

How should telcos tackle Scope 3 emissions?

Scope 3 emissions pose the biggest challenge in the move to net zero. This is due not only to their magnitude, but also the fact that they are the hardest to measure and not fully within telcos' control. In this article we explore why telcos should refrain from shifting the responsibility for Scope 3 reduction onto their suppliers, and how they can transform their approach to Scope 3.

Bless Ngoma, Consultant

Introduction

The importance of reducing emissions, in particular Scope 3 which accounts for c. 80% of telco emissions, has never been more imperative. Organisations across multiple industries are committing to science-based targets which align with the move to net zero, and the telecoms industry is not exempt from this responsibility. With operations contributing to 1.6% of global CO₂ emissions, the telecoms sector is comparable to the much-scrutinised aviation sector.

An industry-wide shift that acknowledges the reduction of Scope 3 emissions as an opportunity to help the environment whilst simultaneously revitalising the business (by creating a point of differentiation with customers and investors, and protecting against future regulatory shifts) is necessary. This shift will require greater collaboration across the value chain, but will also require internal introspection from telcos to evaluate ways to reduce upwards and downwards emissions streams.

Figure 1: Classification of greenhouse gas emissions reporting

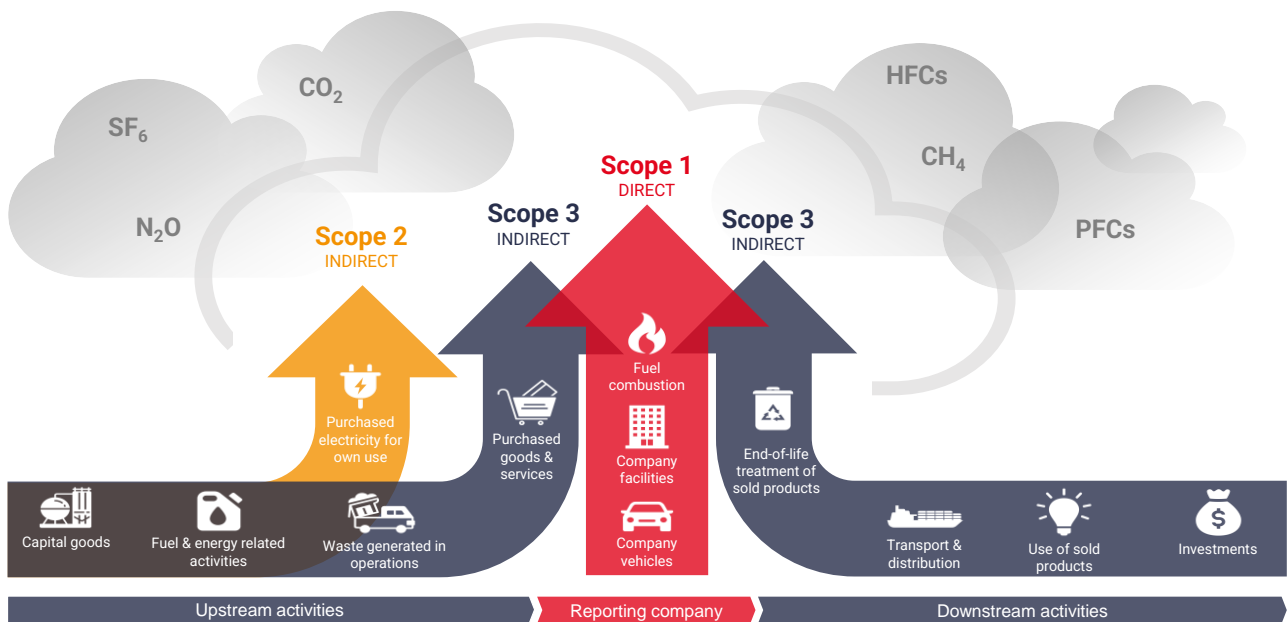


Chart Source: STL Partners

Sustainable procurement is a core element of Scope 3 emissions reduction

There has been a tendency for telcos to shy away from responsibility concerning their Scope 3 emissions as, by definition, they fall outside of their immediate remit. Many telcos do this by placing most, if not all, of the responsibility to reduce Scope 3 emissions on their suppliers. By incorporating sustainability considerations into procurement, suppliers are forced to adhere to certain criteria to be considered for a contract. These actions have positive effects in reducing Scope 3 emissions and show how telcos can use their influence to enforce a move towards greener practices. There are two approaches to sustainable procurement:

- For telcos earlier in their sustainability journeys, CSR KPIs (including but not limited to carbon emissions) are added into the selection criteria they use to evaluate supplier bids. This data is then considered as

How should telcos tackle Scope 3 emissions?

general information or a low bar minimum qualification. For instance, **BT suppliers with a contract value of over £25 million must set a science-based net-zero target.**

- More mature telcos reward sustainability best practice rather setting a minimum-bar hygiene factor. For example, **Deutsche Telekom includes a sustainability criterion in the selection process for its suppliers which is currently weighted at 10% with plans to jump up to 20%.**

Another way that telcos encourage more sustainable behaviour from suppliers is by requiring them to assess and show the environmental impact of their products. An example of this is the **Eco Rating** initiative, where five European carriers developed a scoring system to encourage manufacturers to reduce the environmental footprint of their phones (and also support consumers to make more informed choices).

Encouraging suppliers to demonstrate better practice in sustainability is a key factor in tackling Scope 3 emissions. However, this vendor-reliant model should not be the sole strategy for reducing Scope 3 emissions. To create meaningful change, telcos must consider internal ways that they themselves can make their processes greener. Telcos must see the changes that they suggest to their suppliers as the first steps of the green transformation; not as the ultimate actions that clear themselves of environmental responsibility.

Increasing the granularity and accuracy of emissions reporting will be key to tackling Scope 3

Before telcos can truly make strides in reducing their Scope 3 emissions, they must prioritise enhancing the accuracy and granularity of their emissions reporting. This step is pivotal because without improved Scope 3 reporting, it's difficult for operators to assess which suppliers, products and services are most sustainable (and conversely where there are emissions hotspots that need prioritising). Therefore, a focus on better emissions measurement and reporting is not just a prerequisite but also a foundational pillar for telcos in the journey to net zero.

One step in improving Scope 3 measurement is making the shift in methodology for determining reported Scope 3 emissions: from industry level factor allocation to product level factor, or better still secure the company's certified actual emissions from suppliers. We discuss this more in our article '**Towards a platinum standard within Scope 3 emission calculations**'.

To understand the importance of this, consider a situation where an operator uses supply industry level factor allocation (this is the case for most operators today). The company's Scope 3 for IT equipment will be determined by the following equation:

Derived emissions (tCO2e) = Spend on IT equipment x Average IT industry emissions per unit spend

To reduce its Scope 3 emissions, the operator can reduce its IT spend and/or hope that the IT supplier industry cleans up its act. In fact, if the operator purchased more expensive locally produced IT equipment from a vendor that had adopted low-carbon production technology and sourced all its inputs and materials from sustainable lower-emissions sources (e.g. renewables, recycled, lower-power) the operator would actually report higher Scope 3 emissions with this methodology. This would not be the case if the operator adopted a product level methodology.

Derived emissions (tCO2e) = Number of servers purchased from GreenVendor x actual emissions for GreenVendor to produce and deliver one server

In this case, the operator would report the lower emissions associated with the lower-emissions materials, production and delivery of a server from GreenVendor.

In addition to incorporating much more granular Scope 3 reporting, telcos need to review all decision making relating to the supply of goods and materials. For example in deriving the total cost of ownership (TCO) of a

How should telcos tackle Scope 3 emissions?

particular design or solution, operators can factor-in emissions and sustainability. One way of doing this is by including a nominal carbon cost and selecting the solution with lower TCO-including carbon cost. This may result in a different decision being made.

Telcos should drive circularity through take-back schemes for phones, and increased sale of refurbished devices

As well as working with suppliers to reduce upstream emissions, telcos should consider downstream emissions coming from the use of consumer devices like mobile phones. Though suppliers can impact this (e.g. by producing devices that are more energy efficient), telcos can have a significant impact by promoting the return of used phones (through take-back schemes), and the sale of refurbished devices. **Twelve operators globally have demonstrated a commitment** to developing a more circular supply chain by signing up to a set of targets developed with the GSMA. These goals will see 20% of phones distributed to customers originate from operator take-back schemes. Furthermore, these goals will ensure 100% of phones collected through take-back schemes are either repaired, reused or recycled. By pushing for phones to have a 'second life', telcos can reduce climate impact by 87% (compared to a newly manufactured phone). Moreover, the proper recycling of phones could recover \$8 billion worth of elements and critical minerals, as estimated by the GSMA.

However, telcos must contend with the reality that consumer behavior is not solely within their control. While they can encourage consumers to embrace refurbished products, the prevalent culture of upgrading to a new phone remains ingrained in some consumer mindsets. Additionally, refurbished phones often carry a stigma of potential problems and lower quality compared to new ones. To counteract these perceptions, telcos need to lead targeted campaigns that emphasise the positive environmental impact of giving products a second life. In an era when consumers are increasingly conscious of ESG, explaining the substantial benefits this choice has on the environment can serve as a catalyst to extend the lifespan of smartphones.

Conclusion

The path forward is clear: to secure a greener future whilst achieving long-term profitability, telcos must take the lead by:

- Working with suppliers to encourage sustainable behaviour, and rewarding this behaviour in procurement rather setting a minimum-bar hygiene factor
- Enhancing the accuracy and granularity of Scope 3 emissions reporting
- Adopting more circular practices such as product take-back schemes and sale of refurbished devices

Bless Ngoma is a Consultant Intern at STL Partners, specialising in telco sustainability and sustainable procurement topics.

Get in touch to learn more

miran.gilmore@stlpartners.com

Or visit STL Partners' Sustainability Hub

<https://stlpartners.com/telecoms-sustainability/>

How should telcos tackle Scope 3 emissions?