Ministry of Defence

Defence Suppliers Forum

Code of Practice

Version Control

VERSION	DATE	COMMENTS
1	13/08/21	Addition of comments from WG meeting on 13th
2	02/09/21	Addition of comments from WG meeting on 27th
3	02/09/21	Draft for circulation
4	27/09/21	Includes feedback from wider network (ADS, SPWG etc)

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1. Introduction

1.1 Defence has a significant role to play in meeting the UK Government's net zero carbon commitment. Building a clear understanding of the carbon footprint from Defence acquisition and supply chain activities is a key initiative. This also enables us to identify the most carbon intensive activities and inform efforts to reduce energy and fuel use and support the transition away from fossil fuel use.

1.2 Whilst the importance of Scope 3 carbon emissions is widely recognised, they are also the most challenging and complex to address and our research has shown the way organisations have been approaching these issues has varied significantly. This Code of Practice has been developed by a working group made up of MOD and Defence industry representatives under the direction of the Defence Suppliers' Forum. It is part of a wider initiative to examine common approaches to CO_2e measurement including Scope 3 emissions, identifying the biggest drivers of CO_2e in the Defence sector, to explore some of the emerging low carbon solutions in other sectors and behaviour change to encourage CO_2e reductions.

1.3 This Code of Practice is important in supporting the development of more accurate reporting and to demonstrate how Defence is meeting the commitment set out in MOD's Climate Change and Sustainability Strategic Approach as well as informing the development of innovative solutions to meet both our environmental and also future operational objectives.

Stephen Wilcock & Steve Wadey (Joint Chairs of DSF Climate Change and Sustainability SG)

2. Defence's approach to greenhouse gas emissions baselining

2.1 The Government has recently set out a number of high-profile policy developments including The Ten Point Plan for a Green Industrial Revolution and the accompanying National Infrastructure Strategy. Other initiatives include the Industrial Decarbonisation Strategy which sets a goal to cut industry emissions by around two-thirds from 2018 to 2035. The strategy identifies the need to decarbonise industry and buildings together with steps to move towards low carbon technologies and other reduction activities which are all underpinned by the measurement of energy and carbon performance.

2.2 MOD has developed a comprehensive approach to emissions baselining to enable Defence to identify the full breadth of climate change, sustainability risks and opportunities. This uses a Financial Year 19/20 baseline and is intended to increase the credibility of Defence reporting and to provide the basis for incorporating emissions impact into decision making.

2.3 MOD suppliers have a critical role to play, as it is estimated (based on spend based calculations) that two thirds of Defence's overall GHG emissions are from the supply chain (forming a major part of MOD's Scope 3). This Code of Practice is a shared document with industry to provide high level guidance to encourage consistency through all layers of the Defence supply chain, in the expectation that suppliers are taking the necessary steps to measure GHG emissions.

2.4 It is important to consider that supplier approaches will vary according to the nature of their activities and that some Small to Medium-sized Enterprises (SME)s may not have the same resources to support GHG reporting requirements as larger companies.

3. Purpose of this document

3.1 Emissions reporting is a complex area and this document is intended to aid Defence suppliers by providing guidance for measuring greenhouse gas (GHG) emissions. By working together in an open and transparent manner, we can encourage a consistent approach in order to strengthen reporting and reduce emissions. This will increase credibility and trust in the commitment by the Defence Sector to drive towards Net zero and reduce the risk of real or perceived "greenwashing".

3.2 The Code of Practice sets out sector-specific guidance for GHG measurement covering the main aspects of Defence including Scope 3 emissions.

3.3 This Code covers all areas of Defence acquisition and support including products, systems and services as well as infrastructure and estates. The aim is not to replicate existing guidance and requirements, but to signpost the best practice that is applicable - including the Greenhouse Gas Protocol (GHG Protocol). This Code is not intended to be used as a formal contracting requirement.

3.4 Over the last decade many organisations have been systematically capturing data, for measuring and reporting Scope 1 and 2 GHG emissions. But this requirement has also grown to include Scope 3, and a need not just for reduction targets but a plan to reach net zero.

3.5 We believe this can only be achieved effectively through collaboration and sharing good practice. While transparency about our collective footprint is important, the goal of capturing data is to know enough to create effective reduction plans, targeting those areas that need attention and demonstrating our commitment to reduce.

4 Best practice in guidance

4.1 The way Defence organisations report GHG emissions is consistent with the internationally recognised GHG Protocol which splits emissions into direct and indirect emissions under Scopes 1, 2 and 3. Scope 3 is the most challenging area to report and is more difficult to abate. The protocol is primarily a tool for capturing and reporting emissions. However, measuring and managing 'value chain' emissions is essential to reduce reliance on embodied materials, energy use, processes in service use of equipment, and infrastructure (which create GHG emissions).

4.2 Through our conversations, it is clear the GHG Protocol is the globally recognised primary source for guidance; https://ghgprotocol.org/. The Scope 3 technical guide provides technical guidance for calculating Scope 3 emissions. https://GHGprotocol.org/Scope-3-technical-calculation-guidance

4.3 The Scope 3 Evaluator is a web-based tool from the GHG Protocol that provides companies with a way to understand their Scope 3 emissions including the 15 Scope 3 categories, regardless of size or type of organisation. (it should be noted that the information in the calculator are a little out of date, but it is still acknowledged as one of the most useful tools available).
https://GHGprotocol.org/Scope-3-evaluator

4.4 Further guidance for addressing some of the most relevant emissions categories included in the 15 Scope 3 emissions areas identified in the GHG protocol may be added to the Code of Practice in future. For example, the intention is to develop Defence specific aspects e.g. Ordnance, Munitions and Explosives (OME).

4.5 Some organisations have indicated that using PAS2060 is beneficial and there are also a number of ISO standards (eg ISO 140001, and ISO 50001 which can support management of processes and data.

4.6 Many Defence suppliers operate across different countries and there is a need to reconcile UK GHG emissions reporting requirements alongside the different obligations in other countries. For example, when overseas manufacturing operations are significantly larger than UK based activities.

4.7 *Recommendations:*

- It is recommended that organisations start with the guidance in the GHG protocol and the Scope 3 technical guide.

- Be open and transparent in the methodology and any assumptions used, to help stakeholders understand the approach being taken.
- It is recommended that organisations follow the GHG principles including relevance, completeness and accuracy.
- While capturing and reporting emissions is clearly important, it is a significant undertaking and a balance should be struck so that effort can also be invested in developing effective emissions' reduction plans.

5 Sources for emissions factors

5.1 There are various sources for converting different environmental data into CO2e emissions, the primary source is the UK conversion factors published by BEIS. www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021. These are generally updated annually to reflect further decarbonisation of the grid.

5.2 Emission factors are a substantive element of the GHG emissions calculation and so where practicable there are benefits in the sector using the same approach for consistency.

5.3 Many organisations will also be calculating aspects of their footprint from overseas and can assess in-country emissions in a similar way.

5.4 *Recommendations:*

- Use the latest BEIS figures for UK as the principle authoritative source.
- Quote the source of any alternative emissions factors being used. Use an authoritative source.
- Signpost to any international emissions factors being used.
- If emissions factors are not available for a specific GHG source, be transparent in the approach taken

6 Data collection & maturity

6.1 The data required to capture full GHG emissions is substantive, and for many organisations, Scope 3, is a relative recent addition. The Defence industry needs to continue to work together to improve the use of the different methodologies as our knowledge of carbon foot-printing evolves.

6.2 Products and services are recognised as one of the most challenging aspects. There are a number of approaches which can be used to measure different activities including:

- A simple cost-based approach which provides a high-level approximation of a supplier organisation's GHG emissions.
- Average carbon values which estimates emissions by collecting data based on the mass of different goods and services.
- Product specific data provides a detailed breakdown of the footprint of individual products using lifecycle analysis. This can consider whole supply chain including the extraction and processing of raw materials.

6.3 The same foot-printing methodology is not necessarily applicable to all the different types of companies operating in a diverse sector such as Defence. Currently, applying a spend based approach may be sufficient to deliver a successful reduction strategy. However, there are limitations and there is also a need to recognise that other methodologies can be used to understand the footprint of products and services, in order to make informed buying decisions.

6.4 Each organisation will need to decide the level of data they are able to capture for their initial Scope 3 assessment and then consider a pathway to more accurate capture, assuming more accurate data will aid in creating more effective reduction plans. Very often a combination of approaches would be appropriate. This may depend on whether the spend data is considered to provide a good indication or masks the emission's profile.

6.5 A key point is that it is important to focus on the areas where the biggest reductions can be achieved. Also, as our understanding of carbon foot-printing evolves it is important to continue to evaluate the different methods available in order to improve the accuracy of measuring emission's performance.

6.6 It may also be necessary to consider the organisational vs project or product lifecycle level. One way of approaching this would be to indicate that in some situations where the supplier has identified a particular carbon reduction opportunity related to a specific project, it may be appropriate to specifically measure and report to the contract / product level.

6.7 A contract level approach measures the emissions over the lifecycle of the product or services and has a number of benefits. But this is also is dependent on the suitability of the individual contract such as where there are significant technical opportunities available to make emissions reduction feasible. A Life Cycle Assessment approach is an evolving area and could be considered in the future to create agreed common models for key commodities.

6.8 Collecting data on individual programmes currently has many difficulties. For example, there are significant inconsistencies in the way the emissions are declared across different types of Defence acquisition projects and services. Particularly for many Defence applications the emissions estimates in the design phase do not always match what happens once the equipment is in-service. There are also security sensitivities on making some data public. Close co-operation will be needed to develop more effective measurement techniques and to improve guidance.

6.9 A systems level approach may be beneficial in taking a systematic view of the emissions related to a particular output or an organisation's approach. This should assist in identifying any potential gaps with the contributions to overall emissions.

6.10 *Recommendations*.

- Be transparent in the data being used
- Consider your data maturity pathway

- Focus on those aspects of your footprint that are largest or most material and can help drive the biggest reductions (noting for some industry suppliers this could be outside of the UK defence work)
- Create good estimates of through life emissions within contract requirements and use as the basis for supplier scope calculations

7 Organisational boundaries

7.1 It is inevitable that by capturing and reporting Scope 3 emissions in different organisations it will lead to double accounting of the same emissions. This is an issue if calculating the emissions of the entire sector but, it is more important to show emissions have been accounted for, so that organisations at different points in the value chain can work together to identify measures for reduction.

7.2 This also includes circumstances where it is necessary to measure carbon emissions on shared sites and other shared boundaries between different organisations. The Scope 3 emissions related to the in-service use of a product should not be considered as part of the organisational declaration if the use is by another organisation. However, the in-service aspects will need to be considered as part of any contract specific social values consideration (SV is explained in section 11).

7.3 *Recommendations:*

- Where possible, customers should take care to specify detail about planned in service use of equipment and this can then be used as the assumption for calculation of the supplier's scope 3 emissions (category 11) and the customers scope 3 emissions (category 4).
- Customers and suppliers should consider where primary opportunity and responsibility sits between the organisations.

8 Incentivisation

8.1 A wide range of measures are being considered by MOD to reduce the GHG footprint of products and services throughout their lifecycle. This includes investigating potential incentives for low carbon options as part of contract decision making, in situations where it is appropriate. Tier 1 suppliers should consider how this could flow down into the supply chain.

8.2 Organisations across the sector could consider other incentive mechanisms such as the implementation of an internal "cost of carbon" to inform decision making and investment. In addition evidence for supporting addressing greenhouse gas reduction within employee performance management and leadership incentive schemes could be considered.

9 Offsetting

9.1 It is generally agreed that organisations should prioritise taking all possible actions to reduce emissions first, and only then consider offsetting. Offsetting, including carbon sequestration, should be considered as a viable approach to ameliorate residual GHG

emission following reduction activities. This avoids the risk that offsetting can lead to negative behaviour and potentially undermine efforts to reduce emissions at source. So, while there are often good reasons for offsetting, under the mitigation hierarchy, this should be regarded as a final option.

9.2 It is anticipated that there are future technology and process solutions to address emissions which may not be currently available and so offsetting can form an interim solution as part of a long term strategy to address more difficult technology challenges.

9.3 It is important that organisations provide clear information on any offsetting activities on a case by case basis, and they are transparent about which measures have been used and the reasons are fully explained. Care should also be taken that any offsetting claims are independently validated and any contracting out or carbon credits is via a reputable source.

10 Alignment with PPN 06/21

10.1 The UK Government's focus on GHG emissions measurement and reduction is starting to be included in public procurement in two principle ways, as part of supplier selection checks that organisations have published carbon reduction plans, and as part of the Contract Award evaluating Social Value (including Carbon reduction) when evaluating Tenderers' proposals.

10.2 In June 2021, the UK cabinet office issued PPN06/21 requiring organisations to publish a carbon reduction plan.
https://www.gov.uk/government/publications/procurement-policy-note-0621-taking-account-of-carbon-reduction-plans-in-the-procurement-of-major-government-contracts

10.3 The PPN is a requirement for bidding for PCR contracts of £5m pa. At time of writing the MOD has consulted with suppliers under the DSPCR and so may issue similar guidance by spring 2022.

10.4 The PPN requires a high-level commitment and is currently in Phase 1. This Phase 1 is limited to only 5 aspects of Scope 3. It is suggested that organisations take a more comprehensive view at this stage as Phase 2 will see the Carbon Reduction plan requirements increase.

11 Alignment with Social Value

11.1 The UK Cabinet Office introduced in PPN 06/20 the Social Value Model for all central government procurement under the Public Contract Regulations from Jan 2021 and the MOD has extended this to all procurements under the Defence & Security Public Contract Regulations from June 2021.
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/921437/PPN-06_20-Taking-Account-of-Social-Value-in-the-Award-of-Central-Government-Contracts.pdf

11. 2 The policy requires a minimum of 10% of the total award criteria to be applied to Social Value criteria set out within 10.2 the Social Value Model. The Model has five themes one of which is “Fighting climate change”. Tenderers are required to submit qualitative evidence that addresses the award criteria to show amongst other things the additional Social Value benefit that will result from the award of the Contract(s).

11.3 The Social Value Model includes standard report metrics to be used in all Contracts, specifically in relation to the “Fighting climate change” theme and associated carbon reduction award criteria the reporting metric is:*Annual: Reduction in emissions of greenhouse gases arising from the performance of the contract, measured in metric tonnes carbon dioxide equivalents (MTCDE).*

12 Review arrangements and further information

12.1 The Code of Practice has been developed jointly between MOD and industry via the DSF

12.2 MOD and industry are invited to follow the guidance and recommendations within this Code of Practice although It is not a formal contract requirement.

12.3 The code will be reviewed periodically to reflect evolving good practice together with future changes to standards and regulatory requirements. Amendments will be identified in the revisions annex.

12.4 The Code will be published on the DSF website [link] and the Defence Sourcing Portal [link].

12.5 The ADS Sustainability working group has an ongoing programme to help member organisations develop their understanding of sustainability requirements including carbon emissions reporting.