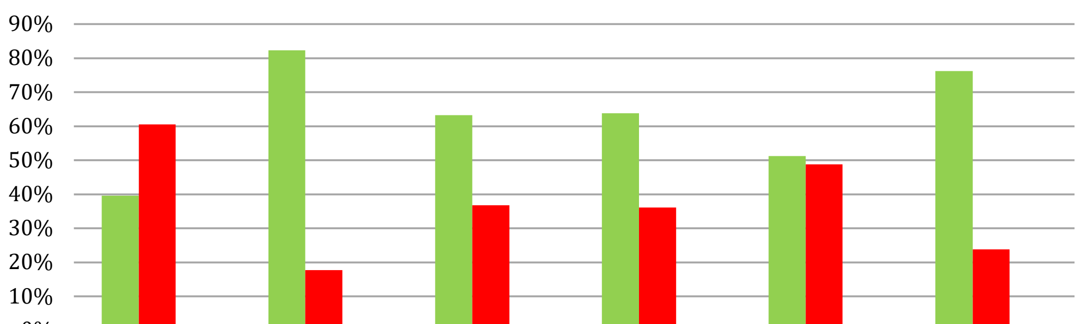
Upstream/downstream mention (n=343)

	Australia	Japan	South Korea	Hong Kong SAR	China	Singapore
Yes	51%	76%	50%	83%	73%	33%
No	49%	24%	50%	17%	27%	67%

Strategy – Organizational ESG Governance

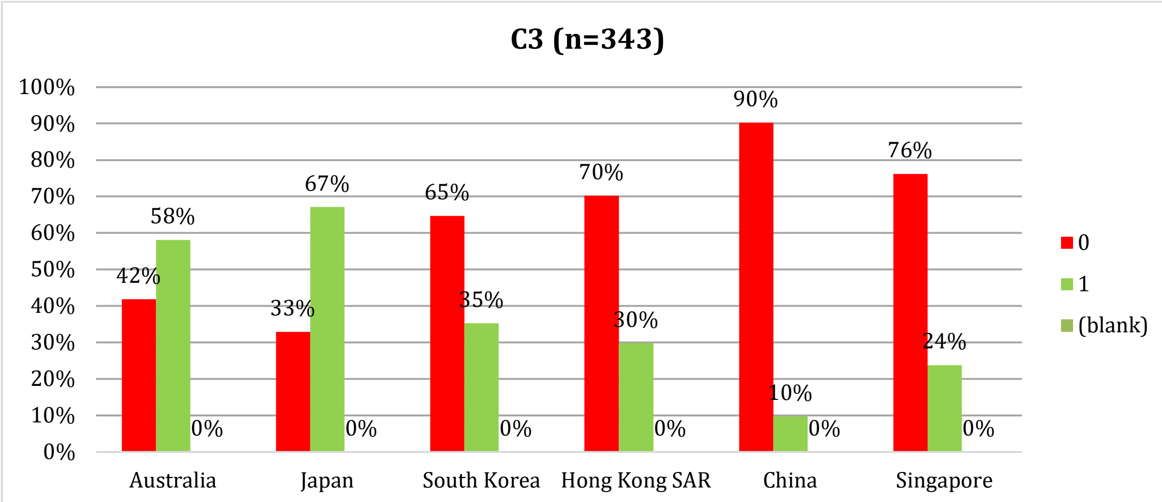
% of firms that have an ESG / Sustainability Committee

ESG / Sustainability Committee (n=343)

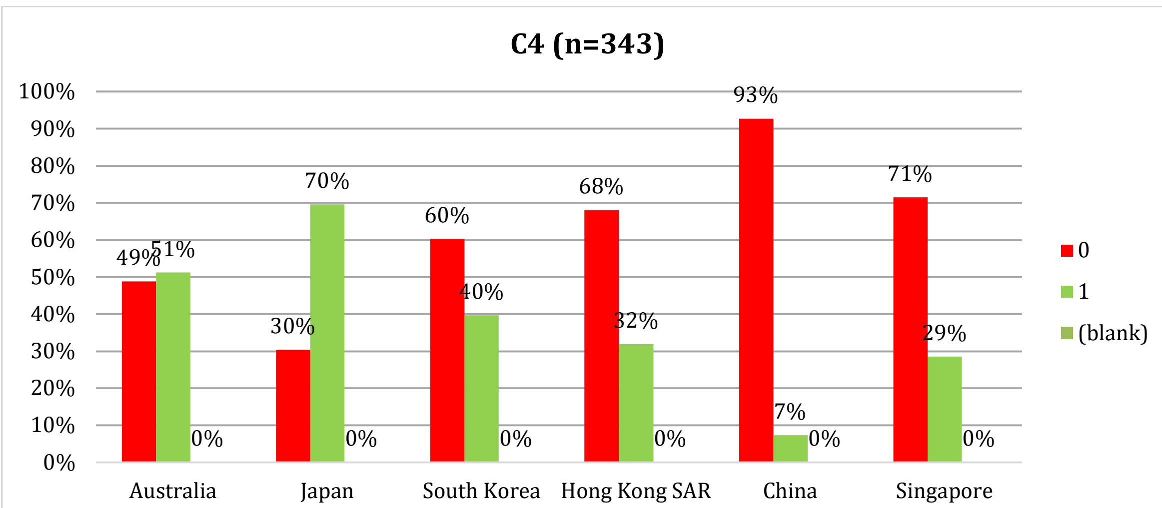


	Australia	Japan	South Korea	Hong Kong SAR	China	Singapore
1	40%	82%	63%	64%	51%	76%
0	60%	18%	37%	36%	49%	24%
(blank)	0%	0%	0%	0%	0%	0%

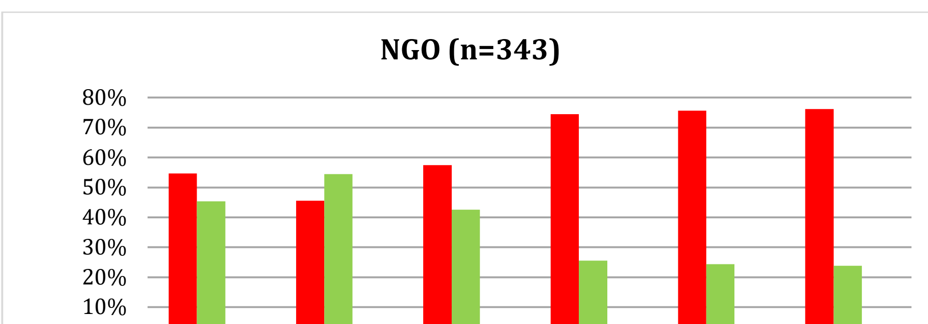
fuel- and energy-related activities



C4 - Upstream transportation and distribution

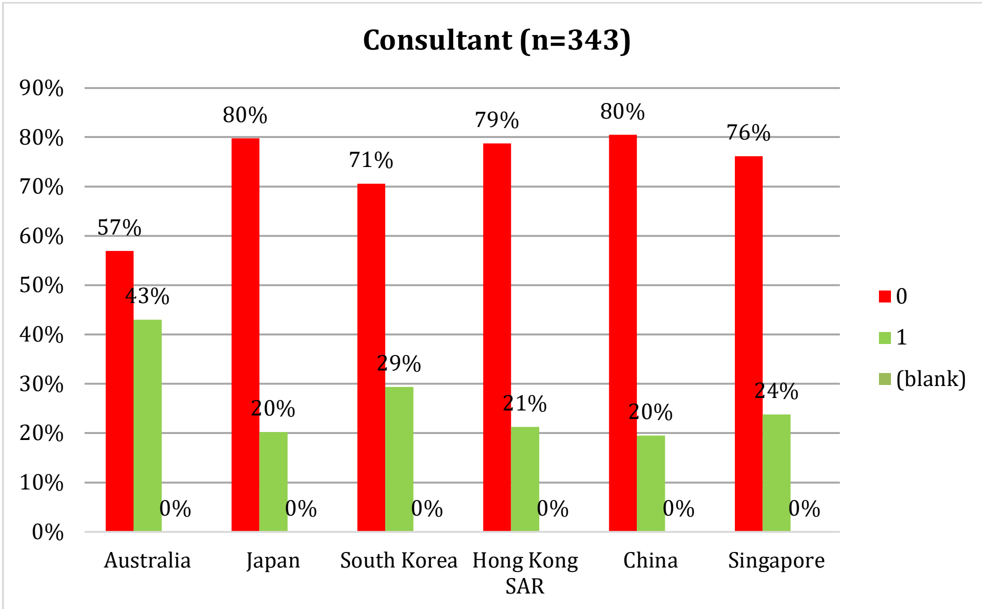


% of firms that have relationship with an NGO – social aspect

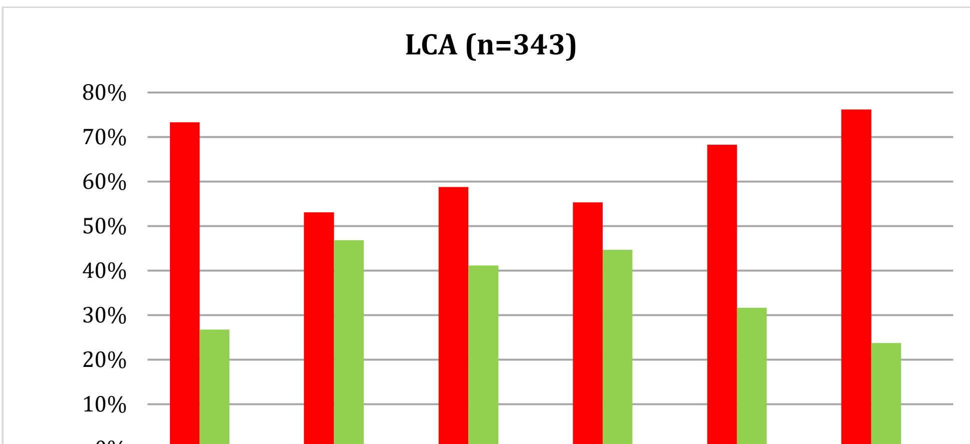


	Australia	Japan	South Korea	Hong Kong SAR	China	Singapore
0	55%	46%	57%	74%	76%	76%
1	45%	54%	43%	26%	24%	24%
(blank)	0%	0%	0%	0%	0%	0%

% of firms that have engaged consultants



% of firms that have LCA – Life Cycle Assessment projects



	Australia	Japan	South Korea	Hong Kong SAR	China	Singapore
0	73%	53%	59%	55%	68%	76%
1	27%	47%	41%	45%	32%	24%
(blank)	0%	0%	0%	0%	0%	0%

What are the benefits of partnering with PBEC on this Report?

This engagement aligns with your ESG & UN-SDG goals corporate strategy in 2024. It involves proactive outreach and collaboration with stakeholders, including non-Government & academic research institutions in Asia Pacific like PBEC.

You can promote your support and participation in contributions and gain brand recognition through affiliation with PBEC, a reputable business-focused NGO in the Indo-Pacific region.

The partnership with PBEC and two renowned academic institutions guarantees trust, integrity, and access to quality research and data for governance purposes.

PBEC conducts events and produces content distributed globally through various channels, including mainstream media outlets and partner organizations.

As a Gold sponsor, your company profile and promotional banners will be prominently displayed on PBEC's homepage throughout the project and for three months post-publication.

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PBEC retains all rights to the intellectual property of the report.

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- Our expectations of our sponsors are to be supportive with the process.
- Whilst we welcome and value inputs throughout the project from sponsors, they need to be of relevance and not cause significant delays.
- We hope for support of a Patron's own resources in reviewing and marketing the report in parallel with PBEC. **(Patron)**

Sponsorship Level	Amounts in USD	Payable	Agree Y/N
Main Patron	USD15,000	50% upon signing within 30 days, 25% payable upon final draft approval. 25% payable on delivery	
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Silver Sponsor	USD5,000	75% upon signing within 30 days, 25% payable on delivery	
Bronze Sponsor	USD2,500	Full payment payable upon final draft	

*****All levels are subject to negotiation and final terms of the sponsorship contract.***

If you have interest to support this report please email to pbec@pbec.org

Yours sincerely,

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*About PBEC: **The Pacific Basin Economic Council** (PBEC) is an independent business association founded by Weldon B. Gibson in 1967 with the objective of facilitating business in the Asia-Pacific region. It has a rich history of supporting business leaders, academics and Governments across Asia Pacific. It organises and hosts several roundtable dialogue discussions and key events annually as well as provides market intelligence, research papers & policy recommendations on behalf of the APAC business community. It advocates for sustainable & inclusive economic growth through free trade agreements under a fair international rules-based system that mitigates climate change & supports societies. The International Secretariat is currently located in Hong Kong and their Executive Director is Michael Walsh.*