Reuters Legal News

New framework issued for tackling Scope 3 emissions gap

By Pamela Wu, Esq., Morgan Lewis

MAY 23, 2025

The Voluntary Carbon Markets Integrity Initiative (VCMI) has released the Scope 3 Action Code of Practice (https://bit.ly/44HRDRU), which provides guidance to companies on best practices to reduce Scope 3 emissions. Scope 3 emissions, which are indirect greenhouse gas (GHG) emissions that occur in a company's value chain, can account for a significant portion of a company's GHG footprint and continue to grow rapidly on a global basis.

The Scope 3 Action Code of Practice is designed to promote credible GHG mitigation by companies and participation in high-quality voluntary carbon markets to further efforts to meet global climate change goals.

Scope 3 emissions

Many companies measure their GHG emissions by assessing them within three different scopes. Scope 1 emissions are direct emissions from sources owned or controlled by a company, such as emissions associated with the boiler or furnace in one of its corporate offices. Scope 2 emissions encompass indirect emissions from the company's purchase of electricity, steam, heat, or cooling. For example, Scope 2 emissions include the generation of electricity that is used in one of its corporate offices. Scope 3 emissions cover all sources that are not within the Scope 1 or Scope 2 boundaries.

Scope 3 emissions are indirect GHG emissions that occur in a company's value chain that are not produced by the company itself and are the result of activities from assets not owned or controlled by the company. These emissions may arise from upstream sources, such as the company's suppliers, and sources downstream of the company's own operations, such as the company's customers and product use.

Objectives of the Scope 3 Action Code of Practice

Although some progress has been made toward reducing Scope 3 emissions, they have not been reduced at the speed or scale to meet overall global climate change goals. Developed through a multi-stakeholder public consultation and road-testing process and collaboration with various groups and forums, the VCMI's Scope 3 Action Code of Practice was designed to provide a practical tool for companies that are making progress toward their near-term Scope 1 and Scope 2 emission reduction targets but have faced difficulties or are behind on achieving their planned Scope 3 emissions reductions. It is intended to promote credible, net zero-aligned GHG mitigation by companies and participation in voluntary carbon markets.

The Scope 3 Action Code of Practice is designed to promote credible GHG mitigation by companies and participation in high-quality voluntary carbon markets to further efforts to meet global climate change goals.

The Scope 3 Action Code of Practice requires companies to set science-aligned near-term emission reduction targets for Scope 3 emissions and calculate the gap between a company's most recently reported Scope 3 emissions and where the company needs to be on their path to decarbonization to stay consistent with near-term science-aligned targets in that year, i.e., the Scope 3 emissions gap. It permits companies to use high-quality carbon credits to close this gap, subject to adherence to certain requirements and limits.

Key requirements

The Scope 3 Action Code of Practice requires companies to publicly disclose the following:

- Their current Scope 3 emissions gap;
- Measures already taken to enable Scope 3 emissions reduction and the results obtained;
- The main current and anticipated barrier(s) and an explanation of how they impede progress to targets;
- A list of measures to overcome remaining barriers; and
- The expected timeframe and emissions reductions to close the emissions gap.

In addition to these disclosures, the Scope 3 Action Code of Practice requires companies to retire high-quality carbon credits in an amount at least equal to their Scope 3 emissions gap. However, the Scope 3 emissions gap to be closed by high-quality carbon credits cannot be more than 25% of the company's total Scope 3 emissions trajectory.

The Scope 3 Action Code of Practice lays out a four-step process that companies must follow. They are required to comply with the Foundational Criteria, which require public disclosure of an annual GHG emissions inventory and science-aligned near-term emission reduction targets consistent with reaching net-zero emissions no later than 2050. Companies are also required to demonstrate progress toward meeting a near-term emission reduction target and that their public policy advocacy supports the goals of the Paris Climate Accords.

Companies must assess whether they meet the Scope 3 Action Code of Practice requirements, which include those listed above. They are also expected to demonstrate progress toward meeting their near-term Scope 1 and Scope 2 emissions reduction targets through certain public disclosures.

One of two calculation approaches must be applied to determine the Scope 3 emissions gap: the year-on-year approach or the carbon budget approach. The year-on-year approach calculates the limit of the emissions gap each year a company aligns with the Scope 3 Action Code of Practice (i.e., the company must ensure that the Scope 3 emissions gap is less than 25% of the Scope 3 trajectory emissions in the applicable year and that the Scope 3 emissions gap is eliminated by 2040 at the latest). The carbon budget approach calculates the limit upfront for the company's near-term target implementation period.

The Scope 3 Action Code of Practice requires companies to retire high-quality carbon credits to close their Scope 3 emissions gap, subject to the 25% limit. Until Jan. 1, 2026, interim options for carbon credit procurement are available, after which only credits labelled by the Integrity Council for the Voluntary Carbon Market (ICVCM) Core Carbon Principles (CCP) or Article 6.4 credits may be used.

Companies are expected to transparently disclose information to demonstrate that the Foundation Criteria requirements and Scope 3 Action Code of Practice requirements have been met. They are also expected to transparently disclose key information related to the high-quality carbon credits used to comply with the Scope 3 Action Code of Practice guidance, including the quality and number of credits retired.

Key takeaways

The VCMI Scope 3 Action Code of Practice provides a helpful tool for companies to continue their efforts to reduce and mitigate their Scope 3 emissions and demonstrate their commitment to climate action. It supports global mitigation efforts by encouraging the use and retirement of high-quality carbon credits while companies continue to work toward achieving their decarbonization targets.

Its support for the use of carbon credits to address Scope 3 emissions gaps deviates from the methodology of the Science Based Targets initiative (SBTi), which only permits the use of carbon credits to address residual emissions that remain after a company has achieved its long-term science-based target and cut emissions by more than 90%.

Although the additional flexibility in addressing Scope 3 emissions may be welcomed by many companies, the difference in the rules and guidance has created some concern in the industry on the use and reliance on carbon credits to achieve emissions reduction targets. However, the industry may see enhancements to the Scope 3 target-setting framework in the future, with SBTi recently issuing a proposal that would permit companies to prioritize action on the value-chain activities that generate the most emissions and set separate targets for those sources.

As companies continue to reduce and mitigate their Scope 3 emissions, they should ensure that they document their Scope 3 emissions and reduction plans and ensure that any carbon credits used and retired are high-quality credits.

Pamela Wu is a regular contributing columnist on energy and decarbonization issues for Reuters Legal News and Westlaw Today.

About the author

Pamela Wu, a partner at **Morgan Lewis**, represents companies in the energy industry in a range of matters involving rates, market rules and regulation, and energy commodity trading before the Federal Energy Regulatory Commission (FERC) and Commodity Futures Trading Commission (CFTC). She advises clients seeking to reduce their carbon footprint through new infrastructure assets, clean energy technologies, and transacting carbon credits and carbon offsets. An active member of the firm's energy commodity trading and compliance working group, hydrogen working group, electric vehicles working group, and renewables working group, she is resident in the Washington, D.C., office and can be reached at pamela.wu@morganlewis.com.

This article was first published on Reuters Legal News and Westlaw Today on May 23, 2025.