



# SUSTAINABILITY, SCOPE 3 AND SBTI: A GUIDE FOR DAIRY BUSINESSES

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Retailers and major customers are increasingly asking about your company's environmental credentials – from having a sustainability plan, to measuring carbon, and maybe even setting a science-based reduction target. What does all this mean and, crucially, what does your business need to do?

This report will provide you with information about the various initiatives and drivers of carbon reductions, explain why measuring and reducing scope 3 emissions is becoming more important and offer guidance on how to approach corporate sustainability planning.

We will talk about scope 3 reporting and what relevance this has across businesses of all sizes. This report covers how you start to develop a corporate sustainability plan, measuring scope 1, 2 and 3 emissions.

Environmental sustainability can seem like a daunting and complicated subject to tackle, but it needn't be. Whatever stage of the sustainability journey you are on as a business, Kite can support you.

**Please contact us to discuss your needs.**

## Introduction by Hayley Campbell-Gibbons

**Retailers and other major customers are increasingly quizzing suppliers - through questionnaires, scorecards and in tenders – on their environmental sustainability performance. Some are going as far as to require suppliers to sign up to Science Based Targets (SBT) to reduce greenhouse gas emissions from the supply chain.**

Why? Because big businesses are under enormous pressure and scrutiny from government, shareholders, and consumers to reduce their greenhouse gas emissions (GHGs) and set ambitious targets to become net-zero operators over the next twenty years. To achieve this, supermarket retailers, food service companies, restaurant chains and the like must measure, report, and reduce the GHG emissions associated with everything they buy in – so called 'Scope 3' reporting.

As a supplier to these big businesses, your emissions count towards their scope 3 emissions, and by reducing your business emissions, you simultaneously reduce theirs too. Yet, to achieve any momentum on carbon measurement and reductions, retailers and others know that they need to encourage suppliers to play their part. The logic may be simple, but for businesses of any size the execution can be anything but.

Smaller companies often don't have the time or resources to employ sustainability teams to manage this for them. The situation isn't always helped by retailers and others asking suppliers to meet targets and standards that aren't necessarily appropriate for them. For example, a supermarket retailer may require a supplier to sign up to a 'SBTi net-zero target', (or ask them if they plan to do so), even though the supplier is too small to qualify for a validated net-zero target of their own. Retailers and other large food buyers should only be interested in (and are only required to report on) the emissions of the products they purchase, not a supplier's entire business.

Whatever stage of the sustainability journey you are on as a business, or with your customer, the most important thing for suppliers of all sizes to know is what is applicable to them, understand what and how to accurately collect data and finally, how to approach sustainability planning in a manageable and proportionate way.

## The Science Based Targets Initiative (SBTi)

A SBTi target has rapidly become the designer label that no big business wants to be seen without. The SBTi is a partnership between the Climate Disclosure Platform (CDP), United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). Its popularity soared following the COP26 summit - after which every large corporation in the world set a net-zero target.

The sole aim of the SBTi target is to accelerate the progress and willingness of private companies globally to halve emissions before 2030 and achieve net-zero

emissions before 2050. It does this by defining a common standard for emissions reductions and net-zero targets in line with climate science. The SBTi then independently assesses, approves and publishes company targets in line with strict criteria.

A company's emissions reduction target is considered 'science based' if it aligns to what the climate science says is necessary to limit global warming to well below 2°C above pre-industrial levels and pursue efforts to limit warming to 1.5°C.



## Why Size Matters: three levels of SBTi target

The SBTi offers three types, or levels, of target for food and agriculture businesses to sign up to. One is an emissions reduction target (defined as scope 1 and 2) aimed specifically at small and medium sized enterprises (SMEs). The other is a net zero target, which is aimed at larger companies (and include a company's scope 3 emissions). The third is a sector specific target for 'Food, Land-Based and Agriculture' businesses (FLAG), for businesses with significant land-based or farming activity in their supply chain.

### 1) SBTi Reduction Targets for SMEs

The SBTi has a simplified target setting approach for SMEs<sup>1</sup>, introducing this option for SMEs because smaller companies often lack the resources and capabilities needed to set scope 3 targets and monitor progress against them.

This approach recognises that the net-zero efforts expected of big companies won't be suitable or necessary for smaller businesses to achieve, enabling SMEs to set a science-based target for their scope 1 and 2 emissions. The SBTi guidance is designed to allow SMEs to take account of emissions across their value chains without imposing too great a burden on them.

Unlike larger companies, the SBTi does not require SMEs to set targets for their scope 3 emissions; however, SMEs must commit to start measuring and reducing their scope 3 emissions over time.

Small businesses can still choose to set a scope 3 target if they wish, and may publish this in its annual report, include it in sustainability plans, and communicate it to their customers. However, these targets will not be validated by the SBTi in the same way that a large company's net-zero and scope 3 targets would be. This flexibility is hugely

useful for smaller companies in the food sector and allows the business to do what is right and manageable for them.

Any targets submitted to the SBTi through the dedicated SME route will be automatically approved and posted to the SBTi website (subject to review and payment). Companies will then be able to use the SBTi logo on their website and in company communications (SBTi Guidance).

### 2) SBTi Net-Zero target

Aimed at large companies<sup>2</sup>, the SBTi provides a clear, science-based definition of a net-zero target:

- ✓ Rapid, deep emissions cuts across **scopes 1, 2 and 3** in line with keeping global temperature increase below 1.5°C.
- ✓ Near and long-term reduction targets: a requirement to **halve emissions by 2030, and cut 90-95% by 2050**, before any residual GHGs are removed (and net zero reached).
- ✓ If Scope 3 emissions make up over 40% of total emissions, then at least two-thirds of Scope 3 emissions must be included in the short term target, increasing to 95% in the long term.
- ✓ No net zero claims until the long term targets are met.

Kite's 2022 report 'Corporate Environmental Sustainability Review' revealed inconsistencies and inaccuracies in many of the major supermarket and food service sector net zero targets, and can provide an assessment of your customer(s) climate commitments on request.



1. Defined as a non-subsiary, independent company with fewer than 500 employees. If your company has seasonal workers or a workforce that fluctuates annually, SBTi asks that you use the average annual headcount to determine employee numbers rather than the number of full-time employees. For companies that have less than 500 employees but are owned by a parent company the SBTi recommends that targets are set at the parent or group-level, not subsidiary level.

2. For the purposes of UK Government mandatory scope 1, 2 and 3 reporting 'large companies', as defined by the Companies Act 2006, are companies that meet two or more of the following criteria: (i) turnover (or gross income) of £36 million or more, (ii) balance sheet assets of £18 million or more, (iii) 250 employees or more.

### 3) FLAG Target

The Forest, Land and Agriculture Science Based Target Setting Guidance (FLAG) is the world's first standard for companies in land-intensive sectors to set science-based targets that include emissions reductions and removals.

Large companies are required to set FLAG targets when land-intensive activities, such as agriculture and food production, contribute 20% or more to their overall emissions. FLAG targets must be separate and additional to other science-based targets that cover all other company emissions.

It is important to note that SMEs, even in the agriculture sector, are not required or eligible to set FLAG targets.

Until now, there has been no way to account for the emissions removals potential that the land-based and agriculture sector also provides. This is an important step forward, given that the SBTi estimates that the land sector contributes 22% of annual global emissions but offers up to 30% of the earth's mitigation potential until 2050<sup>3</sup>.

Examples of companies required to set FLAG targets might include larger UK milk processors, restaurant

chains, food service companies and supermarket retailers. As FLAG targets cover emissions and removals from agricultural production "up to the farm gate" it is likely that any company that sets a FLAG target will need to ask its suppliers to conduct a product carbon footprint in order to accurately measure emissions, and target reduction efforts.

The Greenhouse Gas Protocol is developing new 'Land Sector Removals Guidance' on how companies should account for and report land use change and carbon storage in their greenhouse gas inventories. This will create more consistency and transparency in the way companies quantify and report GHG emissions and removals. Once developed, the new guidance will likely be adopted by the Science Based Targets Initiative and incorporated into the FLAG targets.

For now, and for the next several years at least, businesses and farmers should focus on reducing carbon and enhancing carbon sinks. When the time comes to start accounting for carbon removals, farmers and growers will need to seek further guidance and advice on how to transfer this valuable asset to those who require it.

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3. Ref: Sciencebasedtargets.org



## Measuring Scope 3 Emissions: a bite sized approach

There are several good reasons why a dairy company, or any processing or packing business for that matter, would start measuring their supply chain emissions. Such as<sup>4</sup>:

- Companies that measure their scope 3 emissions will be better informed on emissions sources and in a much better position to target reduction efforts and farmer engagement programmes as part of their business sustainability strategy.
- For food businesses, scope 3 emissions are a substantial proportion of their total organisational footprint, and there is increasing pressure from customers, investors, and other stakeholders to measure, report, and reduce these emissions.
- For those companies looking to report SBTi-verified emissions reduction targets, capturing an accurate picture of scope 3 emissions is critical.

It is a universally accepted truth that scope 3 is complicated to measure, and few companies have yet measured their scope 3 emissions consistently and completely. However, there is a lot of flexibility and guidance offered to companies - especially SMEs - in how to approach and account for scope 3 emissions.

4. Ref: WRAP: Scope 3 GHG Measurement & Reporting Protocols: Sector Guidance for Food & Drink Businesses, 2022

5. Ref: GHG Protocol Corporate Standard and the Scope 3 Standard Inventory Template

Firstly, the GHG Protocol, which is the foundation standard upon which every climate initiative and tool is built, divides Scope 3 emissions into 'upstream;' and 'downstream' and further classifies them into 15 different categories<sup>5</sup> (Table 1).

Upstream generally captures all of the inputs that go into producing a product up to the point of sale by the producer. Downstream emissions are incurred in the use and distribution of the product after it leaves the business.

The categories themselves seem daunting, if not impenetrable, however businesses don't need to bite it all off in one go, and only need to report on what's actually relevant to their operation. The categories should be seen as more of a structure to ensure businesses don't double count, and to inject some consistency and comparability between reporting companies.

The advice is to make a start on measuring scope 3 data for the categories that represent the majority of your emissions, with a view to developing the breadth of measurements over time where relevant.



## Scopes and categories

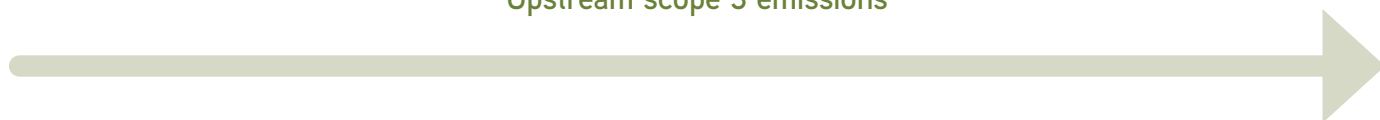


**Scope 1:**  
Direct emissions from owned/  
controlled operations



**Scope 2:**  
Indirect emissions from the use of purchased  
electricity, steam, heating, and cooling

### Upstream scope 3 emissions



Purchased goods  
and services



Capital goods



Fuel- and energy-related  
activities (not included in  
scope 1 or scope 2)



Upstream transportation  
and distribution



Waste generated  
in operations



Business travel



Employee  
commuting

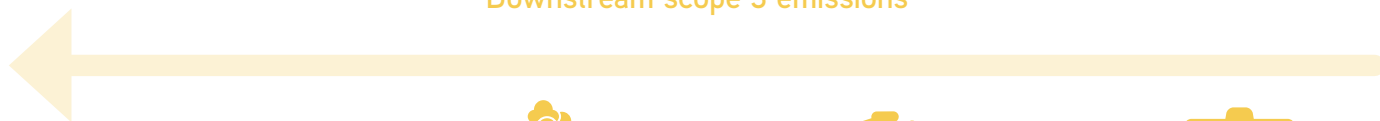


Upstream  
leased assets



Other

### Downstream scope 3 emissions



Downstream transportation  
and distribution



Processing of sold  
products



Use of sold products



End-of-life treatment of  
sold products



Downstream leased  
assets



Franchises



Investments



Other

## What should you measure under scope 3?

For any business, big or small, gathering data for all scope 3 activities may not be feasible or necessary.

For the vast majority of food producing or processing businesses the main sources of emissions, and therefore their priority for data collection and reporting, will span just a few categories. Typically, these include purchased goods (raw materials), packaging, transportation of product, processing and waste.

WRAP (Waste and Resources Action Programme) has published best practice recommendations for quantifying Scope 3 GHG emissions specific to the UK food & drink sector. In approaching the 15 categories of scope 3 data and identifying which are most significant, the guidance advises that businesses:

- a) Include categories that encompass at least 67% of total emissions in the inventory, as a minimum. Food and drink businesses must include 'category 1 – purchased goods' (e.g. milk). Businesses can exceed this minimum where data is available and increase coverage over time.
- b) Include downstream emissions in the scope inventory where they are significant. Where actions are taken to reduce emissions from a company's sold products, report these emissions reductions separately. Examples of such actions include increasing shelf life to reduce consumer food waste.
- c) Undertake an initial GHG estimation/screening to identify emissions sources in the company's operations and supply chain. Or, alternatively (and easiest for most SMEs) is to use WRAP's suggested sector category template as this will cover at least 67% of scope 3 emissions.

Mapping and calculating these emissions alone is a great starting point for your scope 3 reporting. It's important to reiterate that there is no expectation on SMEs to gather and report on all this data, and that focusing on your biggest source of emissions (most likely milk production) is a good place to start.

*Companies should not exclude any activities from the scope 3 inventory that would compromise the relevance of the reported inventory.*

*Corporate value chain accounting standard GHG Protocol*

It is also perfectly acceptable for companies to use a combination of primary data (such as a product carbon footprint to calculate the emissions associated with on-farm production), and secondary inventory data to 'fill in gaps' (such as estimating the use of the product after it leaves the business, packaging emissions etc.). It's advisable to collect the highest quality, primary data for those categories that represent the most significant emissions for your business to ensure credibility and accuracy<sup>6</sup>.

6. Ref: Technical Guidance for Calculating Scope 3 Emissions (version 1.0) Supplement to the Corporate Value Chain (Scope 3) Accounting & Reporting Standard



*SMEs may not have the in-house sustainability expertise, time or resources to tackle their carbon footprint... the focus for SMEs should be to understand their emissions, set interim science-based targets and then focus on implementing the most straight forward carbon reduction opportunities...*

*Carbon trust - journey to net zero for SMEs.*

While the pilot project gets underway, the smartest approach for dairy businesses in the meantime would be to incorporate the WRAP recommendations into their own emissions measurement approach.

*We're looking forward to cracking the nut of consistent measurement, and reporting on greenhouse gas emissions in food and drink supply chains (scope 3), so that we can unlock action to reduce those emissions at pace and at scale.*

*Harriet Lamb, WRAP's CEO*

The very latest news is that, in a rare precompetitive collaboration, eight leading supermarkets<sup>7</sup> are joining WRAP and WWF to standardise how they measure and report on scope 3 emissions data. The pilot project involves working with 17 supplier businesses across the food supply chain and will use the WRAP scope 3 reporting guidance outlined above to gather information in a consistent way. It will also focus on scoping high-impact areas for collaboration to accelerate progress on reducing GHGs from the huge amount of food sold in UK supermarkets. Dairy is likely to be one of these areas.



7. In March '23 WRAP and WWF announced that they have secured commitment from Aldi, Co-op, Lidl, M&S, Morrisons, Sainsbury's, Tesco, and Waitrose, who represent around 80% of UK grocery retail market share.

## Product Carbon Footprints and Scope 3

Through its technical consultancy work and in-depth knowledge of the dairy industry, Kite estimates that approximately 40% of dairy farmers, representing over 60% of GB milk production are currently engaged in carbon footprinting on-farm.

A Product Carbon Footprint (PCF) describes the total amount of greenhouse gas emissions generated by a product or a service over the different stages of its life cycle<sup>8</sup>.

Product Carbon Footprints can be particularly useful for any dairy businesses to calculate, in addition to its company level emissions for several reasons. Firstly, in completing a product footprint, a processing business generates all the data it requires for its 'Category 1' scope 3 inventory - the biggest and most important category for

food businesses. This is because common data is used to develop scope 3 inventories and product inventories.

Secondly, most retailers should (as advised under the GHG Protocol) only ask for emissions data from suppliers that is as specific as possible to the product they purchase. A Product Carbon Footprint satisfies this by calculating and expressing emissions on a per unit of product basis (*e.g. Kg CO<sub>2</sub>e per litre of fat corrected milk*). This question appears on many of the supermarket supplier questionnaires.

Thirdly, a Product Carbon Footprint provides a detailed breakdown of emissions hotspots, and can benchmark performance across a group of suppliers. This enables targeted emissions reduction efforts and meaningful farmer engagement programmes.

8. The boundary of a product carbon footprint is typically a cradle-to-gate partial life cycle inventory, which does not include product use or end-of-life processes. These emissions can be included elsewhere in a scope 3 inventory to avoid double-counting.



## Kite Services

Kite Consulting can assist you through every step of the process. From advising on and calculating GHG emissions, to identifying and setting appropriate targets and developing an engagement plan to reduce emissions on-farm. We can provide your business with information and support around areas such as purchasing carbon offsets if and where required, and communicating your actions through the creation of a business sustainability plan. Please contact us to discuss your needs.

**If you would like to explore any of the topics in more detail; from developing your sustainability plan, to on-farm carbon foot printing and strategies for achieving carbon reductions across your supply base please contact us to discuss your needs.**

For enquiries regarding the information in this Technical guide please contact:

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## Glossary

**CDP** Climate Disclosure Platform

**FLAG** Food Land-Based and Agriculture

**GHGs** Greenhouse Gas Emissions

**PCF** Product Carbon Footprint

**SBT** Science Based Targets

**SBTi** Science Based Targets Initiative

**SMEs** Small and Medium Sized Enterprises

**WRI** World Resources Institute

**WRAP** Waste and Resources Action Programme

**WWF** Worldwide Fund for Nature

### Hayley Campbell-Gibbons Head of Sustainability

Hayley spent more than 10 years as a Chief Policy Adviser (Dairy & Horticulture) at the National Farmers' Union and served as a Non-Executive Board member at AHDB. She is a Non-Executive Board member at the Food Standard Agency and joined Kite Consulting as Head of Sustainability in Spring 2023.

