BUSINESS IN THE COMMUNITY

The Prince's Responsible Business Network

FACTSHEET

ADDRESSING EMISSIONS IN YOUR SUPPLY CHAIN

Value chain emissions can comprise more than 90% of a company's total emissions[1]. To date, many mandatory reporting schemes only require Scope 1 and Scope 2 emissions which are produced directly or through purchased electricity. Indirect emissions through your supply chain (known as Scope 3) are reported on a voluntary basis meaning a large proportion of a business's environmental footprint can be missed.

However, businesses are now addressing climate-related risks and opportunities across their value chain. Benefits include increased resource productivity, cost savings, development of innovations across products and services as well as a more resilient business.

The need for transparency across value chains is putting further pressure on businesses: as the remaining global carbon budget is being rapidly depleted, there is a growing need to reduce greenhouse gas emissions wherever possible.

SCOPE 3 UPSTREAM

- Purchased goods and services
- Capital goods
- Fuel and energy-related activities
- Upstream transportation and distribution
- Waste generated in operations
- Business travel
- Employee commuting
- Upstream leased assets

Figure 1: List of Scope 3 upstream emissions

SCOPE 3 EMISSIONS

All indirect emissions due to the activities of a business. Upstream emissions include purchased goods and services; capital goods; waste generated in operations; business and commuting travel; transportation and distribution.

Supply chain emissions can form a large proportion of your total value chain emissions and can be highly material to your business (more so than your Scope 1 and 2 emissions). To meet net zero ambitions, businesses will need to decarbonize their supply chain, working in partnership with suppliers to build resilience and reduce climate related risks.

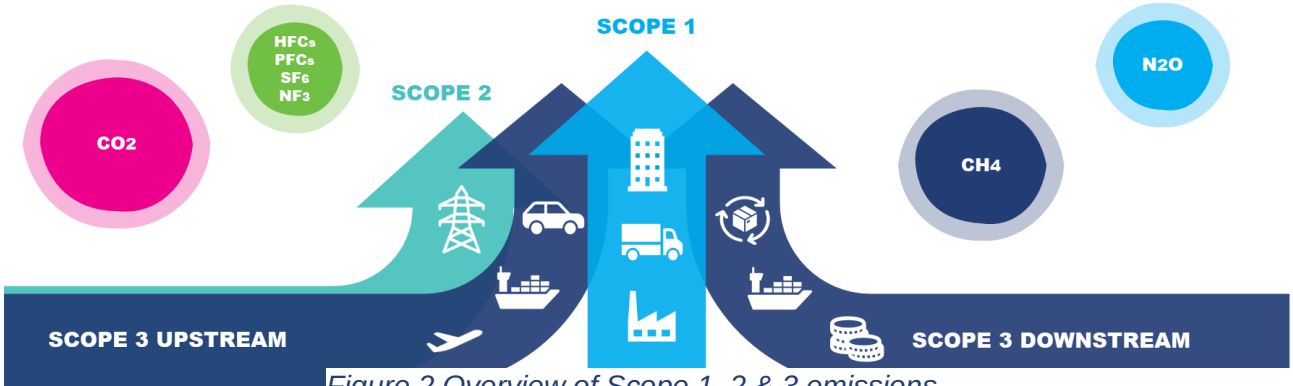

Figure 2 Overview of Scope 1, 2 & 3 emissions

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Decarbonising your supply chain

Global supply chains are vast, dynamic and interdependent. As shown by the COVID-19 pandemic, globally disruptive events are no longer confined to specific geographies but have widespread consequences that can be felt across the globe. Coupled with global mega trends such as climate change, extreme weather events, increasing resource constraints and changing consumer habits, businesses need to take a new approach to ensure that their supply chains are sustainable.

In 2019, 15 extreme weather events driven by climate change cost more than $1 billion[2], with four events costing more than $10 billion.

Businesses are deepening their understanding of their activities and identifying carbon hotspots. Working with procurement functions to decarbonize your supply base is an essential step not only to meet your business's carbon target but to reduce climate-related risks.

Why focus on supply chain emissions?

Supply chain emissions can be one of the biggest elements of Scope 3 emissions and typically four or five times a company's direct (Scope 1 and 2) emissions – this can be up to 90% in certain sectors[3].

Not only does reducing supply chain emissions have huge potential to prevent the worst impacts of climate change and to reduce climate-related risk, but it can also lead to substantial business benefits. By focussing on supply chain emissions businesses can unlock new innovations and collaborations, reduce risk, increase financial efficiencies through productivity, improve brand reputation, boost development of new products and services, as well as build resilience into supply chains.

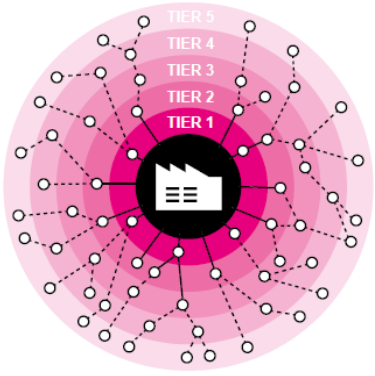
On average, supply chain greenhouse gas (GHG) emissions are 5.5 times[4] greater than those of a company's direct emissions.

Businesses can develop a more profound understanding of their activities and identify carbon hotspots as well as identify opportunities for innovation with suppliers.

GETTING STARTED

1. Know your supply chain

The first step is to identify and quantify your supply chain emissions to drive transparency and get as full a picture as possible of your business's reach. This can be an iterative process of increasing accuracy. An initial screening exercise will identify the carbon hotspots where you can make the biggest impact. You can map the volume of products and services using 3D mapping or you can simply use an illustration of a generic supply chain.



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This type of visual representation reveals points of vulnerability where large volumes of products flow from suppliers into high-risk regions, allowing visibility of potential risks.

Identification of Scope 3 materiality

For your Scope 3 screening (both upstream and downstream) consider prioritising activities based on:

- Magnitude of GHG emissions or spend
- Influence
- Risk exposure
- Stakeholder interest
- Sector specific significance[5]

If accurate data is not available for a relevant Scope 3 emissions category, use benchmarks and proxy data. This can then be used to set your baseline and provide a steer on next steps to improve data quality and completeness for relevant emissions sources.

The Greenhouse Gas Protocol offers a free Scope 3 Evaluator Tool[6] to support.

Many industries are coming together to collectively develop a standardised methodology to ensure there is consistency in measuring emissions across their industry supply chains.

IMPACT STORY

Tesco

The opportunity

Tesco's Little Helps Plan includes climate change commitments to work collaboratively with its suppliers to achieve a 7% absolute reduction in carbon emissions across their business by 2020 (20% reduction by 2025 and 35% by 2030 for manufacturing; and 12% reduction by 2025 and 15% by 2030 for agriculture).

Action

Tesco's agricultural emissions account for 61% of its total value chain emissions whilst manufacturing emissions are 12%. Working collaboratively with suppliers Tesco is supporting the uptake of renewables in its manufacturing supply chains, improving carbon reporting methodology and trialling low carbon technologies on farms.

Impact

To date, Tesco has achieved a 12% reduction in manufacturing supply chain emissions and 87% of key suppliers are measuring agricultural emissions.

Recognising that greater progress can be made collaboratively, Tesco is working with its industry to develop consistent standards to measure and reduce GHG emissions across its supply chain through initiatives such as WRAP's Meat in a Zero World.

Business in the Community (BITC) has produced a factsheet to support businesses to set a net zero target, available here.

2. Get leaders on board

Leaders are required at all levels of the organisation. Engage with executive leadership to help shape, finesse, and approve your strategy. Board-level commitment is required to create a vision, change the culture and maximise the benefits delivered. Ensure that there is a clear business case for your strategy from the beginning. This will also help you gain wider stakeholder buy-in, both internally and externally.

Please see BITC's factsheet 'Why now is the time to start your net zero carbon journey'.

Enable your teams

An organisation-wide steering panel of technical experts can support and develop your strategy. However, achieving net zero is everyone's responsibility and needs to be integrated across the procurement functions.

- Incorporate carbon reduction targets in your procurement team's objectives and individual targets.
- Provide training on sustainability issues so everyone has knowledge of the issue to identify risks and seize opportunities within the supply chain.
- It is important to build this into existing processes where possible, for example, your supplier selection process and within existing contracts.
- Incorporate minimum standards that suppliers are required to meet within supplier questionnaires, pre-qualification questionnaires (PQQ), and tender processes such as CDP or Carbon Trust Standard.
- Set clear performance measures linked to your carbon reduction targets and embed these within your contracts, for example require suppliers to reduce and report on carbon emissions annually.

3. Collaborate with suppliers

Organisations should seek to align culturally and commercially with their supply chain. Early engagement with your suppliers is crucial as you will need to take them on the journey with you. Expectations should be set and tested during the procurement process. Partners should have 'back-to-back' targets for carbon reductions so they can share in the businesses success in reducing carbon as well as risks and cost. This can be achieved through long-term (beyond one year) contracts or commercial 'alliances' which encourage the development of innovative low carbon products and processes.

A one-size-fits-all approach may not be appropriate for all your suppliers - consider implementing requirements consistent with their sector and size. Set clear timelines, year-on-year for carbon reduction to ensure there is continuous improvement.

Top tips for supplier engagement

- Provide carbon management training for suppliers to improve their knowledge and understanding of climate-related risks and to reduce emissions.
- Consider providing financial or pro-bono support to suppliers to manage their emissions (eg investment in renewable energy project and carbon measurement support). This can encourage further roll out of carbon reduction initiatives elsewhere.
- Larger organisations may wish to take advantage of the CDP Supply Chain Programme[7]. This programme is used by organisations to collate data on the steps they are taking to reduce their emissions.
- Incentivise continuous improvement through an online supplier platform to share knowledge and learnings and set benchmarks amongst your suppliers.
- Establish a supplier awards programme to highlight positive performance.

IMPACT STORY

Anglian Water

The opportunity

Anglian Water has historically invested £2bn, every five years, to maintain and build new infrastructure. Most of this is delivered by 'alliances' - a collaborative organisation of consultants and

contractors working together over a 15-year term. Prior to 2010, it was recognised that the 'capital' carbon emissions associated with this programme of work were a supply chain hot-spot, equivalent to more than 30% of Anglian Water's Scope 1 and 2 carbon footprint.

Action

Anglian Water created a carbon modeller tool which allowed a carbon baseline to be set and for engineers to calculate the carbon of their solutions. The Board also set stretching carbon targets for the business and its alliances. Effective governance and reporting ensured that everyone had visibility of the operational and capital carbon reduction being achieved at each stage of the project. Leaders in the business and the alliances created a culture which encouraged collaboration and innovation.

Impact

In delivering its most recent five-year investment programme Anglian Water and its supply chain achieved a reduction in capital expenditure of more than 20% alongside a capital carbon reduction of 61%.

4. Deliver and implement your strategy

The strategy to measure, manage and reduce supply chain carbon should be formalised and embedded into the business and your supply chain.

- Initial screening will have established which emissions hot spots are to be managed. Use emissions factors to measure your Scope 3 emissions. Baselines and SMART (Specific, Measurable, Attainable, Relevant and Time-bound) targets can then be set, monitored at relevant points across the value chain and then regularly reported against.
- The Greenhouse Gas Protocol[8] provides a corporate accounting and reporting standard for measuring supply chain emissions. Most standards, such as the International Standards Organization's GHG emissions reporting standard (ISO 14064-1), are consistent with the GHG Protocol Corporate Standard and can be used to help embed the supply chain carbon management strategy.
- Whilst the above standards apply to all sources of supply chain emissions, there are other standards which may be more relevant to the specific hotspots identified. For example, infrastructure companies have reduced their Scope 3 embodied (or capital) carbon by up to 60% whilst also delivering financial savings of more than 20% through the application of PAS 2080: Carbon Management in Infrastructure[9].

SET OUT YOUR ROADMAP FOR DELIVERING YOUR TARGETS including priority initiatives to deliver quickly

Your strategy should include:

- Your defined ambition
- Role of purchasing in achieving the ambition
- Identified risks and opportunities
- Critical categories and suppliers to target
- Actions and high-level roadmap to manage risks and opportunities
- Targets and metrics for success

FURTHER GUIDANCE

- BITC's Driving Sustainability through Procurement: a guide on how to embed sustainability into procurement processes.
- BITC's Lifting the Lid on Waste: A guide to Recycling, Waste Management and Resource Productivity.

- BITC's Target setting - Getting started on your net-zero journey: A factsheet to help organisations create a pathway to accelerate the transition to net- zero.
- BITC's Challenge 2030: Jargon Buster: An A-Z guide of the terminology used
- Science Based Targets initiative (SBTi) - Value Change in the Value Chain: Best practices in Scope 3 Greenhouse Gas Management.
- Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard: Guidance on GHG Protocol Corporate Accounting and Reporting Standard.
- Carbon Disclosure Project Supply Chain Programme: a not-for-profit charity running the global disclosure system for investors, companies, etc. to manage their environmental impacts.

Next steps

At BITC, the Prince's Responsible Business Network, we want to help our members understand the risks and opportunities of climate change and put them at the heart of your business strategy.

Our 'Challenge 2030' Campaign, will do just that.

How BITC can support you

- We are supporting BITC members to set net zero carbon targets that align to the UN target to limit temperature rises to 1.5°C above pre-industrial levels and develop climate action plans. If you haven't already – join BITC. We have a wealth of resources, expert advice, and support from other members to help you.
- Sign up to our series of webinars that will take you through the steps in more detail, learning from leading companies and having the opportunities to develop your action plans.
- Speak to your Relationship Manager about an environmental advisory services package to get bespoke support for your business or email environment@bitc.org.uk to find out more about how we might be able to support you.
- Join our Net Zero Carbon Taskforce to collaborate with other businesses at the forefront of the journey.

With thanks to our Net Zero Carbon Taskforce for their expertise and insights in producing this guide.

ENDNOTES

[1] Greenhouse Gas Protocol. FAQs. Available here.

[2] Dr Kramer, K. & Ware, J. (2019) Counting the cost, 2019: a year of climate breakdown, London. Available here.

[3] Best Practice in Scope 3 Greenhouse Gas Management (2018). Available here.

[4] CDP (2019) Cascading commitments: Driving ambitious action through supply chain engagement. Available here.

[5] WRI (2020) World Greenhouse Gas Emissions: 2016. Available here.

[6] Greenhouse Gas Protocol, Scope 3 Evaluator. Available here.

[7] CDP Supply Chain Programme. Available here.

[8] Greenhouse Gas Protocol, Corporate Value Chain (Scope 3) Accounting and Reporting Standard. Available here.

[9] BSI pas 2080 Carbon Management. Available here.