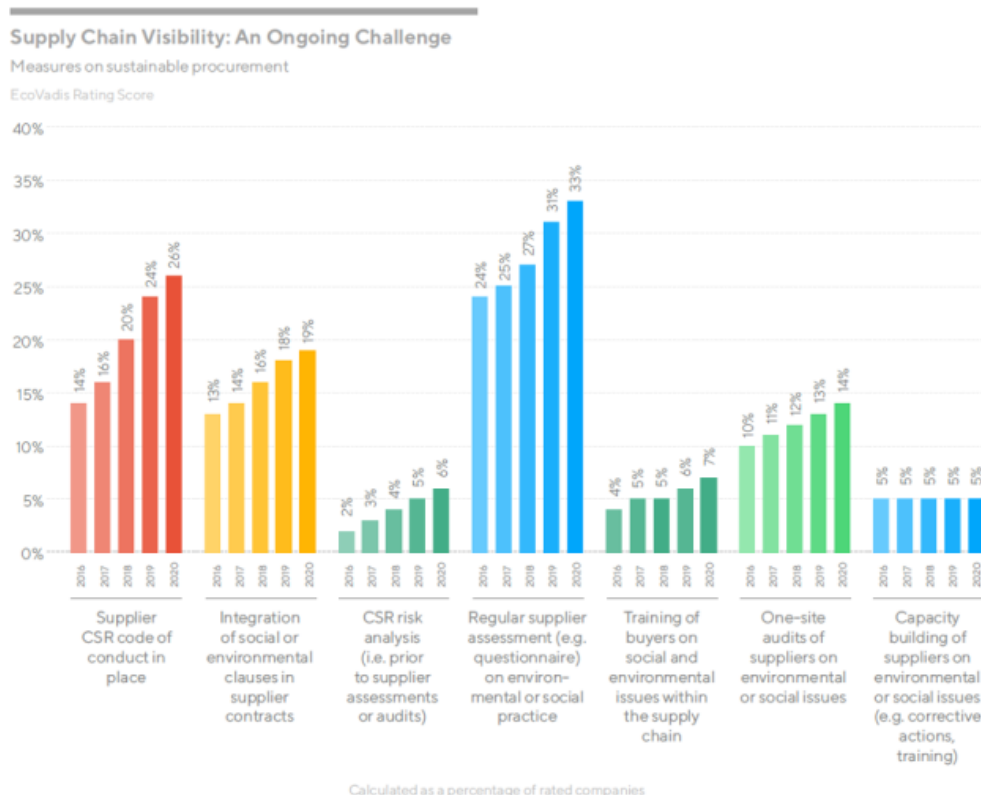


From Ambition to Action: Supply Chains Key to Scaling Corporate Net Zero Pledges in Line With COP26

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Greenhouse gas (GHG) reporting and action has, in the years following the ratification of the Paris Climate Agreement (2015), been established as a top priority on the corporate sustainability agenda. Latest **research by Oxford-ECIU** found that net zero commitments now cover at least 68% of the global economy, while over **2,000 businesses** have committed to work with the Science Based Targets initiative (SBTi) to achieve an empirically robust and measurable net zero transition by mid-century.

But although the recent advancement of net zero commitments represents a significant advance in climate ambition since the Paris summit, there remains marked variation with regard to the content of such pledges. The above referenced Oxford-ECIU study found that only 10% of net zero targets meet the essential entry criteria stipulated by the UN Race to Zero campaign. In particular, net zero commitments vary greatly with respect to their “Scope”: do they account solely for Scope 1 and 2 emissions, those related to

companies' internal operations and purchased energy, or do they seek also to address those many varied and complex indirect emissions that occur across the entirety of a company's upstream and downstream value chain – Scope 3 emissions?

On the eve of the next pivotal meeting of world leaders at **the COP26 summit in Glasgow**, a conference aimed at securing “global net zero by mid-century”, this blog highlights the urgent imperative that companies transform ambition into action to realize carbon reduction commitments. Drawing on EcoVadis' expansive record of rated company data, as well as a detailed analysis of **the companies included in the SBTi database**, it further demonstrates the fundamental importance of the procurement function in scaling carbon reduction programs across the entire value chain, illustrating how the EcoVadis' Carbon Action Module can support companies working towards the goals of COP26.

Scope 3 Emissions and the Importance of the Supply Chain

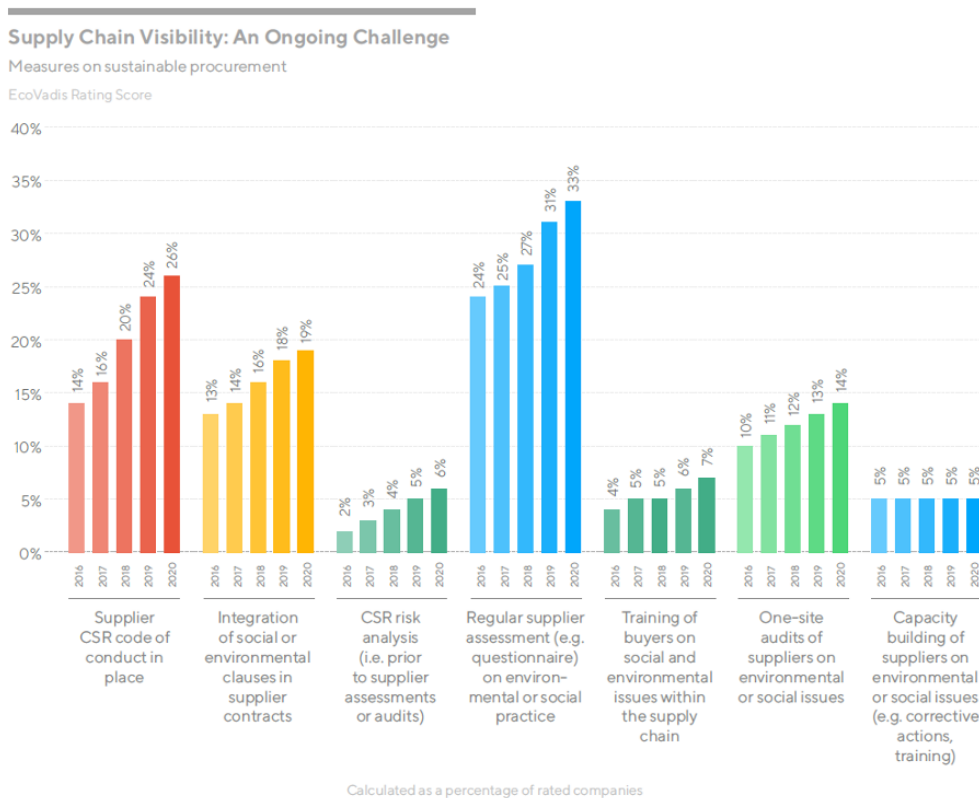
The importance of supply chain emissions in formulating carbon reduction commitments can scarcely be overstated. Recent **research by McKinsey** found that, for most products, 80-90% of GHG emissions can be categorized as Scope 3; of those emissions, two-thirds typically emerge in the upstream supply chain. CDP **calculates similarly** that supply chain emissions are, on average, 11.4 times higher than those generated by a business' internal operations.

In this context, it is highly encouraging that **94% of companies with approved SBTs** have established Scope 3 targets in line with climate science. Indeed, a recent **EcoVadis survey of international procurement leaders** found that delivering on corporate sustainability goals has shifted to the top of the agenda for executive teams, with 63% saying it is now “very important” for them, compared with 25% in 2019. However, the data is unequivocal that much work remains to be done in terms of engaging suppliers to cascade emissions reduction targets further up the value chain.

Just 4.9% of SBT issuers have established supplier engagement targets – that is, targets on engaging a set percentage of their suppliers towards setting SBTs themselves. Furthermore, only half of those firms have dedicated teams and resources allocated to achieve emissions reduction, with even fewer linking executive-level compensation to the achievement of climate goals (e.g. Bayer).

Concerningly, these statistics accord with data assessed in the latest EcoVadis **Business Risk and Sustainability Index**, which found that only 5% of companies rated by EcoVadis in 2020 support suppliers in building due diligence capacity further up the value chain. Just 6% conduct CSR risk analyses prior to supplier assessments or audits, while only 7%

provide buyers with specific training on social and environmental issues in the supply chain.



Find out more about the latest trends in sustainable procurement in the A Scalable Solution With “Gamechanging” Potential

From a lack of reliable data to difficulties cultivating meaningful supplier engagement, there are manifold barriers for businesses seeking to quantify and reduce Scope 3 emissions. This subject is discussed in depth in our eBook: **“Corporate Action on Greenhouse Gas Emissions.”**

But whether a company aspires to achieve net-zero emissions by 2050, or even aims to transition to carbon positivity, the data is unequivocal that without buy-in from business partners, no such drastic reduction in carbon output is attainable. Across regions and industries, the overwhelming majority of GHG emissions are rooted in upstream processes, materials and services; this circumstance renders supply chain action a significant – and largely untapped – opportunity for carbon reduction.

By engaging partners to create a net-zero supply chain, companies can boost their climate impact, enable emission reduction in hard-to-abate sectors, and accelerate climate action in countries where regulatory and consumer pressure is low. As the World Economic Forum concluded in **a recent, detailed study** on sustainable procurement:

“Supply-chain decarbonization will be a game changer for the impact of corporate climate action.”

Hearteningly, large buyers are increasingly willing to leverage purchasing power to drive climate action through the supply chain, cascading positive impact. Unilever, for instance, is actively working with trading partners to transition to a **net zero value chain by 2039**. Mars has established a **similar target for 2050** and is presently prioritizing collaboration with suppliers to amplify the impact of carbon reduction practices through the full value chain.

Furthermore, **EcoVadis ratings data makes clear** that companies which participate in industry initiatives intended to foster cooperative action on carbon emissions – such as the World Business Council for Sustainable Development’s (WBCSD) **Value Chain Carbon Transparency Pathfinder** and the **Task Force on Climate-related Financial Disclosures (TCFD)** – consistently achieve higher scores across a range of sustainability criteria than counterparts relying on individualized policies, actions and reporting.

Main priorities of procurement organizations 2019 vs. 2021



*This option was not included in the 2019 survey.
This table compares the percentage of companies that listed each priority as “very important.”

Read more about the latest trends in sustainable procurement in the

A Lot Done - More to Do

But more work is needed, particularly in terms of cascading carbon reduction practices further up the value chain.

In 2020, for instance, **the SBTi reported** that just 69 companies with approved SBTs had also established “supplier engagement targets” in an effort to expand the adoption of GHG reduction measures among trading partners. Recent CDP research concluded similarly that **only 37% of suppliers** who disclose emissions data through its platform in turn engage their own trading partners to cascade carbon reduction practices further-up the value chain.

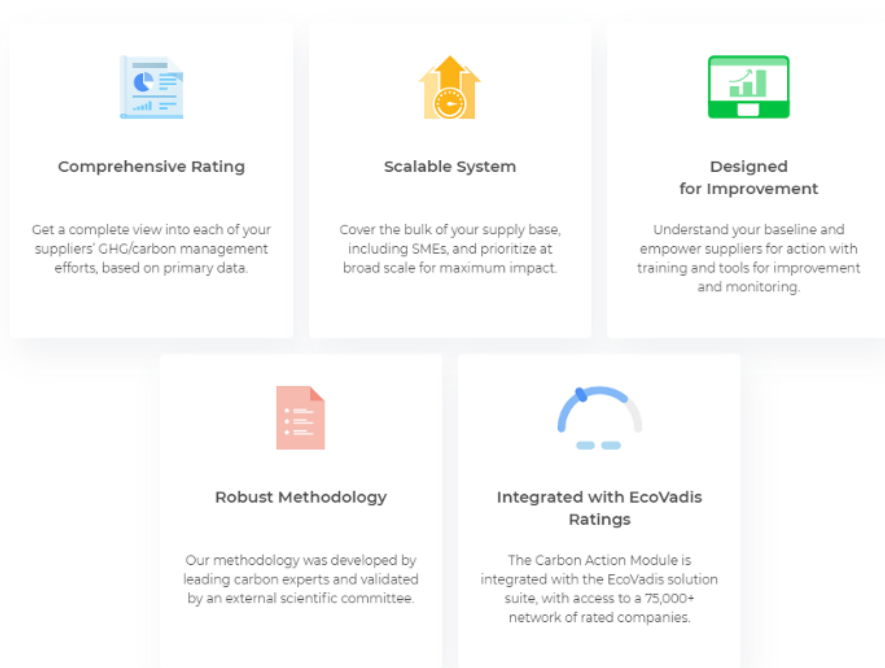
This lack of engagement with suppliers is a critical shortcoming in many carbon reduction strategies. For unless emissions reduction practices are cascaded effectively through the upstream value chain, the full scalable potential of sustainable procurement practices cannot be realized.

So, how can firms effectively go about the complex task of tackling emissions embedded across the entirety of the value chain?

EcoVadis Carbon Action Module

The **EcoVadis Carbon Action Module** empowers sustainable procurement and climate change leaders with insights on supplier GHG management practices and provides a toolkit to prioritize, engage and drive emissions reductions to meet decarbonization goals. The Carbon Action Module empowers companies with insights regarding their carbon management practices and performance to foster collaboration, and provides a set of tools to monitor and drive emissions reductions hand in hand with business partners along their decarbonization journey.

Key Benefits



In addition to providing Carbon Ratings and Scorecards to enhance transparency regarding GHG emissions in a purchasing company's supply chain, the EcoVadis Carbon Action Module provides an easy-to-use Carbon Calculator that enables assessed organizations to accurately and consistently measure both their direct and indirect carbon footprint. Rated companies can, in turn, feed data regarding energy and carbon use into a comprehensive performance dashboard and track improvement over time, accounting for Scope 1, 2 and 3 emissions, as well as renewable energy use and total energy consumption. Furthermore, the Module's bespoke E-Learning Hub provides suppliers with the resources and expertise required to formulate a robust framework for performance improvement, thus enabling a purchasing company to cascade emissions reduction practices through the value chain.

The **EcoVadis Carbon Action Module** thus provides a comprehensive, scalable and collaborative performance improvement tool to reduce carbon emissions, helping to ensure that global heating can be kept within the 1.5 °C target established under the terms of the Paris Agreement.

COP26: A Time for Action

The recent proliferation of net zero commitments across the global economy represents a significant advance in climate ambition ahead of COP26. But as the comprehensive data published in the **most recent IPCC Report** makes clear, the time for ambition on the issue of carbon reduction has long since passed – action and impact are now urgent political, economic and social imperatives.

If, in keeping with the aims of the Paris Agreement, carbon emissions are to be halved by 2030 and phased-out entirely by mid-century, it is essential that businesses commit fully to tackling Scope 3 emissions and leverage purchasing power to scale sustainable practices across the value chain. Furthermore, given more than **more than 130 countries** have now set or are considering a target of reducing emissions to net zero by 2050, it is inevitable that national and supranational regulators will **increasingly follow France**, for example, in extending mandatory GHG disclosure regimes to encompass Scope 3 emissions data.

It is in this regard that solutions such as the EcoVadis's Carbon Action Module can provide companies with a framework to reduce emissions at the kind of scale required to achieve carbon neutrality by mid-century, thus helping to ensure that future generations inherit a stable climate, as well as a sustainable society and economy. Find out more about the steps you can take to integrate the procurement function more effectively into an overarching GHG reduction program, and read more about industry-leading examples of best practice, in our eBook: "**Corporate Action on Greenhouse Gas Emissions.**" You can also **get in touch** to learn more about how EcoVadis can help your

company get started on tackling the complex task of calculating, reporting on and reducing carbon emissions embedded in the value chain.

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