CDP
DISCLOSURE INSIGHT ACTION

Scoping Out: Tracking Nature Across the Supply Chain

Global Supply Chain Report 2022

March 2023

Written in collaboration with
Boston Consulting Group

BCG

Executive summary

75%

of the Earth's ice-free land surface has been significantly altered.

>85%

of wetland area has been lost.

Awareness and ambition on nature are growing, but the challenges we face are also accelerating. We must act urgently to halve emissions and become nature positive by 2030.

Society is only just waking up to the true scale of the damage we have inflicted on the natural world. In October 2022, the WWF found that global wildlife populations have declined by 69% since 1970. In some parts of the world, that decline is as steep as 94%.

Seventy-five percent of the Earth's ice-free land surface has been significantly altered. Oceans are polluted with trillions of pieces of plastic. More than 85% of wetland area has been lost.

Humanity cannot survive without biodiversity and a secure water cycle. We cannot solve the climate crisis without working in tandem to protect nature, with at least one-third of the emissions reductions required to limit global warming to 1.5°C linked to forestation and the water cycle.

This year's data tells a stark story: change is not happening at the scale required.

Climate is just one part of the bigger picture. Nature also includes forests, water and biodiversity, which are all vital for our survival. Any action taken in one area has an impact on the others, for better or worse. A company's environmental impact, therefore, goes beyond climate; forests, water and biodiversity all desperately need our attention.

In practice, this means taking actions such as conserving, protecting and restoring ecosystems, adopting more sustainable agriculture and forestry practices, preserving water resources, and ensuring a circular economy.

For most companies, these actions will only be possible if they look beyond the impact of their direct operations. They need to exert their full influence by engaging suppliers and bringing them along on this journey.

It's not only the scale of the environmental crisis that should spur companies to action. Regulation is coming.

193

countries

at COP15 in December 2022, committed to increased regulation through the Kunming-Montreal Global Biodiversity Framework. Each of them will require large and transnational companies and financial institutions to monitor, assess, and transparently disclose their risks, dependencies and impacts on biodiversity through their operations, **supply and value chains and portfolios** – by 2030 at the latest.

Further, disclosure on Scope 3 emissions may be required imminently by the EU's European Sustainability Reporting Standards, the US's SEC proposed climate-disclosure rule and in the ISSB global baseline standard for climate-related financial disclosure.

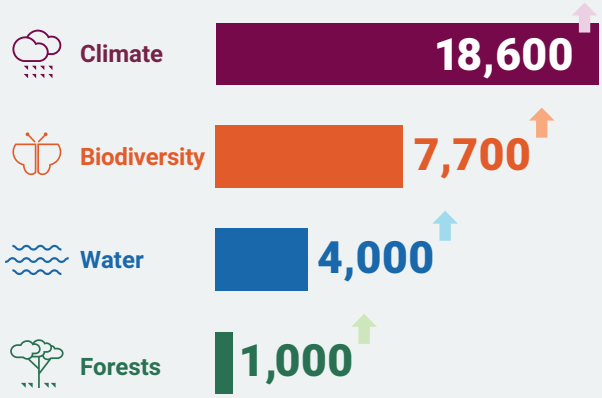
In this report, we consider whether companies are ready to take action on nature impacts in their supply chain by examining their responses on how they are tackling climate change, deforestation and water security.

> COP15 couldn't have been clearer in the call to action on corporate reporting on nature. If a company is not preparing for incoming regulations and stakeholder interest on addressing nature in the supply chain, they are open to a wide range of risks and could also be missing out on the opportunities that safeguarding nature will bring. Quite simply, if a company wants to be in business in the future, they need to start embedding nature into the way that they buy and collaborating with suppliers to drive action in the supply chain.
>
> *Sonya Bhonsle*
> *Global Head of Value Chains,* **CDP**

Reporting

We can straight away see that companies are engaging more on some aspects of impact on nature than others. Climate change is often seen as the main impact they need to look at, despite evidence of the need for action across all areas.

Total unique disclosing companies



- More than **18,600 companies** around the world disclosed climate change data through CDP in 2022 – a **42% increase** on 2021.
- More than **7,700 companies** disclosed biodiversity data through CDP in 2022 for the first time.
- Almost **4,000 companies** disclosed water security data through CDP in 2022 – a **16% increase** on 2021.
- By contrast, more than **1,000 companies** disclosed data on forests. While this is a **30% increase** on last year, it only represents **30%** of companies requested to disclose.

While the figures for biodiversity, water and forests are low, they have all grown, even without mandatory regulation and incentives. Companies are becoming more aware of their responsibilities and the benefits of disclosure.

Supply chain emissions (upstream Scope 3) are, on average,

11.4x

greater than operational emissions.

Only

41%

of companies reported emissions for at least one Scope 3 category.

Measurement – what is measured can be managed

Measurement is the entry point for companies to understand and quantify their environmental impact. But there is a pattern of companies assessing their own direct operations and not looking at their wider impacts.

Climate once again leads the way

For climate change, supply chain emissions (upstream Scope 3) are, on average, 11.4 times greater than operational emissions. This is a material impact for most companies, yet many still don't measure it. Seventy-two percent of CDP-responding companies reported operational emissions (Scope 1 and/or 2); only 41% reported emissions for at least one Scope 3 category.

There is, however, hope to be found when comparing first-time and repeat respondents. The percentage of companies disclosing at least one Scope 3 emissions category rises from 27% of the former to 53% of the latter, demonstrating that disclosing through CDP year on year leads to improvements in Scope 3 disclosure.

Other nature impact areas fall behind

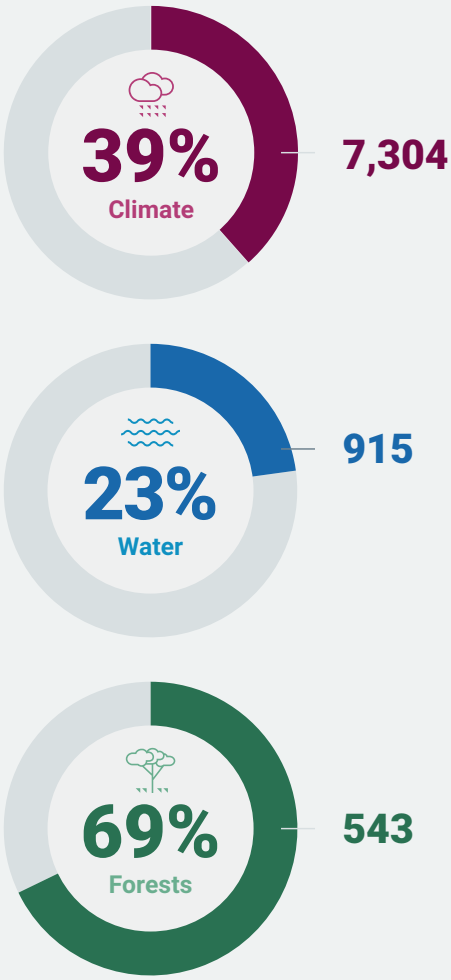
Companies are at varying stages of maturity when it comes to quantifying their supply-chain impacts on nature.

There is a lack of accounting methodology to work out the pure metrics for upstream impacts in water security. But companies do not need to take on the costly challenge of monitoring 100% of withdrawals and discharges within their entire value chain. Each should act to reduce their impact in critical basins and/or areas where they are currently causing most harm, such as through pollution or water stress.

In the future, supply chain-related water impacts will play a greater role. The Science Based Targets Network (SBTN) has stated in its methodologies that:

> **Companies are required to collect data in order to define their baseline level of pressure for freshwater quantity and/or quality for all their direct operations and upstream scope in each basin for which targets will be set.**
>
> **The Science Based Targets Network (SBTN)**

Unique companies disclosing



Increasingly, companies are linking progress towards no-deforestation/no-conversion goals with upstream environmental impacts, including land-use change associated with their supply chain. **In 2022, a third of companies (198 companies) reported monitoring or estimating their deforestation/conversion footprint. Yet, nearly all companies that do this assess the deforestation footprint of their entire commodity use (148 companies)**.

Engagement

One of the biggest takeaways from this report is that the necessary cascade of action down the supply chain is just not happening. With the majority of impacts lying in a company's supply chain, it is a key indicator of the efficacy of their environmental strategies. Our data shows that it often takes years from initial engagement to setting appropriate targets and taking necessary action. Yet today, only:

- **39% of all respondents** (7,304 companies) engage their suppliers on climate-related issues, covering an average of **41% of their procurement spend**; and
- **23% of all respondents** (915 companies) engage their suppliers on water-related issues.
- Conversely, **69% of companies** disclosing on deforestation are engaging with their direct suppliers. However, due to the limited number of companies responding, this is only **543 respondents**.

To truly avert catastrophic climate change and ensure a deforestation-free, water-secure future, companies must transform the way they work , and they must do it soon. This means engaging their leadership to find opportunities across the value chain to create impact for the environment and to benefit the company, too.

Understanding that the majority of our corporate footprint is in our supply chain, we leverage our CDP Supply Chain program membership to raise our suppliers' awareness of best practices and drive them to improve environmental management. With our highest priority suppliers, environmental management is embedded in our Sustainability Scorecard, which is integrated into ongoing business performance evaluations. We use data from our suppliers' CDP responses to evaluate quantitative impacts, like greenhouse gas emissions, energy and renewable energy use, and water consumption. We also use CDP to review their qualitative environmental management, such as transparency of responses, ambitious science-based climate targets, verification of footprints, and water stewardship. CDP Supply Chain enables us to scale supplier engagement and evaluation of our suppliers' performance.

James Riddle
Supply Chain Environmental Strategy Lead
HP Inc.

People

Board-level oversight is a key requirement for transforming environmental impacts from supply chains. Currently, only 38% of companies' C-suites are incentivized on management of water-related issues in general.

6%
of companies

have C-suite incentives related to supply chain engagement on water issues; only **3%** of companies state their CPO is incentivized on water-related issues.

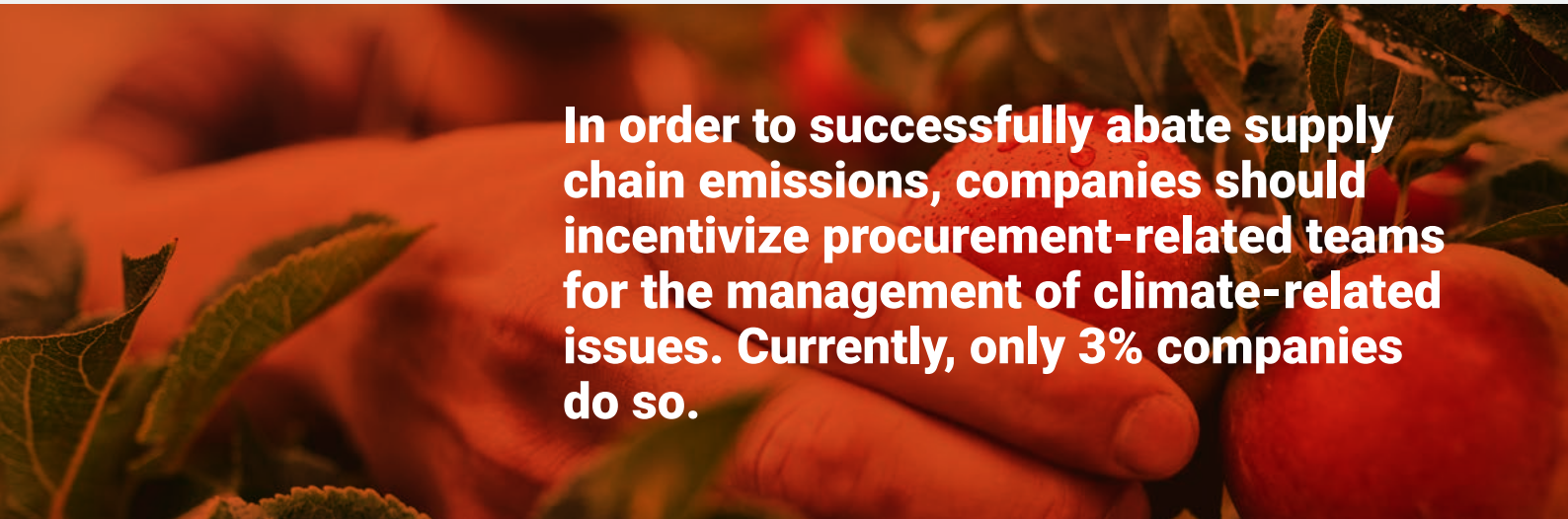
23%
of companies

provide incentives to C-suite employees or board members for managing forest-related issues; a further **7%** plan to introduce them in the next two years. This means **70%** of companies do not plan to incentivize their C-suites to take action on deforestation before 2025.

74%
of companies

reported board-level oversight on climate change. Of those that do not have board-level oversight, **41%** plan to introduce it in the next two years. This translates to **~15%** of all companies having no board oversight and no plans to introduce it.

But even with this degree of leadership oversight, is action cascading to corporate buyers? Achieving climate transformation cannot happen without internal organizational enablement. Procurement teams are at the forefront of supplier engagement.



In order to successfully abate supply chain emissions, companies should incentivize procurement-related teams for the management of climate-related issues. Currently, only 3% companies do so.

Only

0.04%

of all companies require suppliers to set SBTs.

Just

1%

of companies provide financial and technical help to support their direct suppliers to reduce their deforestation impacts.

Purchasing processes

Key to these efforts is the transformation of purchasing processes so that they better incentivize and reward companies that take environmental action beyond monitoring. For climate change, one in every 10 companies includes climate-related requirements in supplier contracts. But 1.5°C climate science needs to be built into purchasing as usual. Only 0.04% of all companies report adhering to best practice in this area – that is, requiring suppliers to set science-based targets (SBTs).

For water security, 47% of companies that engage their suppliers do so in activities that target onboarding and compliance. Most often, they set a requirement to adhere to a code of conduct regarding water stewardship and management. Just 23% actually incentivize on water-related action, for example by integrating water management and stewardship into supplier evaluations.

For deforestation, despite having the highest proportion of companies that engage with their suppliers, the act of incentivizing action down the supply chain remains difficult. Just 1% of companies provide financial and technical help to their direct suppliers to set deforestation/conversion commitments across their entire operations and develop public time-bound action plans with clear milestones to achieve this.

You cannot have a healthy business without a healthy planet. For Unilever, that means taking ambitious action in our supply chain to protect and regenerate nature and reducing greenhouse gas emissions in line with the science. Our goals include having a deforestation-free supply chain in key commodities by the end of 2023, helping to protect and regenerate 1.5 million hectares of land, forests, and oceans by 2030, and reaching net zero emissions across our value chain by 2039.

Our Procurement team is crucial to so much of our delivery, with sustainability fully embedded into our strategy. We're supporting our suppliers to accelerate their climate journeys, working on 100% sustainable sourcing of our key agricultural crops, and empowering smallholder farmers to use regenerative agriculture practices that help to improve soil health and boost yields. We've a lot more to do, and we know collaboration is key. That's why we're partnering with governments and others to implement water stewardship programmes, and encouraging brand investments through our €1 billion Climate & Nature Fund – designed to drive positive impact from producer to brand to consumer.

Thomas Lingard
Global Head of Sustainability (Environment)
Unilever

We are increasingly reaching global agreement on what needs to be done to avert an environmental crisis; we're even making progress on how to do it. The missing piece of the puzzle remains: scaling action at speed. And especially, action by companies and throughout entire supply chains. CDP data shows how taking the first step – that is, building nature into purchasing processes – is a catalyst for increasing levels of action, and scaling beyond national boundaries. However, too many companies are continuing purchasing business as usual, and those that aren't are focusing on singular impact areas (mainly climate change) without starting to work on their wider impacts across nature. Incentives from policymakers could support companies to scale up their efforts, especially ahead of upcoming regulations.

As a sustainability leader, we have an obligation to take ownership of our environmental impacts and see our suppliers as an extension of ourselves. Our purchasing community and buying processes are key to meeting our ambitions and driving plans to reduce the environmental impacts of our suppliers. This involves reducing greenhouse gas emissions, energy consumption and water use within our value chain. To track progress, we request our strategic suppliers to report their climate and water impacts through CDP. This year, 100% of the suppliers we requested to disclose their climate and water information through CDP, did so. Our buyers regard the opportunity to obtain this information as a great platform from which to improve. This is done by benchmarking and discussing the next steps with each supplier, to drive and align to a 1.5° pathway and water secure future. Our suppliers see this as a great opportunity to work with us as we jointly improve.

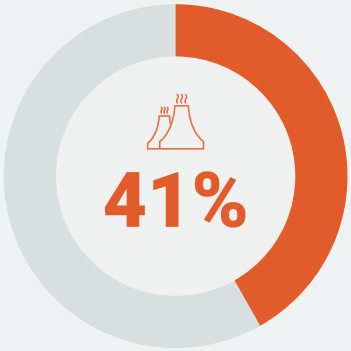
Carla De Luca
Sustainable Procurement Senior Program Manager
Electrolux

Contents

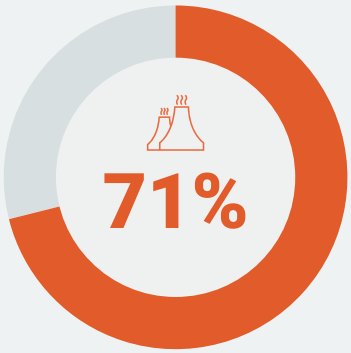
Climate

1

Measurement



reported emissions for one or more Scope 3 categories



reported Scope 1 and/or 2 emissions

CO_2 reporting

Only 41% of disclosing companies reported emissions for one or more Scope 3 categories in 2022, despite those emissions being on average 11.4 times higher than operational emissions. Companies are missing a huge opportunity to create impact.

These emissions play a critical role in achieving climate goals. In the same period, 71% of disclosing companies reported Scope 1 and/or 2 emissions. This disparity is due to the challenges associated with measuring and disclosing Scope 3 emissions:

- Limited data transparency and traceability across the value chain;
- Low quality and/or granularity of data;
- Lack of automated and scalable tools for data extraction;
- Limited influence over most Scope 3 categories; and
- An ever-changing regulatory environment.

Key categories of Scope 3 emissions

Only 36% of companies reported their **Purchased Goods and Services (Category 1)** emissions, which are relevant for almost every sector. Despite this, they made up the largest proportion of Scope 3 emissions (43%) reported.

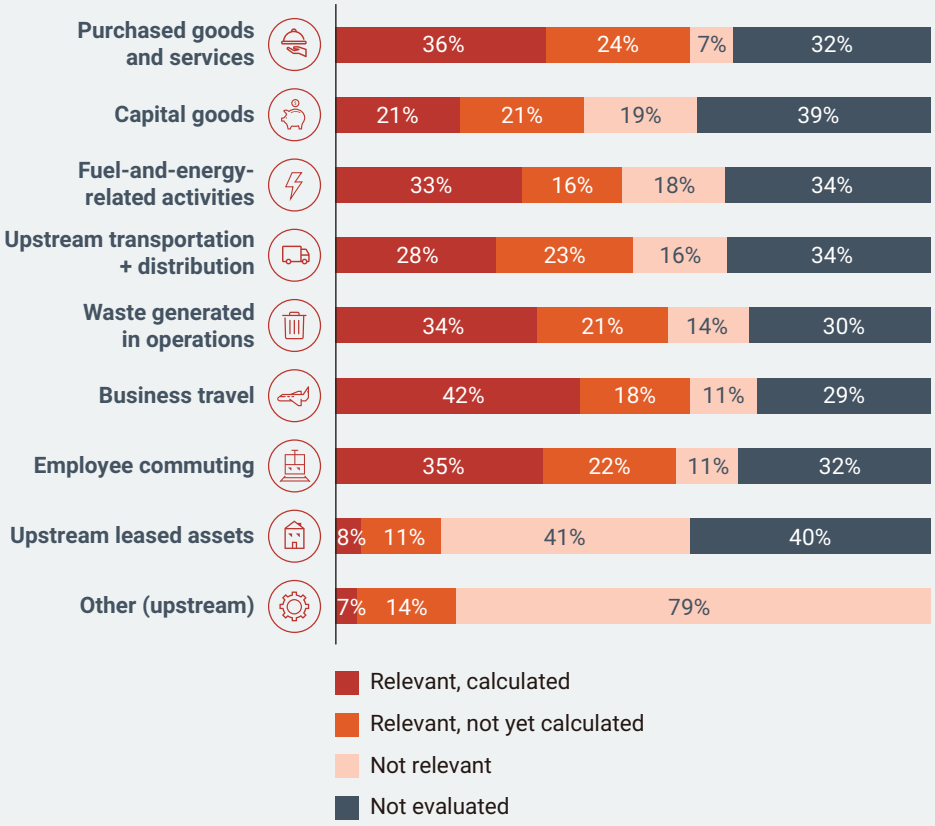
A total of 39% of companies have indicated that this major contributor to Scope 3 emissions is 'not relevant' or 'not evaluated', including 6% of all Manufacturing companies; it represents a quarter of all emissions in this sector.

By contrast, Business Travel (Category 6) is less high-impact, but far easier to measure. Forty-two percent of companies – the highest response rate of all Scope 3 categories – calculated their Business Travel emissions.

Only 36% of companies reported their Purchased Goods and Services (Category 1) emissions, which are relevant for almost every sector.

Identifying and calculating emissions in all relevant Scope 3 categories is crucial for effective emissions reduction strategies. These figures represent an important call to action for companies to enhance their ability to accurately calculate their emissions so that they can understand – and therefore properly address – the problem.

Companies calculating Scope 3 upstream emissions (%)



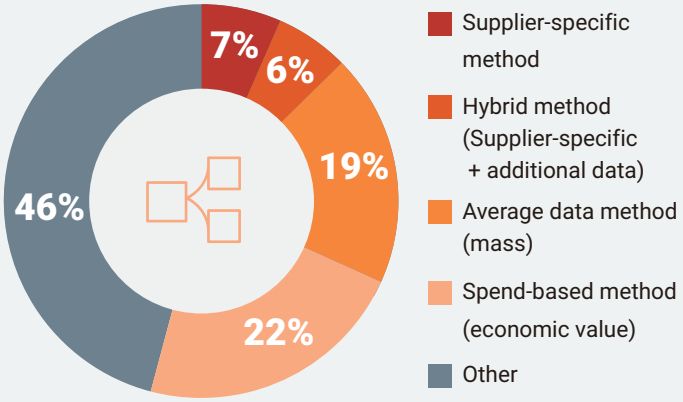
Companies can find a breakdown of Scope 1, 2 and 3 emissions by sector and category in the CDP Technical Note: Relevance of Scope 3 Categories by Sector.

Methodologies for assessing Scope 3 emissions

Spend-based assessment of Scope 3 emissions can be the least accurate method – when using publicly available (and often outdated) emissions factors, for example. But it's also the most commonly used approach across all upstream Scope 3 categories. It is the minimum requirement for high-level reporting, and a foundational step for companies in developing their Scope 3 emissions baseline.

However, in using this approach, a company's only opportunity to reduce their impact is to change what they buy or to buy less of it, which is not always an option. For Scope 3 categories that mandate a cradle-to-

Distribution of methodologies for calculating upstream Scope 3 emissions



gate approach, companies are increasingly moving towards hybrid methodologies. By utilizing supplier data or product-level data in their calculations, they can prioritize high-impact interventions, such as encouraging their suppliers to purchase renewable electricity, which in turn reduces the emissions associated with the goods and services they purchase.

For example, supplier-specific methodologies, which use product-level or corporate-level emission factors directly from suppliers themselves, are far more accurate for identifying priority hotspots and 'abatement levers' that can create maximum impact. A total of 13% of Scope 3 respondents used supplier-specific or hybrid methodologies in 2022. This number is likely to increase as more companies decide to take action to reduce emissions by changing supplier behaviors and/or product footprints.

CO_2 AI Product Ecosystem

A data-sharing ecosystem to accelerate the decarbonization of supply chains.

BCG and CDP are collaborating to build CO_2 AI Product Ecosystem, a platform that will allow the sharing of product-level climate and environment data. This platform will allow for granular product-level reporting at scale, allowing companies to pursue concrete and actionable abatement levers and, ultimately, accelerating the decarbonization of supply chains.

Collaborative

The platform will allow users to collect and share product-level data.

Secure

All data exchanges will take place through a secured infrastructure to guarantee safety and privacy.

Action oriented

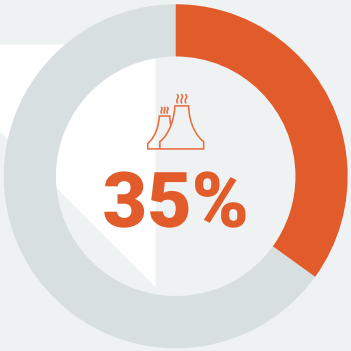
Data quality is enhanced by benchmark-based checks and confidence scoring (leveraging CO_2 AI & CDP databases), and estimated product footprints will include transparent calculation details, compliant with international standards.

Transparent

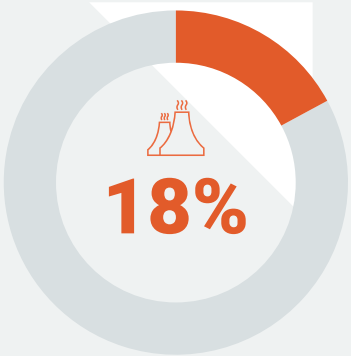
Users can share and collaborate on their abatement roadmap, encouraging ecosystem-level initiatives (eg first-mover coalition).

User friendly

A self-service product-emission calculator makes it easy to access the desired information.



verify Scope 3 emissions data using a third party



reported high, reasonable or moderate assurance

Third party verification

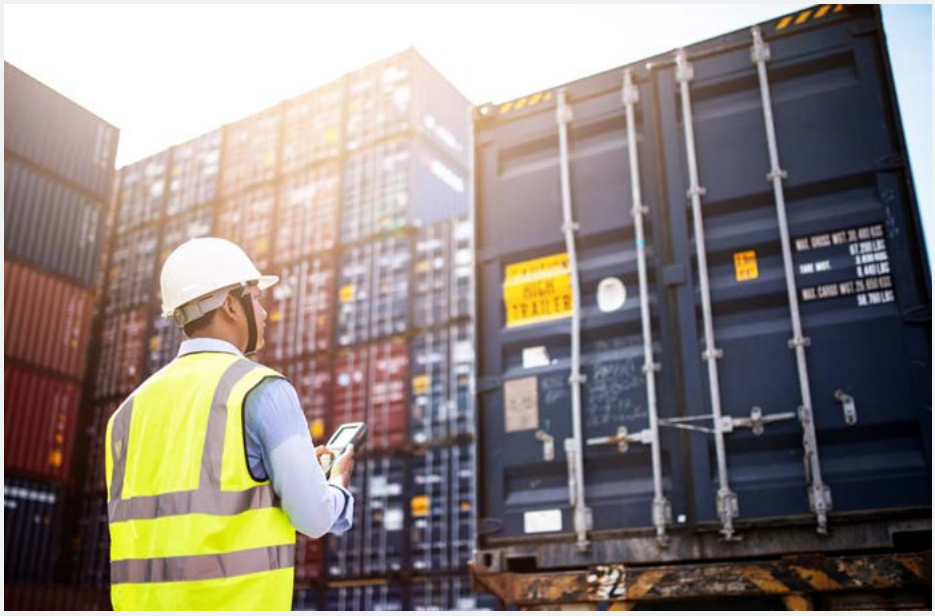
Third party verification is vital for ensuring that the information disclosed through CDP is accurate. Despite this, only 35% of disclosing companies verify Scope 3 emissions data using a third party. Of those, only 18% report high, reasonable or moderate assurance. The remainder are only partway through the process or can only report limited assurance.

The importance of validated measurement

Regulations are being tightened. The proposed SEC climate disclosure rule[1] will require companies to disclose Scope 3 emissions if determined to be material and included in targets. **This is data that will feed into leadership decisions, transparency initiatives and impact reporting to demonstrate that incremental progress is being made.** The CSRD, to be enacted during 2023, will require high-quality, comparative data about strategy, targets and board/management responsibilities. It will also require third party assurance.

It takes an average of 12–18 months for companies to prepare for a partial disclosure, and two to three years for full disclosure. Action is required today to ensure that companies are prepared for the upcoming regulatory changes, and to avoid an increase in pressure from investors, as well as scrutiny from customers and the media.

Despite these increasingly stringent requirements, companies with limited resources should prioritize action over higher levels of assurance.



1 https://www.sec.gov/rules/proposed/2022/33-11042.pdf

Ambition

Scope 3 targets (vs Scope 1 & 2 targets)

Target setting is the next step after identifying baseline emissions and emission hotspots. Climate ambitions are increasingly common, but only 46% of respondents reported having absolute and/or intensity targets.

Companies must scale up their data collection to support more ambitious target setting in a larger variety of categories. Scope 3 targets only make up 15% of all new or in-progress targets, despite accounting for 11.4 times the direct emissions per company.

The quality of targets needs to be taken into consideration. They must align with a 1.5°C future. Science-based targets define an evidence-backed pathway for companies to reduce greenhouse gas (GHG) emissions aligned with limiting global warming to 1.5°C above pre-industrial levels. They help businesses futureproof growth and invest in abatement initiatives that will have the most impact in companies' transition to a net-zero emissions operating model. They also build resilience, boost investor confidence and act as a catalyst for innovation. Yet currently only:

5%

of disclosing companies have Science Based Targets initiative (SBTi)-validated near-term targets that are 1.5°C-aligned, with an additional **3% committed to set and validate them.**

<1%

of disclosing companies have SBTi-validated net-zero targets, **plus an additional 4% committed to set and validate them.**

Considering the transition from committed to validated targets can take years, companies wanting to align their suppliers' ambition to a 1.5°C future should engage now.

> At Stanley Black & Decker, our buyers & suppliers play a critical role in determining the ESG success of our company. From actively collaborating on innovation projects with us to individually improving their own operations, our supplier's successes show up in our overall Company footprint. In order to ensure we are working with suppliers aligned with our ESG vision, we have set a target that requires 67% of our supply chain by spend setting Scope 1 and Scope 2 Science Based Targets by 2027. Our buyers are actively engaging and tracking progress on this target with their suppliers. These supplier targets establish baseline expectations from which additional ESG collaboration opportunities are developed with our suppliers through our Supplier Relationship Management program.
>
> *Steven Katzfey*
> *Chief Procurement Officer*
> **Stanley Black & Decker, Inc.**

Action

Engaging suppliers to reduce Scope 3 emissions and align to a 1.5°C future

Companies must have a coordinated approach throughout the value chain, particularly focusing on supplier engagement, in order to:

- Tackle supply chain sustainability
- Reduce emissions
- Save money/reduce costs

Understanding how emissions are distributed across their supply chain allows companies to collaborate with suppliers based on the proportion of total emissions they account for.

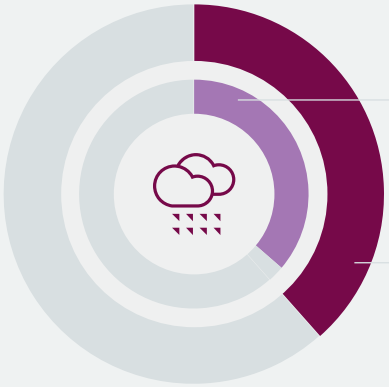
Focusing efforts on the highest emitting suppliers is the most cost-effective way to reduce emissions at pace.

Engagement can include:

- Supplier training and education;
- Policy incentives and requirements during procurement; and
- Partnered initiatives to drive innovation and re-engineer the supply chain.

These efforts to build an industry-wide ecosystem that is dedicated to accelerating decarbonization could drive rapid, industry-wide change.

Supplier engagement



38%
of companies reported in 2021

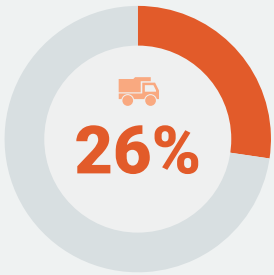
39%
of companies reported in 2022

This year, 7,304 respondents (39% of all responding companies) reported that they engaged their suppliers on climate-related issues. This is an improvement on last year's 38%, but not by much. More companies do not engage their suppliers on climate change than do.

For companies that are engaging – how many suppliers do they engage on climate change?

The average respondent engages 34% of its suppliers, which represents:

of procurement spend, and



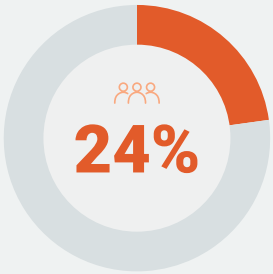
of supplier-related Scope 3 emissions.

But there is a huge disparity between the efforts of those companies leading on engagement and those that lag behind.

- The leading 20% of companies engage over 80% of their suppliers.
- The bottom 50% of companies engage less than 25% of their suppliers.

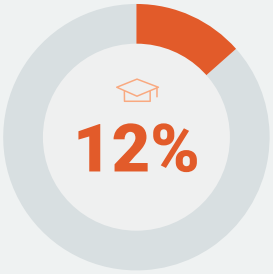
Only one in every 10 responding companies is currently engaging with more than half of their suppliers about climate change.

For companies that are engaging their suppliers – what do they engage on?



use engagement and incentivization activities

to support supplier behavior change; this is a year-on-year increase from one in every 25 companies to one in every 20 companies offering educational programs to their suppliers – the most common such activity.



use innovation and collaboration activities

to support market behavior change, up from 9% last year. 57% of those activities were campaigns to encourage innovative ideas for reducing climate impacts of products and services.

Focusing efforts

Currently, companies that engage with more than 80% of their suppliers are still only covering less than 50% of their Scope 3 emissions. This highlights how prioritizing efforts based on hotspots could increase the impact that companies' change initiatives have. It is not necessary for companies to engage with all their suppliers; prioritization based on emissions and influence is key.

Those suppliers responsible for the most emissions are likely to require close partnerships and one-to-one engagement to create change on the scale that is required.

Purchasing processes

Current situation

11%

of respondents include climate-related requirements in their supplier contracts.

14%

have climate-related requirements that are not included in their contracts.

<3%

require their suppliers to disclose climate-related data.

36%

plan to incorporate sustainability KPIs into their purchasing process by introducing contractual requirements of suppliers within the next two years.

What will progress look like?

Companies should begin to encourage – or require – their suppliers to act by implementing climate-related requirements, and by monitoring their compliance with these requirements. As a minimum, companies cannot accurately ascertain their own Scope 3 emissions unless their suppliers baseline and publicly disclose Scope 1, 2 & 3 emissions.

The most common requirement companies are reporting is compliance with regulatory requirements (28% of those who have climate-related requirements). This is foundational, but to create change at the scale required, companies must encourage suppliers to take additional steps towards carbon abatement.

Ideal end goal

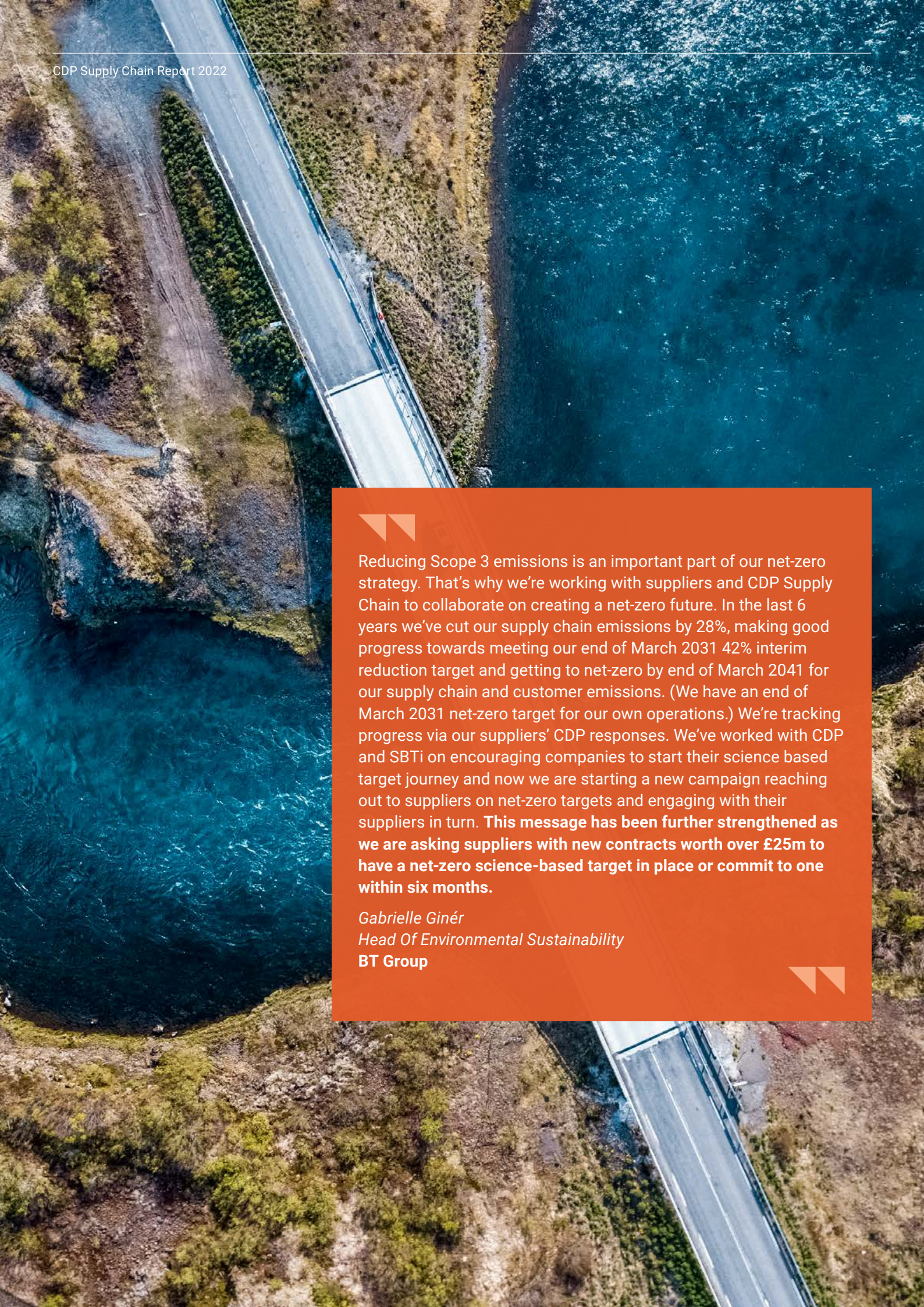
Relatively few disclosing companies have moved beyond requiring supplier compliance. Of those 10% that do have additional climate-related requirements when engaging suppliers:

require suppliers to set SBTs (**0.04%** of the total sample);

<1% require suppliers to set renewable energy targets;

45% have self-assessment processes in place to monitor supplier compliance; and

24% have incorporated sustainability KPIs into supplier scorecards and ratings.



Reducing Scope 3 emissions is an important part of our net-zero strategy. That's why we're working with suppliers and CDP Supply Chain to collaborate on creating a net-zero future. In the last 6 years we've cut our supply chain emissions by 28%, making good progress towards meeting our end of March 2031 42% interim reduction target and getting to net-zero by end of March 2041 for our supply chain and customer emissions. (We have an end of March 2031 net-zero target for our own operations.) We're tracking progress via our suppliers' CDP responses. We've worked with CDP and SBTi on encouraging companies to start their science based target journey and now we are starting a new campaign reaching out to suppliers on net-zero targets and engaging with their suppliers in turn. **This message has been further strengthened as we are asking suppliers with new contracts worth over £25m to have a net-zero science-based target in place or commit to one within six months.**

Gabrielle Ginér
Head Of Environmental Sustainability
BT Group

Transitioning & people

A recent CDP report on companies' climate transition plans showed promise for the future:

6,520
organizations plan to develop a climate transition plan within two years.

4,100
have already developed a 1.5°C-aligned climate transition plan.

But the current situation falls far short of what is required:

- **0.4%** of companies that disclosed through CDP in 2022 reported sufficient detail on all 21 key indicators of a credible climate transition plan.
- **>60%** of disclosing organizations disclosed less than seven of the 21 key indicators of a credible climate transition plan.

Fortunately, board-level oversight is better represented in the same report, with more than one-third of disclosing organizations having board-level oversight of climate transition plans.

In fact, 74% of companies reported board-level oversight on climate change. Of those who do not have board-level oversight, 41% plan to introduce it in the next two years. This paints a positive picture of leadership on climate change. However, is it filtering down and incentivizing buyers?

Buyer and Scope 3 incentivization

Once business leaders have a stake in climate-related goals and transition plans are in place, making change happen is a company-wide responsibility. The entire ecosystem must be involved in implementing abatement levers.

Of the companies that use climate incentives:

21%

incentivize supply chain engagement.

19%

incentivize environmental criteria included in purchases.

This means three out of every 20 companies incentivize management of Scope 3 emissions

For this, cross-functional engagement and targets are necessary. Actions to facilitate this change include:

- Launching, evaluating against and allocating incentives based on scope 3 KPIs for **functional support and business owners**;
- Embedding sustainability into supplier management (eg by using data management tools and through procurement standards and relationship management);
- Incorporating Scope 3 governance into critical business decisions; and
- Facilitating active change management to build internal and external **communication** strategies, and to upskill where necessary.

Incentivizing buyers and building climate change into their job description is critical for achieving this cross-functional engagement. Thirty-nine percent of respondents provide incentives for management of climate-related issues, with an additional 28% planning to do so in the next two years.

> We need common approaches to reporting to simplify processes and accelerate sustainability. CDP Supply Chain membership, of a robust third-party platform, allows us to gain consistent insight into our Scope 3 emissions and deliver on our sustainability priorities. In 2022, we stepped up our action and have now invited over 700 suppliers to report through CDP – nearly three times the number invited in 2021. We also target that by the end of 2025, all of our key suppliers will have science-based targets in place. In addition, all C-suite are **incentivized** to manage climate-related issues through the **annual bonus scheme**. Key performance indicators include reducing total energy consumption by 10% from 2015 to 2025, delivering on our 2025 road fleet decarbonisation strategy, and reducing absolute Scope 1 and 2 emissions by 98% by 2026, making the scheme directly linked to company performance against our science-based targets.
>
> *Robert Williams*
> *Director of Sustainable Procurement*
> **AstraZeneca**

Procurement teams are at the forefront of supplier engagement and can influence and drive substantial action towards supply chain emissions abatement.

- Currently, of those that provide incentives, only 3% reported Chief Procurement Officer (CPO)s, 3% reported procurement managers, and 2% reported buyers/purchasers to be entitled to incentives.
- **Overall, this means only three out of every 100 companies incentivize procurement-related teams for the management of climate-related issues.**

The numbers are still low, but the picture is sharpening on leadership on Scope 3 management. People and processes sit at the heart of effective transformation. Buyers are starting to be incentivized and have climate change baked into their job. Purchasing processes are increasingly tightening on climate change, with leaders mandating alignment to a 1.5 °C future into tenders and contracts.

> Vale is committed to making its suppliers aware of the issue of climate change and engaging them in reducing their emissions. We believe you can only manage what is measured. As such since 2020, we have encouraged our suppliers to measure and report their emissions via the annual CDP Climate questionnaire. To underline how important this information is to us we placed a contractual clause into purchasing templates requesting companies disclose to CDP when asked. In 2022, 492 suppliers were invited, of this total, 412 answered the CDP climate questionnaire, which represents an increase of 10% compared to the last year and 51% compared to the 1st cycle.
>
> However, reducing GHG emissions in line with the Paris Agreement is part of Vale's goal of reducing indirect emissions by 33% (scope 3). So, we are working with our entire supply chain focusing on those suppliers whose activity is critical in GHG emissions to engage them and looking at how they can take the next steps to achieve a sustainable mining, this is crucial for our mission of improving life and transforming the future together.
>
> *Thais Santiago*
> *Suppliers' Innovation and Development Manager*
> **Vale SA**

Water

2

Supplier engagement

>$92bn

is the combined potential financial impact of water-related risks in respondents' value chain.

The cost of impact is

6.5x

the cost of response ($14bn).

Unlike climate change, there is no accounting methodology to work out the pure metrics required for supply chain water consumption.

In 2022, companies reported water-related risks in their value chain had a combined financial impact of over $92bn, showing the scale of supply chain impact.

They also reported that the cost of that damage that would be caused by not responding to water-related risks is 6.5 times higher than the estimated $14 billion it would cost to respond.

Not all water-risk mitigation activities are created equal. For example, a food company that invests in improving water efficiency in its processing plants will have less of an impact – especially over time – than one that promotes regenerative agricultural practices throughout its supply chain.

Companies can bolster their operational and financial resilience and increase the value of their brand by directing investment towards activities with the greatest water-related impact, and exposed to the greatest water risk. That means prioritizing long-term progress, too; fundamental changes such as identifying new market opportunities and improving supplier performance, for example.

Quantifying upstream footprints

Not many companies currently quantify the water footprint of their supply chain. Unlike climate change, there is no accounting methodology to work out the pure metrics required for supply chain water consumption. However, this complexity is not the only reason. Only 33% of companies are monitoring 100% of withdrawals and discharges in their own operations; a far easier task. Without using those capabilities in-house, companies are poorly positioned to require it from suppliers.

However, companies will soon be asked more frequently about upstream impacts.

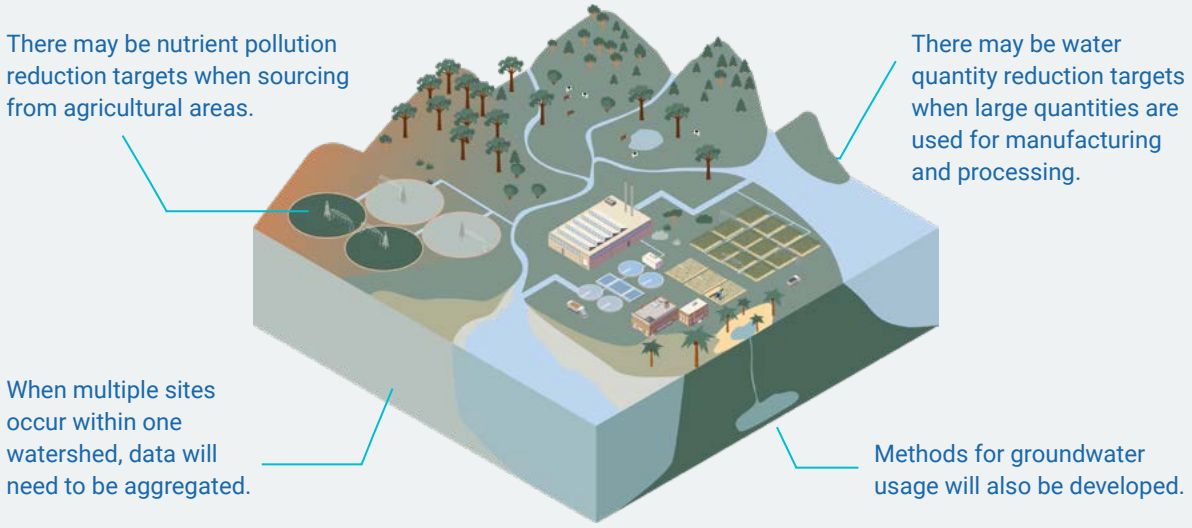
- **Policy makers are becoming increasingly aware of supply chain-related water impacts.** For example the EEA reported that to produce and handle all clothing, footwear and household textiles purchased by EU-27 households in 2020, an estimated **4,024 million m³** of blue water was used (9m³ per person)[2]. This makes this consumption domain the third highest impact category after food and recreation. Only **12% of blue water consumption** takes place within Europe[2].
- Environmental NGOs such as SBTN are including value chain impacts in their gold-standard methodologies. They state: "Companies are required to collect data in order to define their baseline level of pressure for freshwater quantity **and/or quality for all their direct operations and upstream scope in each basin for which targets will be set.**"

2 European Environment Agency, 'Water use in the upstream supply chain', eea.europa.eu, 2023, https://www.eea.europa.eu/data-and-maps/figures/water-use-in-the-upstream, (accessed February 6, 2023).

SBTN Briefing

Science-based targets for nature (nature SBTs) will provide globally applicable and consistent methods for measuring companies' nature-based impacts and dependencies. It will also provide methods for measuring ecosystem improvement.

Freshwater targets will be dependent on the conditions within the watershed.



For example, freshwater quantity and quality targets will be based on the watershed (or 'basin') from which a company operates and sources its goods and commodities. Depending upon the number of operations and sourcing sites, a company will have multiple sets of freshwater quantity and quality targets.

Companies are required to collect data in order to define their baseline level of pressure for freshwater quantity and/or quality for all their direct operations and upstream scope in each basin for which targets will be set.

SBTN

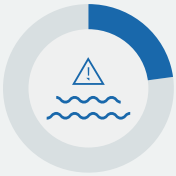
What can companies do today to address many of their nature-based (and freshwater) challenges?

- Get started with nature SBTs (Step 1 and 2) to understand their material impacts on nature and how to prioritize their efforts;
- Get started with a Taskforce on Nature-related Financial Disclosures (TNFD) LEAP assessment; and
- Answer CDP's water security questionnaire.

The CDP disclosure process and the data it produces can support companies in reporting recommendations and elements of nature SBTs.

Action
Engagement and processes

Engaging suppliers on water security builds resilience and reduces risks. Yet it trails behind climate change and forests - the other supply chain issues that CDP examines - in terms of engagement.



Only

23%

(912) respondents reported engaging their suppliers on water-related issues.

> At Cisco, we believe in powering an inclusive future for all by bringing communities together and fostering meaningful environmental stewardship. Cisco's environmental efforts include supply chain water stewardship, where our risk-based approach flags suppliers whose CDP water reporting is not yet comprehensive based on our suppliers' water maturity stage mapping. Once identified, we create webinars and capacity-building opportunities for the suppliers to improve their overall water stewardship performance. Cisco's partnership with CDP's supply chain programs is a key component of Cisco's water stewardship program.
>
> *Maria Gorsuch-Kennedy*
> *Supply Chain Sustainability Director*
> **Cisco**

So, who is taking action and what are they doing?

Of those companies that reported engaging their suppliers on water-related issues:

- **47%** engage on onboarding and compliance, most commonly requiring adherence to a code of conduct regarding water stewardship and management.
- **29%** engage on innovation and collaboration, most commonly by encouraging innovative efforts to reduce water impacts in products and services and by educating suppliers about water stewardship and collaboration.
- **23%** engage on the incentivization of improved water management and stewardship, most commonly by integration into supplier evaluation.

With many suppliers still not engaging their suppliers on water-related issues, when looking at all water respondents, only:

10%
companies engaging through onboarding and compliance.

7%
companies engaging through innovation and collaboration.

5%
engaging through water management and stewardship incentivization.

Even among those that do engage with suppliers, the percentage of their suppliers that they engage with varies widely. A total of 35% only cover 1–25% of all suppliers. Only 25% who engage suppliers at all engage with >75% of them, and 37% cover >75% of their total procurement spend.

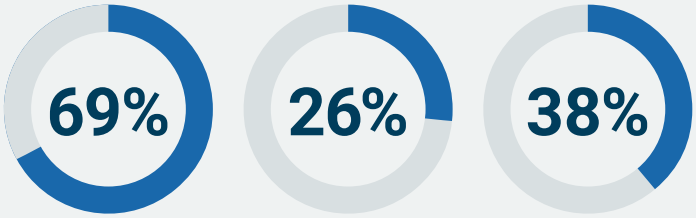
People

Governance and incentivization

There are key foundational capabilities that need to be in place to enable companies to achieve their water targets. Water-aligned governance is vital. This requires water-related oversight, responsibility and knowledge from those in leadership positions.

- A total of **20%** of companies have no board-level oversight or plans to introduce it.
- Only **33%** of respondents have one or more board members with competence on water-related issues.

It is promising that:



of companies reported having board-level oversight on water security.

of those that do not are planning to introduce it within two years.

of C-suites are incentivized on management of water-related issues.

But this is not nearly enough, especially when considering that only:

6%

of companies have incentives that relate directly to supply-chain engagement on this issue; and

3%

of companies have water-related incentivization in place for their CPO.

Leaders, and especially procurement leaders, need to be educated and incentivized about the importance of water security before they can effectively engage suppliers on the issue. Currently, water-related issues are not being treated with the same urgency or importance as climate-related issues. Water-related clauses are vital for progress, but still largely missing from supplier contracts.

Sector snapshot – water pollution in the apparel sector

20%

of global wastewater and industrial pollution, with textile dyeing alone being the largest contributor to water pollution worldwide

93 trillion L

of water are consumed by the industry each year

Water in the apparel sector

The rapid growth of fast fashion has propelled the global apparel industry to double its production output in just two decades[3], with significant impact on water resources.

This industry is now responsible for an estimated 20% of global wastewater and industrial pollution, with textile dyeing alone being the largest contributor to water pollution worldwide[4]. The industry consumes an incredible estimate of 93 trillion liters of water each year[5], exceeding the total water consumption of the whole of the UK[6]. These alarming statistics highlight the urgent need for apparel companies to engage with their supply chains to safeguard our planet's precious resources.

Apparel sector supply chains

Supply chains that feed the apparel sector are complex by nature, characterized by:

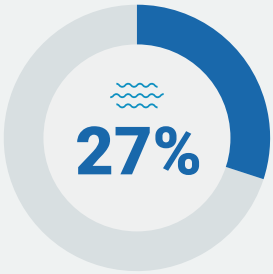
- A very large number of companies operating at different scales;
- Varying regulatory environments;
- Extreme pressure/high product turnover;
- Low margins/high production volumes creating a 'race to the bottom' on standards; and
- Hazardous chemicals and water-intensive materials and processes.

The water pollution generated in this sector not only puts health, livelihoods, ecosystems and other industries at risk; it undermines the apparel industry itself. The reputational and regulatory risks posed by this pollution are significant, as is the risk of supply chain disruption and threats to long-term sustainability[7].

Investors are starting to pay closer attention to water pollution. Public scrutiny of companies that pass their environmental responsibilities on to others is intensifying[8]. Consumers are, increasingly, demanding more environmentally friendly products from more socially responsible manufacturers. Companies associated with water pollution risk losing market share to more responsible competitors.

3 https://www.ellenmacarthurfoundation.org/assets/downloads/publications/A-New-Textiles-Economy_Full-Report.pdf
4 https://www.unep.org/news-and-stories/story/putting-brakes-fast-fashion
5 https://www.commonobjective.co/article/the-issues-water
6 https://waterfootprint.org/en/resources/interactive-tools/national-water-footprint-explorer
7 https://ceowatermandate.org/accounting/core-functions/
8 https://planet-tracker.org/wp-content/uploads/2023/01/Under-Dressed.pdf

CDP data suggests that the apparel industry is significantly underestimating the potential risks associated with water pollution throughout its value chain. These risks have far-reaching consequences for people and the planet, as well as the overall health and long-term sustainability of businesses within the industry.



reported that a sufficient amount of high-quality freshwater is vital to the success of their business

Lack of awareness and action by apparel companies

While investors and customers are aware of the need to improve water security, CDP data suggests that relatively few apparel companies themselves are conscious of their water usage. Fewer still are attempting to engage with their supply chains, despite the clear importance of this approach in mitigating the sector's negative impact.

Only 56 apparel companies responded to CDP's water questionnaire in 2022. Of those, just 27% reported that a sufficient amount of high-quality freshwater is vital to the success of their business, an unfeasibly low percentage given the critical materiality of water at all stages of textile production.

This lack of awareness is seen throughout disclosing companies' responses to CDP's water questionnaire.

- None identified pollution incidents as a risk-driver with the potential to have financial or strategic impact on business anywhere in their value chains.
- More than 60% do not consider their suppliers to be stakeholders in water risk assessments.
- None have set targets related to both supplier engagement and reducing water pollution.
- Only one incentivizes C-suite employees or board members based on improvements in waste-water quality in their supply chains.

A stitch in time (saves nine)

Despite poor performance across the sector, some companies are making an exceptional effort to engage with their supply chain and to reduce their water pollution impact. Hermès International received an A from CDP for water security in 2022 thanks to some of their forward-thinking practices.

- Hermès requests 100% of their suppliers to report water risks.
- They request an external audit for any supplier where a water risk is confirmed.
- They carry out additional regular visits and third-party supply chain audits that cover wastewater discharge monitoring.
- The procurement department monitors suppliers' reported wastewater discharge.
- Subcontractors must be reported by suppliers to Hermès and are also subject to visit-based pre-accreditation, or to third-party audits that cover water-related risks including wastewater discharge.

A paradigm shift is necessary

So, what must apparel companies do to improve their water practices and, therefore, the outlook of the industry?

- Improve their risk assessment processes.

- Set ambitious targets.

- Incentivize positive water practices from their suppliers.

To address issues caused by poor water practices, apparel companies must do far more than they do currently. This will require thorough identification and monitoring of risks across the value chain, and collaboration with suppliers to create meaningful reductions in water pollution. But before any of that can happen, apparel companies must first recognize the material importance of water in their sector, and the vital importance of their role as stewards of water resources.

Better risk assessments will help companies to understand and capture the business, environmental and social risks associated with water pollution in their supply chains; an important foundational step on the path to change.

Ambitious targets must be coupled with strong internal incentives around activities such as monitoring supply-chain wastewater discharges, and monitoring and reducing water pollution. These positive water-stewardship practices not only help improve the companies' resilience to water-related risk, they also provide the business with the knowledge and experience to support their suppliers to make such changes too.

Additionally, apparel companies should take the opportunity to disclose through CDP. The 2023 water questionnaire will increase accountability with new and strengthened questions regarding pollution and hazardous chemicals, as well as supplier action and targets on water pollution.

Forests

3

The role of forests

To achieve the Paris Agreement and Sustainable Development Goals, deforestation must be halted. There is no '1.5°C' without forests.

As nature continues to deteriorate, businesses are progressively more at risk from not only growing reputational and legal risk but operational and financial as direct inputs disappear and the ecosystem services, on which businesses depend, stop functioning[12].

Each of the pathways considered by the Intergovernmental Panel on Climate Change (IPCC) requires that deforestation is not only halted altogether by 2030, but also reversed over the coming decades. Agriculture, forestry and other land uses contribute 22% of all global GHG emissions. This significant contribution – and the potential for change it represents – is what underpins the IPCC pathways.

Apart from regulating the climate and removing emissions, forests provide a number of services upon which businesses depend. Forests help supply water, control pollution and soil erosion, protect people and biodiversity, and provide wood-based products and livelihoods[9]. The global economy is embedded within natural ecosystems, such as forests, and dependant on the fundamental services they provide[10]. Over half of the world's GDP is estimated to be moderately or highly dependent on nature and its services[11].

The SBTi launched Forest, Land and Agriculture Guidance (FLAG) to provide the world's first standardized methodology for companies in land-intensive sectors to set SBTs that include land-based emissions reductions and removals. This includes a requirement that "zero-deforestation targets must be set for no later than 2025[13]". As with other SBTi methodologies, it includes supply chain engagement as standard. Companies cannot claim to be climate leaders without taking steps to tackle deforestation within their supply chain.

Zero-deforestation targets must be set for no later than 2025.

9 de Groot, R., Brander, L., van der Ploeg, S., Costanza, R., (2012). Global estimates of the value of ecosystems and their services in monetary units. Ecosystem services. 1(1). Available from: doi.org/10.1016/j.ecoser.2012.07.005

10 OECD, 2019, "Beyond growth: Towards a new economic approach", https://www.oecd.org/naec/averting-systemic-collapse/SG-NAEC(2019)3_Beyond%20Growth.pdf (link as of 16th Dec 2019).

11 World Economic Forum. (2020). Nature Risk Rising. https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf

12 World Economic Forum. (2020). Nature Risk Rising. https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf

13 https://sciencebasedtargets.org/sectors/forest-land-and-agriculture

The role of companies

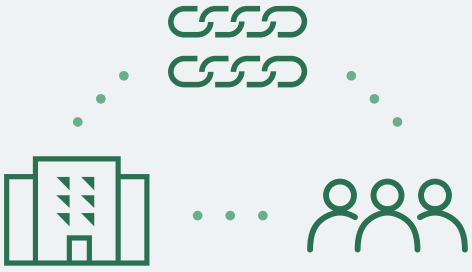
Companies are instrumental in the halting of deforestation because their revenue depends on commodities that cause it.

They are the 'demand', which means they can influence how such commodities are produced. It is not consumers but companies that can alter purchasing processes and engage with supply chains – and drive change at scale.

Encouragingly, the benefits of acting on deforestation are being recognized by more companies. Over 1,000 companies disclosed data on forests this year; a 20.5% increase on 2021. But, with perspective, that number is still not enough.

Just over 1,000 pales in comparison to the 18,000 that reported on climate impacts.

of all companies requested to respond on forests did so.



Only

18

companies

are leading the way and engaging their suppliers through CDP's supply chain program

Deforestation is not a material issue for all sectors, but that is not the sole cause of this lack of activity when compared with climate action. Crucially, action on forests is subject to perceived lower investor or purchasing pressure, possibly because the hidden dependencies of secondary or tertiary industries on forests and forest risk commodities can be difficult to grasp.

>7,700

companies

disclosed through CDP on biodiversity in 2022*

Companies are increasingly recognizing their reliance on nature and taking action to mitigate their impacts and risks. More than 7,700 companies disclosed through CDP on biodiversity in 2022, with almost half considering biodiversity in their strategies, making commitments and putting governance mechanisms in place. **Yet, greater supply chain awareness and engagement is also needed here - nearly three quarters (70%) of these companies do not assess the impact of their value chain on biodiversity.**

*Disclosed through CDP's climate questionnaire

Measurement

Companies take a number of actions to implement no-deforestation/conversion goals, from traceability to supplier engagement.

Robust monitoring and verification systems are essential components of company operations, supply chain management, and accountability as they provide critical information on performance and progress for internal assessments and to buyers, investors, and other stakeholders.

- Just 52% of companies have a system to control, monitor or verify compliance with forest-related commitments and policies.
- Only a third (36%) of companies have a monitoring system that covers all of their direct operations and supply chain and report over 90% of total volume of commodity in compliance with best-practice no-deforestation commitments.

In 2022, CDP in collaboration with the Accountability Framework initiative, introduced reporting on **deforestation/conversion footprints** to link progress towards no-deforestation/no-conversion goals with upstream environmental impacts, including land use change emissions associated with a company's supply chain.

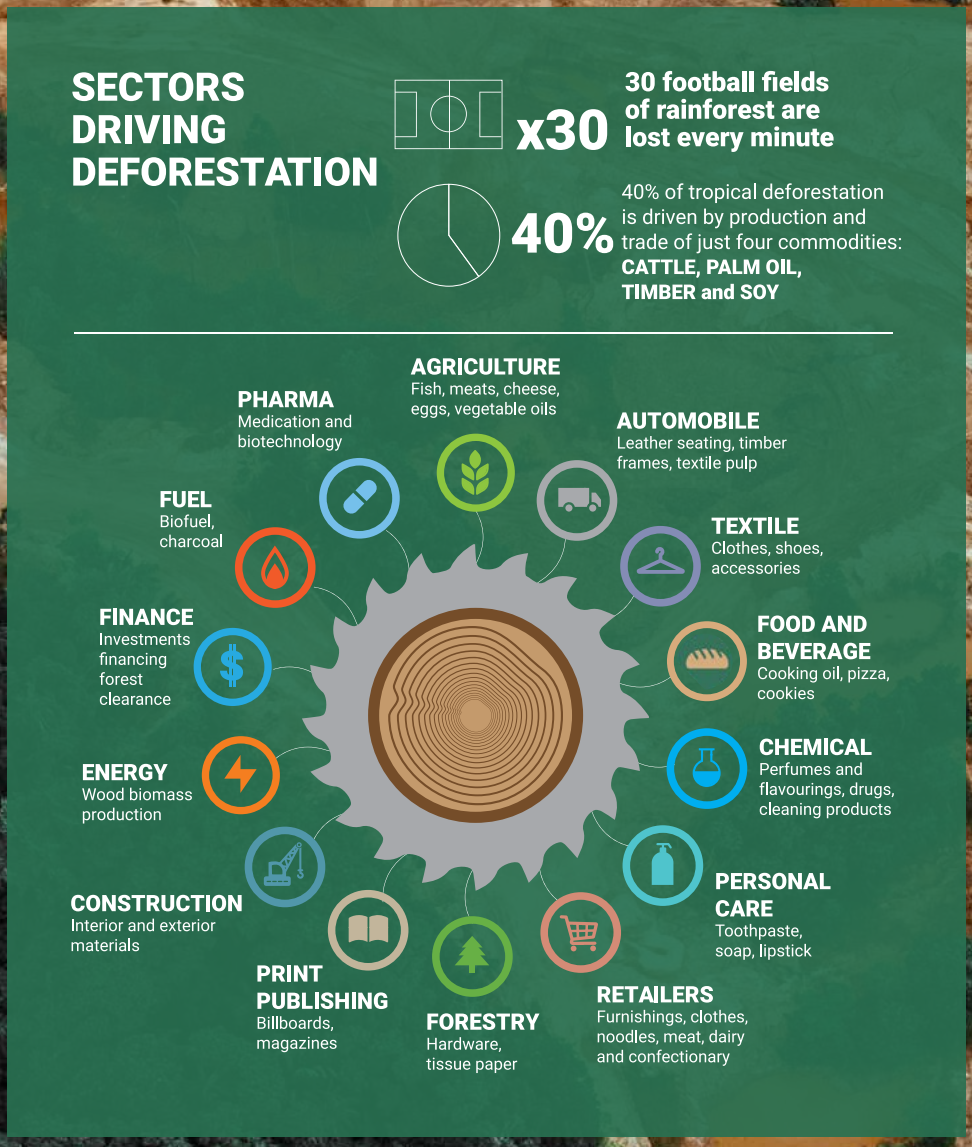
37%

(198 companies) reported monitoring or estimating their deforestation/conversion footprint.

148

Nearly **all companies** that do this assess the deforestation footprint of their entire commodity use.

Halting deforestation is critical to achieving 1.5°C ambitions and a nature-secure future. For most companies, that means implementing strategic supply chain measures to make full use of their influence.


SECTORS DRIVING DEFORESTATION
x30
30 football fields of rainforest are lost every minute
40%
40% of tropical deforestation is driven by production and trade of just four commodities: CATTLE, PALM OIL, TIMBER and SOY
AGRICULTURE
Fish, meats, cheese, eggs, vegetable oils
PHARMA
Medication and biotechnology
AUTOMOBILE
Leather seating, timber frames, textile pulp
FUEL
Biofuel, charcoal
TEXTILE
Clothes, shoes, accessories
FINANCE
Investments financing forest clearance
FOOD AND BEVERAGE
Cooking oil, pizza, cookies
ENERGY
Wood biomass production
CHEMICAL
Perfumes and flavourings, drugs, cleaning products
CONSTRUCTION
Interior and exterior materials
PERSONAL CARE
Toothpaste, soap, lipstick
PRINT PUBLISHING
Billboards, magazines
FORESTRY
Hardware, tissue paper
RETAILERS
Furnishings, clothes, noodles, meat, dairy and confectionary

543

companies report engaging their direct suppliers on forest-related issues.

7,304

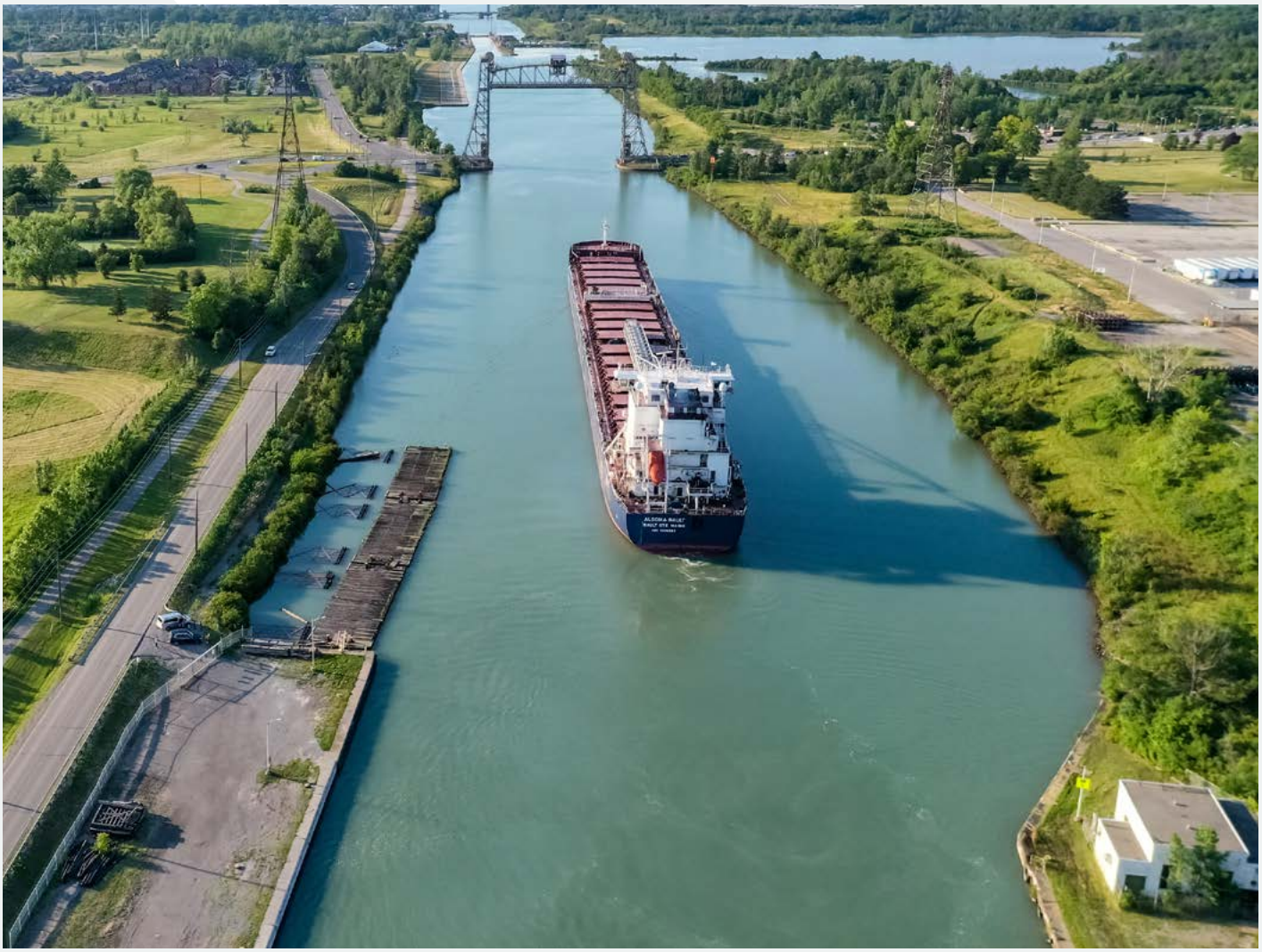
companies report engaging their suppliers on climate-related issues.

Action
Engagement and processes

For many companies, the deforestation created by their activity comes from their supply chain rather than direct operations. Engaging with suppliers is therefore the main way to improve the situation.

It is highly positive therefore that, of those companies that disclosed data on forests, 69% report engaging with their direct suppliers on forest-related issues (543 companies). More encouraging still, 51% of those are working beyond their tier one suppliers (242 companies).

Again, though, this number shrinks in perspective when compared with the 7,304 companies that report engaging their suppliers on climate-related issues. Even the most strategic interventions on deforestation cannot compete with the scale of impact that will come from the level of engagement seen regarding climate.



People

Leadership on deforestation is notably low compared with that on climate change and water security. This could be a key reason for the low level of disclosure to CDP – and action – on forests.

Of those that did disclose:

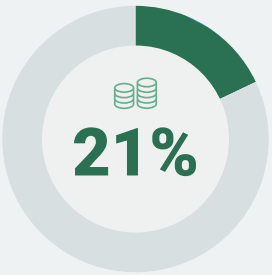
- **23%** provide incentives to C-suite employees or board members for the management of forest-related issues.
- **7%** plan to introduce such incentives within the next two years.

reported C-suite and board members will not be incentivized to take action against deforestation before 2025.

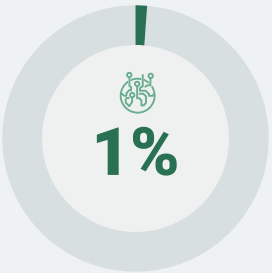
Without such incentivization, middle managers are unlikely to be motivated, empowered and enabled to build action on forest-related issues into their purchasing processes.

Processes

Despite companies that disclosed on deforestation having the highest level of supply chain engagement (compared with climate or water action), cascading action down that supply chain remains tricky.



engage their direct suppliers with financial and commercial incentives to drive action and reduce deforestation.



provide financial and technical help to incentivize their direct suppliers to set deforestation/conversion commitments across their entire operations and develop public time-bound action plans with clear milestones to achieve this.

Deforestation overall has a more mature established framework for monitoring and driving action in the supply chain, however not enough companies and sectors are acting on it.

Supporting companies to scale supply chain action

CDP's Supply Chain program

CDP is currently working with over 280 sustainability leaders via its Supply Chain program. They know that their environmental risks and impacts do not end at the office door. Investors, consumers and policymakers want to see companies taking responsibility for their value chain and purchasing decisions. The global pandemic has shown that resiliency in supply chains and business models is more essential than ever.

280+

CDP Supply Chain members in 2022

Driving transparency

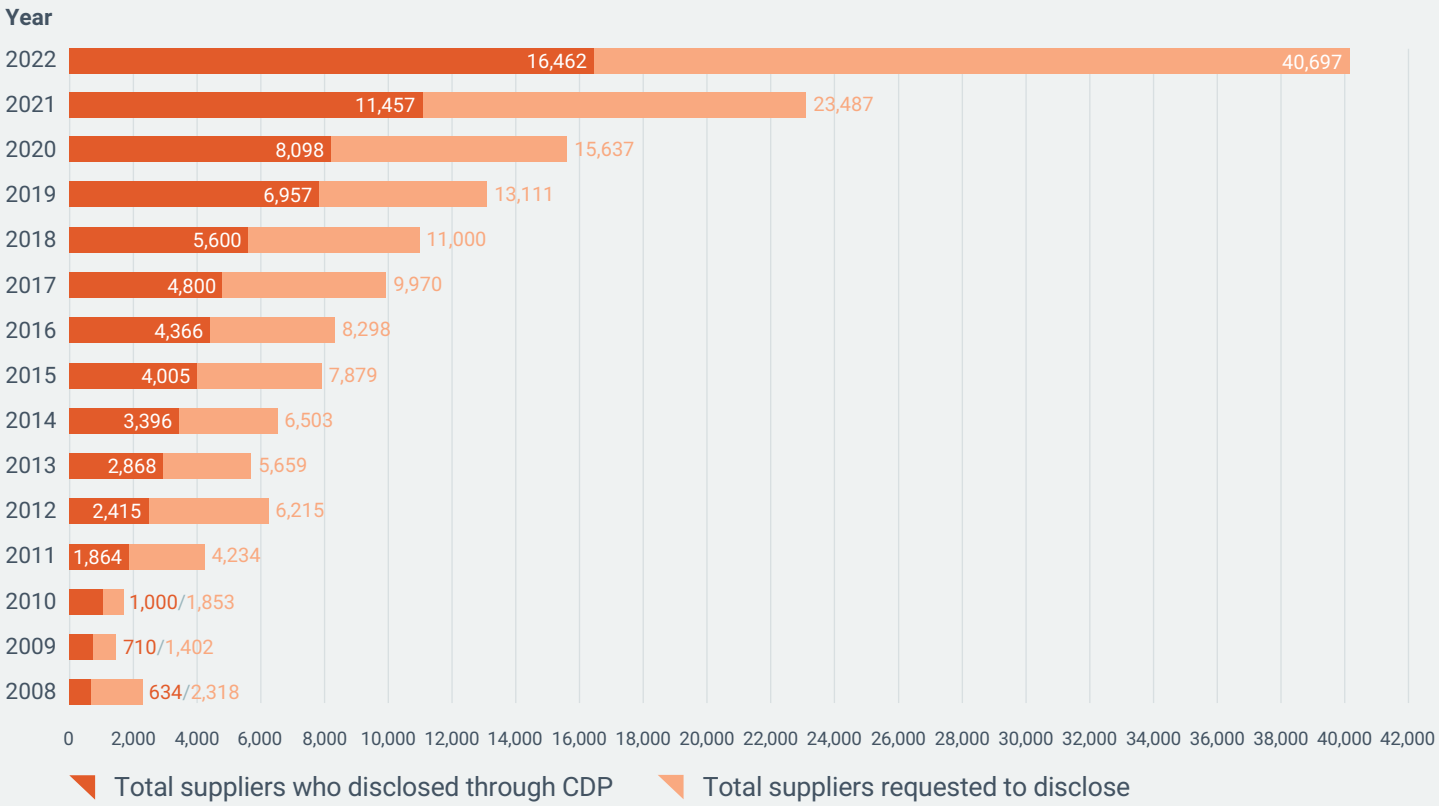
Measurement is the entry point for most buyers that engage with suppliers to understand and quantify impact. The environmental information reported via CDP is used by members of the Supply Chain program and their suppliers to track their value-chain performance year on year and drive action.

This year, 16,462 suppliers reported to CDP at the request of their customers. This increase in response is linked to growing pressure on environmental transparency from customers and other stakeholders. Increased awareness and accountability, demonstrated through more granular quantitative data and verification, will lay the foundation for meaningful change. What is not measured cannot be managed; **data disclosure enables action**.

suppliers disclosed in 2022 **16,462**

suppliers were requested to disclose through CDP in 2022 **40,697**

Growth in CDP Supply Chain disclosures 2008-2022



Disclosure drives action in the supply chain

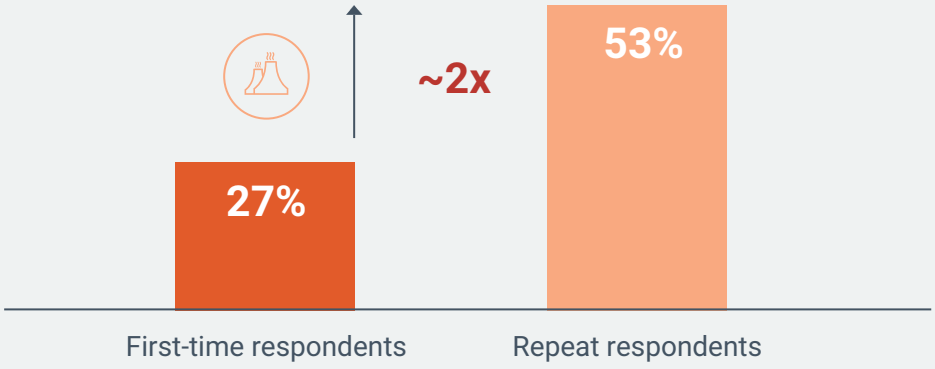
CDP has seen that leading purchasing organizations asking suppliers year on year to report drives environmental action and even cascades action down the supply chain.

For instance – **only 27% of first-time respondents disclosed at least one Scope 3 category in 2022. This number almost doubles (to 53%) among companies that have previously disclosed.**

27%

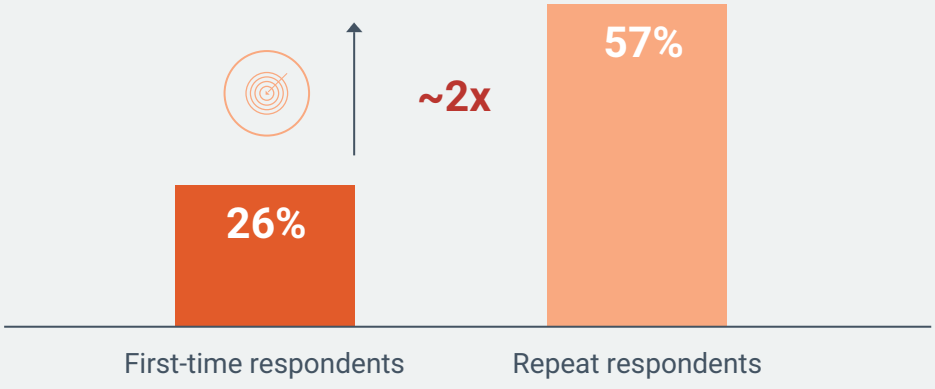
of first-time respondents disclosed at least one Scope 3 category in 2022.

Companies reporting at least one Scope 3 emission category



Of the companies that disclosed through CDP, only 26% of first-time respondents fall into this category of having absolute/intensity targets, while 57% of repeat respondents do so, highlighting how disclosure drives target setting.

Companies reporting having absolute/intensity targets



70 $mtCO_2e$

emissions saved due to engagement by CDP Supply Chain members

The suppliers themselves reported saving **70,385,721 tCO_2** due specifically to CDP supply chain member engagement, showing that engagement, does drive action globally.

1 The sustainable procurement pathway

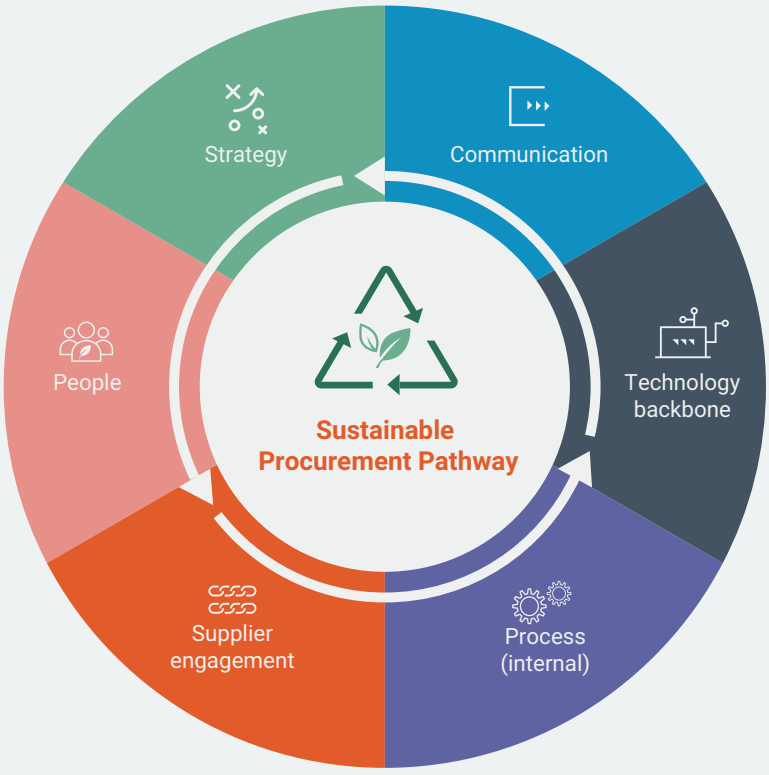
The framework analyses the development of a sustainable procurement strategy in five different phases, defined according to the maturity level of the company: **from the Foundation phase to the Lead phase, which represents the end goal.**

At the same time, the Pathway addresses the fundamental pillars of a comprehensive sustainable procurement strategy:

- People
- Supplier engagement
- Process (internal)
- Technology backbone
- Communication

CDP and Boston Consulting Group (BCG) want to accelerate the speed and scale of supplier engagement globally by offering real solutions to tangible challenges, leveraging CDP's 10+ years of sustainable supply chain experience and BCG's cross-industry expertise and dynamic tech capacity. As such, CDP and BCG provide innovative tools for organizations to assess and improve their supply chain engagement, increase transparency and reduce supply chain emissions.

This framework, co-developed by CDP and BCG, is a comprehensive guide for organizations to assess and improve the maturity of their supply chain footprint management. It is a starting point to be leveraged and tailored by each organization to its specific activities (eg KPIs and target definition). It is enriched by CDP questionnaire respondent feedback, with the ambition to share best practice.



CDP's Sustainable Procurement Pathway, co-created with BCG

	Foundation	Practice	Embed	Enhance	Lead
Strategy	Agree overarching Sustainability objectives for procurement. Simple Sustainable Procurement policy in place endorsed by CEO. Communicate to staff and key suppliers.	Review and enhance the Sustainable Procurement strategy, in particular recognising the potential of new technologies. Try to link strategy to environmental strategy and include in overall corporate strategy.	Augment the Sustainable Procurement policy into a strategy covering risk, process integration, marketing, supplier engagement, measurement and a review process. Strategy endorsed by CEO.	Ensure Sustainable Procurement policy fits in with industry best practices and communicate the progressing nature of the policy with key stakeholders.	Integrate environmental, purchasing and business strategy and move the business towards a successful 1.5 aligned future.
	Illustrative KPIs you could leverage				
	Overall scope 3 upstream emissions reduction: 0-10%	Overall scope 3 upstream emissions reduction: 10-20%	Overall scope 3 upstream emissions reduction: 20-30%	Overall scope 3 upstream emissions reduction: 30-40%	Overall scope 3 upstream emissions reduction: > 40% 1.5 compliance certification
People	Adopt Sustainable Procurement KPIs into C-Suite. Give key procurement staff basic training in Sustainable Procurement principles. Include Sustainable Procurement as part of a key employee induction programme.	Give procurement staff basic training in sustainable procurement principles. Give key staff advanced training on sustainable procurement principles.	Organize targeted refresher training on latest Sustainable Procurement principles. Include Sustainable Procurement factors in Performance objectives and appraisal. Develop a simple incentive programme.	Include Sustainable Procurement in competencies and selection criteria. Include Sustainable Procurement as part of employee induction programme.	Publish and celebrate achievements such as internal and external awards for buyers achieving sustainable results. Build KPIs into all buyers annual objectives. Integrate Sustainable Procurement KPIS into all C-suite KPIS.
	Illustrative KPIs you could leverage				
	% procurement staff trained to sustainable procurement principles: 30% % procurement staff trained to advanced sustainable principles: 0%	% procurement staff trained to sustainable procurement principles: 80% % procurement staff trained to advanced sustainable principles: 30%	% procurement staff trained to sustainable procurement principles: 100% % procurement staff trained to advanced sustainable principles: 50% Procurement staff incentivized on emission reduction: 25%	% procurement staff trained to sustainable procurement principles: 100% % procurement staff trained to advanced sustainable principles: 100% Procurement staff incentivized on emission reduction: 50%	% procurement staff trained to sustainable procurement principles: 100% % procurement staff trained to advanced sustainable principles: 100% Procurement staff incentivized on emission reduction: 100%
Supplier Engagement	Undertake a Key supplier spend analysis (incl. degree of buying power) and identify high sustainability impact suppliers. Target key suppliers for engagement and sought views on procurement policy.	Undertake detailed supplier spend analysis. Initiate general programme of supplier engagement with senior manager involvement.	Implement a targeted supplier engagement programme promoting continual sustainability improvement. Establish a two-way communication between procurer and supplier with incentives. Map key spend areas of supply chains.	Target Key suppliers for intensive development. Implement Sustainability audits and/or supply chain improvement programmes. Achievements are formally recorded. Ensure CEO in the supplier engagement programme.	Agree on Sustainability Key Performance Indicators with key suppliers. Reward progress or penalize based on performance relevant to the contract. Ensure all C-suite is involved in the supplier engagement programme.
	Illustrative KPIs you could leverage				
	Suppliers engaged (spend): 0-10%	Suppliers engaged (spend): 10-40%	Suppliers engaged (spend): 40-60% Suppliers engaged (emission): 50-60%	Supplier engaged (spend): 60-80% Suppliers engaged (emission): 60-80%	supplier engaged (spend): >80% suppliers engaged (emission): >80%

	Foundation	Practice	Embed	Enhance	Lead
Process (internal)	Start including general sustainability criteria in key contracts.	Systematically award contracts based on value-for-money (included environmental criteria), not lowest price.	Assess all contracts for general Sustainability risks and identify management actions. Manage all risks managed throughout all stages of the procurement process (including in Requests For Proposals).	Build a long-term plan and adjust related processes to remove suppliers that do not meet the Sustainability criteria or show no progress towards the criteria; Provide higher rating for proposals including sustainability criteria.	Ensure suppliers recognized they must continually improve their Sustainability profile to keep the client's business.
	Illustrative KPIs you could leverage				
	Sustainability criteria included in contracts between to 0-10% procurement spend. EHS compliance in supplier code of conduct: 100%.	Sustainability criteria included in contracts between to 10-40% procurement spend.	Sustainability criteria included in contracts between to 40-60% procurement spend.	Sustainability criteria included in contracts 60-80% procurement spend.	Sustainability criteria included in contracts > 80% procurement spend.
Technology backbone	Review current scope 1&21 data collection and quality and define new standards. Start automating scope 1&2 data collection and reduce data silos. Start reporting on scope 3 data based on generic estimations (procurement spend x generic emission factors). Define data governance processes and checks.	Finalize automation of scope 1&2 data collection and centralize in data hub. Embed KPIs for the data collection process. Develop data models describing the SC and define suppliers' profiles across the SC . Get ad-hoc annual analysis from key suppliers.	Agree on terminology standards across key suppliers. Establish annual data export according to agreed format. Ensure automatic and reproduceable data analysis on key supplier data.	Integrate sustainability-related information from key suppliers in data hub and establish automatic data upload. Develop simplified dashboard to track progress on key initiatives. Develop scenario-based simulations to support abatement-driven decision making.	Ensure continuous data integration across SC for sustainability-related data. Develop Data visualization / dashboarding tool to track status quo and progress of initiatives. Build statistical models to estimate scope 3 emissions where primary data is not available.
	Illustrative KPIs you could leverage				
	Data quality: 50% error rate Average time spent on carbon reporting (days): 60	Data quality: 35% error rate Average time spent on carbon reporting (days): 30	Data quality: 20% error rate Average time spent on carbon reporting (days): 20	Data quality: 10% error rate Average time spent on carbon reporting (days): 10	Data quality: 5% error rate Average time spent on carbon reporting (days): 5
Communication	Start reporting on honest progress via standardized mechanisms such as CDP.	Communicate performance to suppliers and key stakeholders ensure transparency in progress.	Ensure frequent communication to suppliers and key stakeholders.	Compare with peer organizations. Produce benefit statements.	Publish independent audit reports available.
	Illustrative KPIs you could leverage				
	Results release: annual	Results release: bi-annual	Results release: quarterly	Results release: quarterly	Results release: quarterly Audit report release

	Foundation	Practice	Embed	Enhance	Lead
Results	Key Sustainability impacts of procurement activity have been identified.	Detailed appraisal of the Sustainability impacts of the procurement activity has been undertaken. Measures implemented to manage the identified high risk impact areas.Reviewed and enhanced sustainable procurement policy including supplier engagement. Policy is part of a wider Sustainable Development strategy.	Sustainability measures refined from general departmental measures to include individual procurers and are linked to development objectives.	Measures are integrated into a balanced score card approach reflecting both input and output. Regular meetings with procurement and sustainability teams to assess progress to target.	Measures used to drive organizational sustainable development strategy direction. Progress formally benchmarked with peer organizations. Benefits from Sustainable Procurement are clearly evidenced.
	Illustrative KPIs you could leverage				
	Results release: annual	Results release: bi-annual	Results release: quarterly	Results release: quarterly	Results release: quarterly Audit report release

2 The supplier engagement rating

Companies can access the **public SER methodology** here

Companies can access the **public Supplier Engagement Leaderboard** here

Alongside this tool, any company who reported to CDP's full climate questionnaire will receive a Supplier Engagement rating (SER). This analyzes data from all companies that disclose through CDP on climate change, relating to supplier engagement, governance, Scope 3 emissions accounting, targets, and overall CDP climate change score.

Those who obtain the highest SER score join the Supplier Engagement Leaderboard. Inclusion on this list demonstrates that a company is proactively working with its suppliers to ensure that climate change action is cascading down their supply chain.

Acknowledgements

CDP would like to thank the members and responding companies consulted during the preparation of this report. Firstly, BCG, who supported in the production of this report and the creation of the flexible framework. We are grateful to receive funding for CDP's Power of Procurement project from Norway's International Climate and Forest Initiative. Our appreciation also goes to our Japanese scoring partners, and to our global scoring partner, **Incite Insight**, for its help and support. Thanks also go to the contributions from the CDP Supply Chain, Climate, Forests, Water Security and Communications team.

Sonya Bhonsle
Global Head of Value Chains, **CDP**

CDP Supply chain members

Premium members

AstraZeneca	Climate change member
L'Oréal	Climate change member, Forests member, Water security member
SLB	Climate change member
Microsoft Corporation	Climate change member, Water security member
NTT DATA Corporation	Climate change member
Stanley Black & Decker, Inc.	Climate change member
Taiwan Semiconductor Manufacturing Company, Ltd.	Climate change member, Water security member
Walmart, Inc.	Climate change member, Forests member

Climate change member
Forests member
Water security member

We are grateful to receive funding for CDP's Power of Procurement project from:

NICFI
Norway's International Climate and Forest Initiative

As a global technology company driving energy innovation for a balanced planet, our focus is to place sustainability at the centre of everything we do. Our supply chain emissions represent ~20% of Scope 3 inventory. This inventory is represented by 35,000 suppliers spread across 100+ countries. 2022 was our 2nd year as a CDP supply chain member, we invited 1250 suppliers, representing 58% of our scope 3 upstream emissions and have achieved 72% response rate. We believe our success lies in several factors. First, our disclosure cycles are driven from within our procurement organization. We align our teams on this effort through a yearly common performance objective tied to annual incentives.

Going forward in 2023, our focus will evolve to also include suppliers' disclosure quality: we are eager to drive their climate maturity and to start using CDP data into our sourcing decision making. To do so, we are embedding climate action into our policies & procedures, equipping our internal procurement teams with climate-related knowledge as well as digital tools to help them engage their respective suppliers on their maturity journey through targeted recommendations for actions.

Our partnership with CDP is a key enabler to assess our suppliers' climate maturity and this has helped us in defining a clear roadmap to drive actionable steps. We, as an industry, need to go further and rapidly decarbonize - SLB is taking up this bold challenge and are committed to drive our suppliers to embark on the same pathway. Now more than ever, it is imperative that we collaborate with our suppliers and partners to balance the need for energy with the needs of the planet.

Gwenola Boyault
VP Planning & Supply Chain
SLB

CDP Supply chain members

Lead members

- Ahold Delhaize
- Airbus SE
- Alphabet, Inc.
- Altria Group, Inc.
- Ansell
- Arcos Dorados
- ASM International
- Bank of America
- Barclays
- Bayer AG
- British American Tobacco
- British Broadcasting Corporation
- Colgate Palmolive Company
- Dell Technologies
- Deutsche Bank AG
- Electrolux
- Estee Lauder Companies Inc.
- Experian Group
- Flex Ltd.
- Goldman Sachs Group Inc.
- Grupo Bimbo, S.A.B. de C.V.
- GSMA
- Imperial Brands
- J Sainsbury Plc
- Johnson & Johnson
- JT International SA
- Juniper Networks, Inc.
- Koninklijke Philips NV
- KPMG International
- Lloyds Banking Group
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- McDonald's Corporation
- McKinsey & Company
- NIKE Inc.
- Nokia Group
- Nomura Research Institute, Ltd.
- Nordstrom, Inc.
- Novartis
- NRG Energy Inc
- Ørsted
- PayPal Holdings Inc
- Philips Domestic Appliances
- Phoenix Group Holdings
- Robert Bosch GmbH
- Royal London Mutual Insurance Society Limited
- Salling Group A/S
- Schneider Electric
- Swisscom
- Target Corporation
- The Coca-Cola Company
- The Dow Chemical Company
- The LEGO Group
- U.S. General Services Administration - OMB ICR #3090-0319
- Virgin Money UK PLC
- Wells Fargo & Company
- Xylem Inc

Standard members

- Accenture
- Accor
- Acer Inc.
- Adani Green Energy
- Adani Transmission Ltd
- Advance Auto Parts Inc
- AGC Inc.
- Aguas Andinas SA
- AIB Group Plc
- Ajinomoto Co.Inc.
- Ambev S.A
- Amdocs Ltd
- Anheuser Busch InBev
- Aon plc
- ARKEMA
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- Autodesk, Inc.
- Avery Dennison Corporation
- Aveva Group
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- Beiersdorf AG
- BMW AG
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CDP Supply chain members (continued)

Standard members (continued)

- Bristol-Myers Squibb
- BT Group
- Burns & McDonnell, Inc.
- Business Environment Council (BEC)
- C&C GROUP PLC
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- CANPACK Group
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- Fashion Industry Charter for Climate Action (FICCA)
- Faurecia
- Ferguson plc
- Ferrari
- FIRMENICH SA
- Fletcher Building
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- Hewlett Packard Enterprise Company
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- Intel Corporation
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- International Paper Company
- Iochpe-Maxion SA
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- Kesko Corporation
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- Melrose PLC
- Mercedes-Benz Group AG
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- Michelin
- Micron Technology, Inc.
- Mitsubishi Motors Corporation
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CDP Supply chain members (continued)

Standard members (continued)

- Nasdaq, Inc
- National Grid PLC
- Naturgy Energy Group SA
- NEC Corporation
- News Corp
- NHS England and NHS Improvement
- Nissan Motor Co., Ltd.
- OMV AG
- Ordnance Survey
- Parker-Hannifin Corporation
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- Prudential Financial, Inc.
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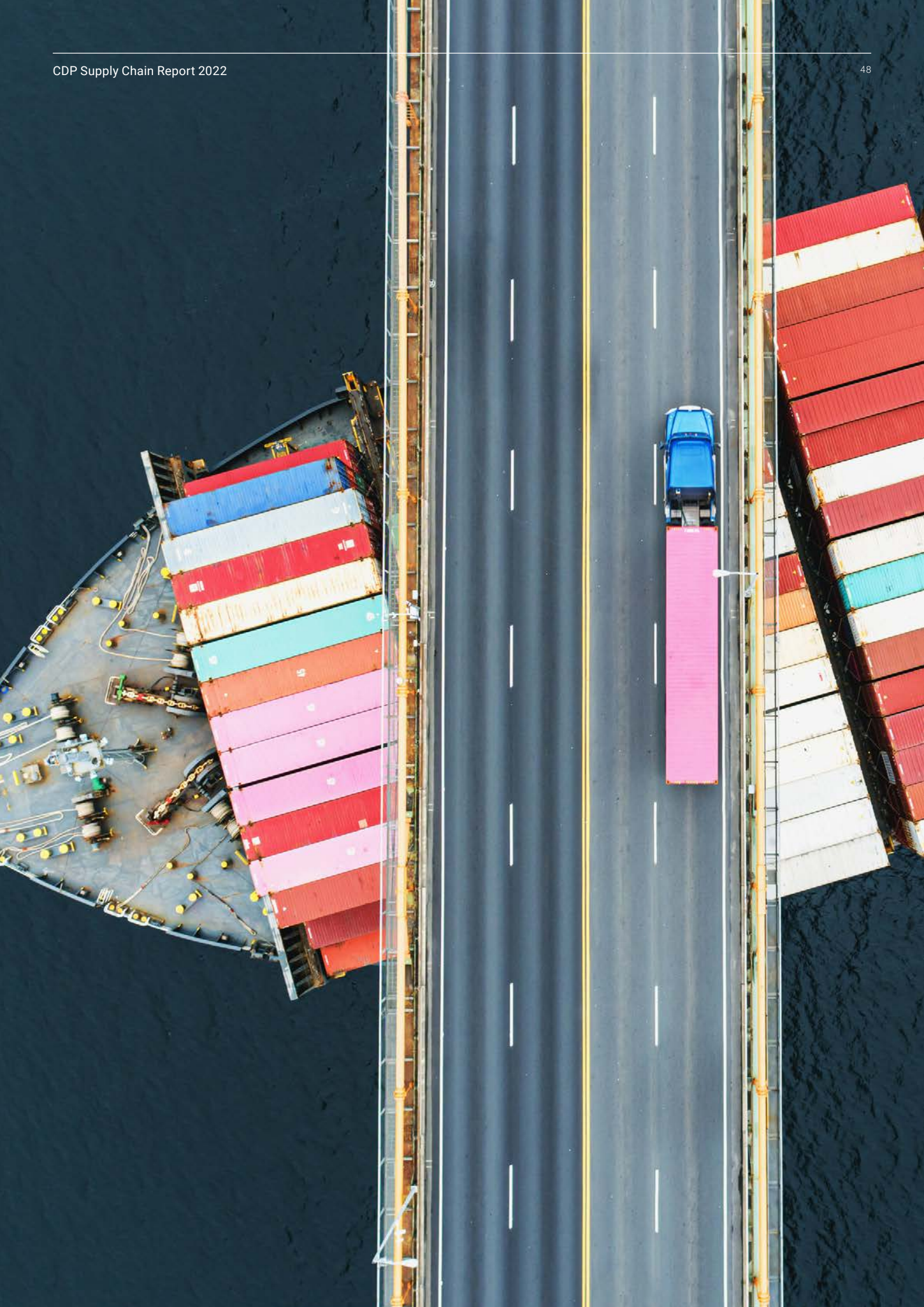
- Zurich Insurance Group



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