

Industry response to SBTi Scope 3 discussion paper

The mining and metals companies represented here welcome the SBTi's discussion paper on Scope 3 emissions, *Aligning Corporate Value Chains to Global Climate Goals* and the decision to explore and potentially update its approach.

"Several challenges persist in effectively setting and implementing Scope 3 targets," the SBTi paper notes. It acknowledges "the existing limitations in greenhouse gas (GHG) emissions accounting and Scope 3 emissions reduction targets, and introduces the concepts the SBTi is exploring, which may form the basis for a more effective approach to managing GHG emissions in the value chain."

The paper focuses on:

1. **Levels of influence over Scope 3.** The SBTi notes that "implementing Scope 3 targets can be challenging due to the variable capacity of companies to influence and mitigate emissions sources within their value chains."
2. **Linear declines in emissions.** While the SBTi has traditionally required linear declines to meet science-based targets, in reality, trajectories are unlikely to be linear, particularly if decarbonisation relies on the development of new technologies or new policy settings.
3. **The complexity of measuring progress.** This is due to Scope 3 data limitations, emissions volatility and the challenge of linking mitigation actions to outcomes.

Scope 3 emissions arise upstream or downstream from a business, from activities or operations that the business does not own or directly control. As the mining and metals industry is at the start of energy intensive value chains, Scope 3 emissions are significant and can be approximately 20 times greater than the industry's operational emissions.

The challenge faced by iron ore companies illustrates this. The iron ore industry's customers – steel mills, largely in Asia – account for 7 per cent of global greenhouse gas emissions and tend to be around 100 times higher than the iron ore industry's Scope 1 and 2 emissions.

Reductions in the Scope 3 emissions that occur downstream of iron ore mining can be achieved, but only via development of low-carbon steel technologies, implementation of those technologies by steel producers in consumer countries and appropriate policy settings in the value chain.

To date, no large, diversified mining and metals company has validated SBTi targets. This is partly because a Scope 3 emissions reduction target of 40-50 per cent by customers by the early 2030s is not within operational control and therefore considered unachievable.

In addition, a Scope 3 emissions target may prompt companies to simply divest assets and achieve 'paper decarbonisation' that does not reduce emissions in the real economy.

The SBTi's recent discussion paper is a good first step towards recognising the magnitude and complexity of the Scope 3 challenge. The issue of control must be addressed to help companies set targets that help to drive real action on low carbon technology development and implementation that can be both measured and achieved.

The mining and metals industry therefore puts forward the following thoughts for SBTi as it revises its guidance on Scope 3 emissions:

1. **Separate Scope 3 from Scope 1 and 2 validation.** While Scope 1 and 2 emissions clearly must be governed by emissions reduction targets, Scope 3 emissions are different, arising from suppliers and customers, and require a different approach due to issues of control and current lack of technological or economic pathways.
2. **Focus on driving and recognising action that decarbonises value chains.** An effective Scope 3 methodology might include measures that recognise investments made within a company's own operations or along its value chain that drive decarbonisation – R&D on low-carbon steel, low-carbon demonstration projects with customers or development of important feedstocks such as green hydrogen as examples.
3. **Recognise that decarbonisation will not occur in a near-term or in a linear fashion in hard-to-abate sectors, unlike in the electricity and transport sector.** Faster declines in Scope 3 are to be expected as policy settings change and new technologies come online.
4. **Expect that efforts to reduce Scope 3 emissions through vertical integration or more processing by mining companies could lead, in the short term, to an increase in Scope 1 and 2 emissions.** For example, an iron ore producer that commits to reduce Scope 3 emissions by onshoring some processing before steel production (such as the production of direct reduced iron) may increase its Scope 1 and 2 emissions. As the SBTi notes in its discussion paper, current benchmarks for target-setting methods penalise "new, more efficient companies that may legitimately grow emissions as part of the net-zero transition."

In conclusion, the mining and metals industry is already voluntarily addressing its Scope 1 and 2 emissions and investing in potential solutions for its customers to address Scope 3 emissions. We warmly welcome the SBTi's decision to explore more effective approaches towards Scope 3 and hope that its approach becomes a widespread and meaningful framework for heavy industry decarbonisation.