

ENGAGING THE CHAIN: DRIVING SPEED AND SCALE

CDP Global Supply Chain Report 2021

FEBRUARY 2022

Written in collaboration with
Boston Consulting Group

BCG

FOREWORD



Nicolas Hieronimus
CEO
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We are living through a pivotal moment and our actions this decade will shape the course of the future of humanity. Global warming and environmental changes have the potential to permanently degrade human and natural habitats, deplete our natural resources, and create a more unstable world.

Planetary boundaries provide us with a quantitative framework within which humanity can continue to develop and thrive for generations to come. Crossing these boundaries increases the risk of generating large-scale abrupt or irreversible environmental changes. It is no longer enough for companies to set environmental impact reduction goals that are not based on science. It is critical that we prepare for the world of tomorrow and that business and society are committed to addressing these pressing challenges. In this context, CDP plays a critical role in providing a transparent and science-based disclosure system which allows companies and cities to monitor the progress they achieve in reducing their environmental impact.

At L'Oréal, our purpose is to create the beauty that moves the world. This means that achieving our social and environmental commitments is a critical measure of success. As the Global leader in our industry, we have a responsibility to leverage our global footprint and proactively invest in finding a solution to these issues.

That's why we have pledged to ensuring that our activities are respectful of planetary boundaries, as defined by environmental science, and to reconciling our needs with the preservation of a resource-limited planet. To do this, we are raising the bar and have set ambitious targets towards 2030, that tackle both our direct and indirect, extended impacts. With our sustainable program "L'Oréal for the Future", we are committed to transforming ourselves, empowering our business ecosystem, to help solve some of the most pressing challenges of the world. Our strong and stable financial model is critical in enabling us to make the investment choices needed to effect change and meet these goals.

Because we have a social and environmental impact beyond our operations, we are committed to actively supporting our business partners to improve their social and environmental performance. Alongside our own sustainable commitments, we are working with our strategic suppliers so that by 2030, they reduce their direct emissions (scopes 1 and 2) by 50% in absolute terms compared to 2016. We are also working with them so that they use water sustainably in the areas where they operate.

To gain transparency into their actions and track progress with our supplier goals, in 2007 L'Oréal joined

the CDP Supply Chain program. In 2014, we made participation to CDP mandatory for all our strategic suppliers. This allows them to measure and report their carbon emissions reductions and to communicate on their action plans to achieve their targets. In 2021, 75% of our strategic suppliers responded to CDP's climate, water, and/or forest questionnaires, providing us with invaluable insight and data on their actions.

As part of our disclosure requirements, we are continuously engaging our suppliers on sustainability issues and the role they play. Last year, we hosted virtual working sessions dedicated to sustainability, known as "Spread the Green Vibes", with over 800 suppliers participating. Our Chief Purchasing Officer, the Chief Corporate Responsibility Officer, and the Group's Environment Director hosted two global webinars about suppliers' contribution to L'Oréal Science-Based Targets and the L'Oréal for the Future program. We have also strengthened our engagement partnership with CDP with the objective of implementing a 'test and learn' approach with new initiatives to strengthen supplier engagement and share best practices.

As environmental and social concerns increase, we know that our actions alone are insufficient. This is a global emergency. Together, we have one decade to act. By sharing our story, we hope to be a catalyst of change in the beauty sector and beyond, and to inspire others to act with us.

EXECUTIVE SUMMARY

A company's supply chain is responsible for substantial environmental impacts. Last year, CDP found that GHG emissions in a company's supply chain are, on average, 11.4 times higher than its operational emissions.

This chain of environmental risk is not just an opportunity to look beyond companies' own emissions and cascade their ambition; it is now the only way to leverage change at the scale required. This report explores the environmental impact caused by supply chains and the actions buyers are taking to reduce them.

This year, over 11,000 companies submitted environmental data to CDP. The results show moderate action on measuring and tackling environmental impacts resulting from direct operations. On climate change, **75%** of suppliers reported their Scope 1 and 2 emissions and took actions to reduce these emissions by a total of 231 million tons CO₂e.

However, suppliers must think beyond climate change alone. Harm to the environment encompasses deforestation and water scarcity, but this realization is not widely reflected in the reported data across

themes. Many suppliers that operate in water-stressed areas – or source forest commodities in high-risk regions – are unable to report any data on their water withdrawals or volumes of production and consumption of forest commodities. As emphasized at COP26, stand-alone actions are not sufficient. Environmental issues are interconnected; companies cannot meet their climate net-zero targets whilst generating mass deforestation in their supply chain.

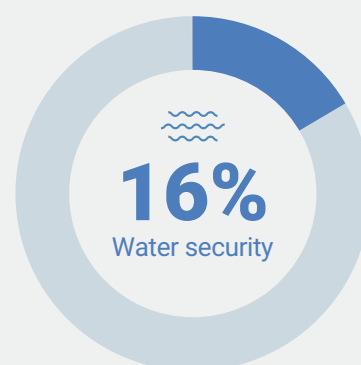
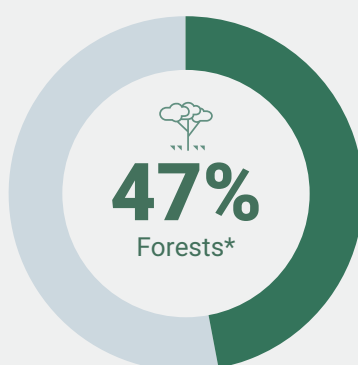
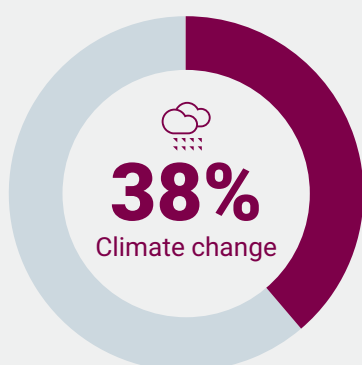
High-performing companies in this area ask suppliers to report data and set targets to reduce their upstream Scope 3 emissions. A growing number of organizations, such as the 207 CDP Supply Chain members and companies on the SER Leaderboard, are trailblazing a path to truly meaningful reductions in harm to the environment. However, they are currently in the minority. Ambitious environmental action is not yet cascading down the supply chain. Alongside insufficient tracking, CDP data also illustrates a lack of engagement with suppliers. For example, on climate change, only **20%** reported data for Scope 3 category 1 'Purchased Goods and Services' emissions, and **62%** aren't engaging suppliers on the topic.



231 million

tons CO₂e of emissions reduction initiatives were driven last year by over **200** Supply Chain members, suppliers reported.

Suppliers that disclosed in 2021 and actively engage with suppliers on each theme:



*downstream companies (traders, manufacturers, retailers) working beyond their first-tier suppliers to manage and mitigate deforestation risks.

11.4x

times more emissions in a company's supply chain compared to its own direct operations

11,000+

companies show moderate action on measuring and tackling environmental impacts resulting from direct operations

Put simply, companies are not making the necessary transformational changes to truly drive action at the required scale. A continuously increasing number of organizations set environmental targets - however, they are often not aligned with climate science and 1.5°C reduction pathways. Less than 5% of suppliers reported that they put in motion climate transition plans.

But, there is hope. Our data demonstrates that engaging suppliers on the environment does drive change. This year's data shows

that consistent engagement from purchasers creates momentum in key areas. For instance, leveraging influence from the top downwards speeds up the rate of change. CDP's 'Sustainable Procurement Pathway', co-developed by Boston Consulting Group (BCG), is a scalable approach to help kickstart this process. If we are to meet the environmental crisis and avert climate change, everyone must act now. The key finding in this report is that corporate buyers have the ability to make change happen at the required scale and speed - if they start their journey now.



200+

CDP Supply Chain members



US\$5.5_{TN}

Combined procurement spend of Supply Chain members



500+

Companies on CDP's Supplier Engagement Rating Leaderboard



suppliers disclosed in 2021

11,457

suppliers were requested to disclose through CDP in 2021

23,487



Total (unique disclosing suppliers) per theme



Climate

11,418



Forests

548

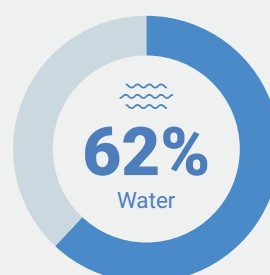
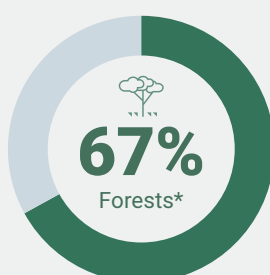
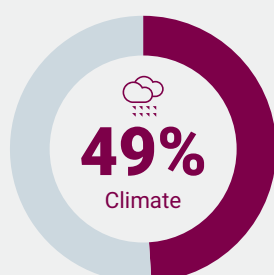


Water

2,726



Response rate (unique disclosing suppliers) per theme



*downstream companies (traders, manufacturers, retailers) working beyond their first-tier suppliers to manage and mitigate deforestation risks.

CONTENTS

Executive summary	03
Measurement	09
Ambition	13
Action	17
Transformation	20
Accelerate the speed and scale	23
The future of supply chain action	28
Acknowledgements	31

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ABOUT THIS REPORT

This report has been written by CDP in collaboration with Boston Consulting Group (BCG), using CDP's Supply Chain program data submissions to evaluate the activities of reporting organizations as a group, and to identify meaningful insights about the supply chain impacts on setting science-based targets, zero-deforestation and water security targets.

The CDP Supply Chain program, representing over 200 member organizations with US\$5.5 trillion in annual procurement spend, requested that suppliers report to members on their current and future risks and opportunities related to these environmental issues.

Suppliers responded to standardized questionnaires on climate change, forests and water security: a full version or a simplified version made available for organizations with an annual turnover of less than US\$250 million or €250 million, which can also be used by larger organizations disclosing for the first time. In total 23,487 companies were invited to participate, with over 11,457 unique responses received.








Most respondents provided information on climate change, with 23,441 being requested to disclose and 11,418 disclosing suppliers. A smaller number of businesses were asked to respond on forests

and water issues, as these are more nascent additions to the CDP Supply Chain program. The Forests questionnaire, introduced in 2017, was sent to 822 companies with 548 completing the questionnaire. The Water questionnaire, introduced in 2013, was sent to 4,427 companies with 2,726 completing the questionnaire. The analysis in this report is representative of the CDP Supply Chain program data only.

During the preparation of the analysis by CDP, responses have been assessed, and a small number of outlier data points have been manually excluded to avoid reporting misleading statistics.

CDP Supply Chain members




Premium members

L'Oréal	  
Microsoft Corporation	 
Stanley Black & Decker, Inc.	
Walmart, Inc.	 

Lead members

Ahold Delhaize	
Alphabet, Inc.	 
AstraZeneca	
Bank of America	
Barclays	
Bayer AG	
Dell Inc.	 
Deloitte Touche Tohmatsu Limited	
Electrolux	 
Estée Lauder Companies Inc.	
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	 
LinkedIn Corp.	 
McDonald's Corporation	  
NIKE Inc.	
Nordstrom, Inc.	
NRG Energy Inc	
Ørsted	
Phoenix Group Holdings	
PayPal Holdings Inc	
Schlumberger Limited	
Signify N.V.	
Target Corporation	
The Coca-Cola Company	 
The Dow Chemical Company	
The LEGO Group	  
Virgin Money UK Plc	
Wells Fargo	

-  Climate change member
-  Forests member
-  Water security member

CDP Supply Chain members (continued)

Standard members

HSBC Holdings Plc	▼	BT Group	▼	Fluence Energy	▼
Accenture	▼	Caesars Entertainment	▼	Ford Motor Company	▲▼
Accor	▼	Caixa Econômica Federal	▲▼	Fujian Sunner Group	▼
Acer Inc.	▼	CANPACK Group	▼	Fujitsu Limited	▲▼
Advance Auto Parts Inc	▼	Capital One Financial	▼	General Motors Company	▲▼
Aguas Andinas SA	▼	CBRE Group, Inc.	▼	Givaudan SA	▲▼
AIB Group Plc	▼	Cellnex Telecom SA	▼	Grupo CCR	▼
Airbus SE	▼	Cementir Holding NV	▼	Hewlett Packard Enterprise Company	▼
Ajinomoto Co. Inc.	▲▼	Chunghwa Telecom	▼	HMD Global Oy	▼
Altria Group, Inc.	▼▲	CIA ULTRAGAZ S/A	▲▼	Honda Motor Co., Ltd.	▲▼
Ambev S.A	▼	Cisco Systems, Inc.	▲▼	Honda North America, Inc.	▼
Amdocs Ltd	▼	Citrix Systems	▼	HP Inc.	▲▼
Anheuser Busch InBev	▲▼	Clorox Company	▼	Husqvarna AB	▼
Arcos Dorados	▼▲	CNH Industrial NV	▼	Intel Corporation	▲▼
ARKEMA	▼	Colgate Palmolive Company	▲▼	International Flavors & Fragrances Inc.	▼
Arm Ltd.	▼	Compagnie Financière Richemont SA	▼	International Paper Company	▼
AT&T Inc.	▼	Coop Danmark A/S	▼	Ioche-Maxion SA	▼
Autodesk, Inc.	▼	CSX Corporation	▼	Itaú Unibanco Holding S.A.	▼
Avery Dennison Corporation	▼	CVS Health	▼	Jacobs	▼
Avianca Group	▼	Daimler AG	▼	Jaguar Land Rover Ltd	▼▲
Banco Bradesco S/A	▼	Deutsche Telekom AG	▼	KAO Corporation	▼▲
Banco do Brasil S/A	▲▼	Diageo Plc	▲▼	Kellogg Company	▼
Banco Santander Brasil	▼	Downer EDI	▼	Kesko Corporation	▼
Bank of Montreal	▼	Eaton Corporation	▼	Keurig Dr Pepper	▼
Blue Shield of California Group	▼	Fashion Industry Charter for Climate Action (FICCA)	▼	KPMG UK	▼
BMW AG	▲▼	Ferrari	▼	L'Oréal Brasil	▼
Braskem S/A	▲▼	Firmenich	▼▲	Los Angeles Department of Water and Power	▼
Bristol-Myers Squibb	▼	Flowers Foods Inc	▼		
British American Tobacco	▲▼				

CDP Supply Chain members (continued)

Standard members (continued)

Magna International	▼	Prysmian SpA	▼	The Yokohama Rubber Co., Ltd.	▼
Marfrig Global Foods S/A	▼	Raizen	▼	Thule Group Ab	▼
Mastercard Incorporated	▼	Renault Group	▼	Toyota Motor Corporation	▲▼
MetLife, Inc.	▼	Restaurant Brands International	▲▼	Trelleborg AB	▼
Metropolitan Transportation Authority (MTA)	▼	Royal London Mutual Insurance Society Limited	▼	Trimble Inc.	▼
Michelin	▼	S Group	▼	U.S. General Services Administration	▼
Micron Technology, Inc.	▼	S.C. Johnson & Son, Inc.	▲▼	Unilever PLC	▲▼
Ministry of the Environment, Government of Japan	▼	SABIC	▼	Vale SA	▼
Moody's Corporation	▼	Samsung Electronics	▼	Varian Medical Systems Inc	▼
Movida Participacoes Sa	▼	Santa Catarina	▼	Vattenfall Group	▼
MRV	▲▼	Sekisui Chemical Co., Ltd.	▼	Velux A/S	▼
National Grid PLC	▼	Senior plc	▼	Verizon Communications Inc.	▼
Naturgy Energy Group SA	▼	Sigma	▲▼	Virgin Management Limited	▼
NEC Corporation	▼	Sky Ltd	▼	Visa	▼
NHS England and NHS Improvement	▼	Snam S.P.A	▼	VMware, Inc.	▼
Nissan Motor Co., Ltd.	▲▼	SSE	▼	Vodafone Group	▼
Nokia Group	▲▼	Stadium	▼	Volvo Car Group	▼
Nomura Research Institute, Ltd.	▼	Stéarinerie Dubois	▲▼	Walmart de México y Centroamérica	▲▼
NTT Data Corporation	▼	Stellantis N.V.	▼	Western Digital Corp	▲▼
OMV AG	▼	Suzano Papel & Celulose	▼	WestRock Company	▼
One Jeanswear Group	▼	Swisscom	▼	Xylem Inc.	▲▼
PepsiCo, Inc.	▼	Symrise AG	▲▼	Zimmer Biomet	▼
Philip Morris International	▲▼	Syncreon	▼	Zurich Insurance Group	▼
Pinsent Masons LLP	▼	TD Bank Group	▼		
Pirelli	▼	Telefónica	▼		
Prudential Financial, Inc.	▼	Telstra Corporation	▼		
		The Allstate Corporation	▼		

MEASUREMENT

What is measured can be managed

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

In 2021, despite the continual economic disruption of COVID-19, CDP received a record number of environmental disclosures. 11,457 individual suppliers responded to CDP's questionnaires, including 5,285 SMEs, resulting in an overall growth of + 41% when compared to 2020 levels.

This increase in responses is linked to companies facing growing

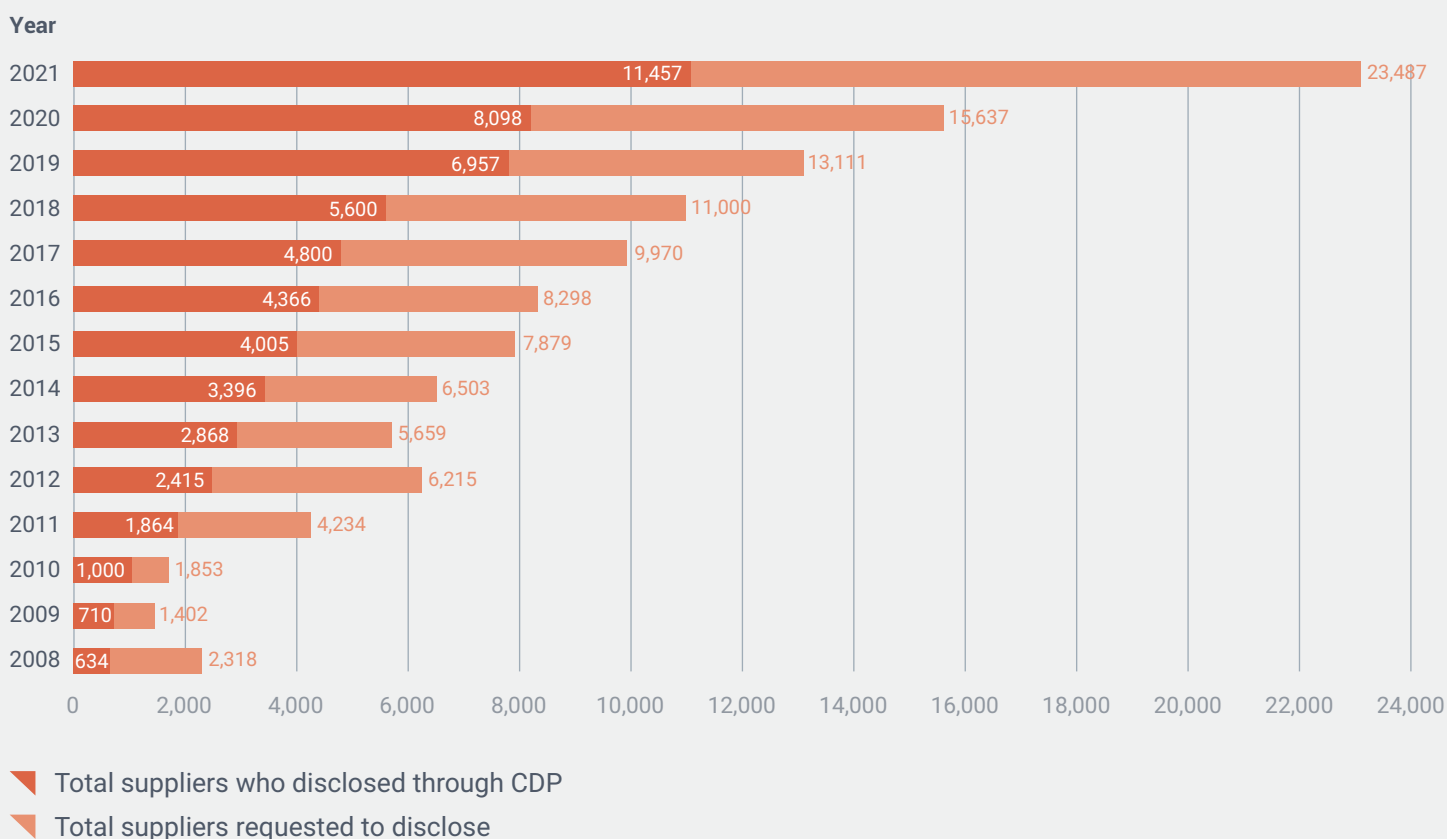
A climate disclosure framework for small and medium-sized enterprises

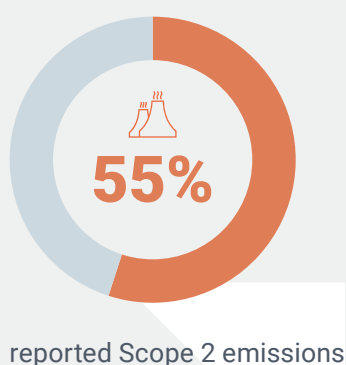
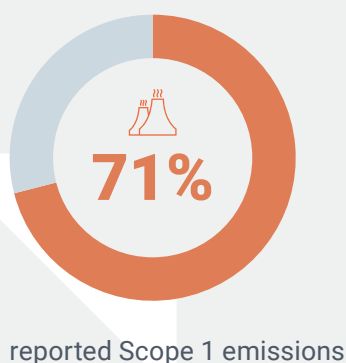
SMEs offer enormous potential for change, providing 50% of the world's employment and representing 90% of all businesses. It is therefore crucial that SMEs are equipped with the tools and resources needed to set goals aligned with a 1.5°C future and disclose environmental performance. For this reason, CDP recently launched the **SME Climate Disclosure Framework** to empower small and medium-sized enterprises to make strategic and impactful climate commitments, track and report progress against those commitments, and demonstrate climate leadership. The framework provides key climate-related reporting indicators and metrics that SMEs should be reporting on and encourages setting targets grounded in science. Its modular design provides flexibility for SMEs and data requesters to tailor the use of the framework to their disclosure needs.

pressure for more environmental transparency from their 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.**

Growth in CDP Supply Chain disclosures 2008–2021





Quantifying impact

Measuring the direct impact: Looking more closely at the data disclosed by suppliers, we see a consistent trend in the percentage of suppliers disclosing quantitative environmental KPIs. In 2021, 71% of responding suppliers reported Scope 1 emissions, and 55% reported Scope 2 (location and/or market based) emissions. Through the Water Security questionnaire, 62% of responding suppliers provided water withdrawal data, 60% water consumption and 57% water discharge.

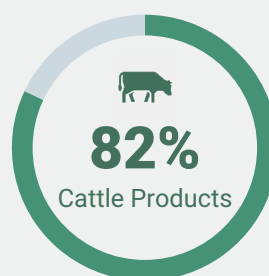
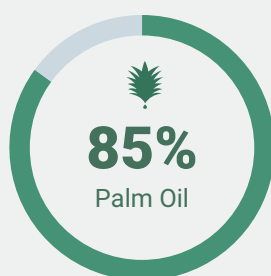
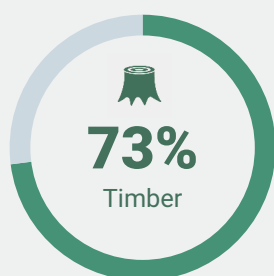
The number of suppliers reporting production and/or consumption data in the Forests questionnaire also increased slightly in 2021, though there are still stark disparities between the different commodities. Among the suppliers exposed to each commodity, the percentage that disclosed production and/or consumption data in 2021 was 68% for palm oil, 51% for timber, 38% for soy and 29% for cattle products.

Around 63% of suppliers also report sourcing commodities from countries with high deforestation risk.

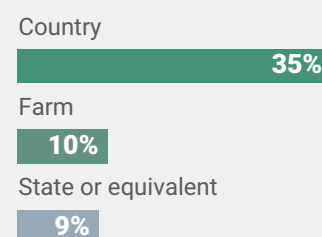
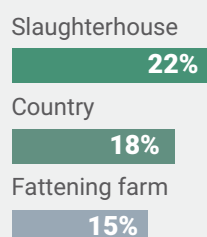
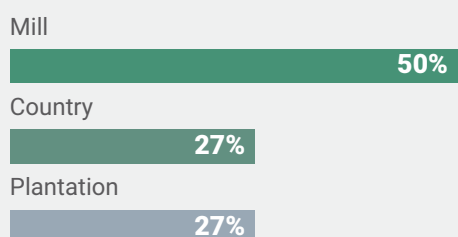
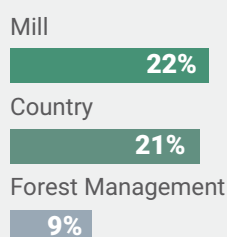
Not measuring the supply chain impact: There is a pattern of companies assessing their own operations and not looking at wider impacts. Despite downstream emissions being 11.4 times more than Scope 1 and 2 emissions combined, only 20% of suppliers reported Scope 3 emissions from purchased goods and services. The most frequently reported water risks are flooding and increased water scarcity/stress, yet only 13% of suppliers confirmed that they have procedures in place for identifying and assessing water-related risks that fully cover their supply chains.

Regarding deforestation, 78% of suppliers have a traceability system in place for at least one commodity and traceability to country level ranks among the three most frequently selected options for traceability (and the most frequent for soy).

Proportion of disclosing suppliers with a traceability system



Proportion of disclosing suppliers that can at least partially trace each commodity to the top three most frequently reported origins



The time lag to evaluating impact

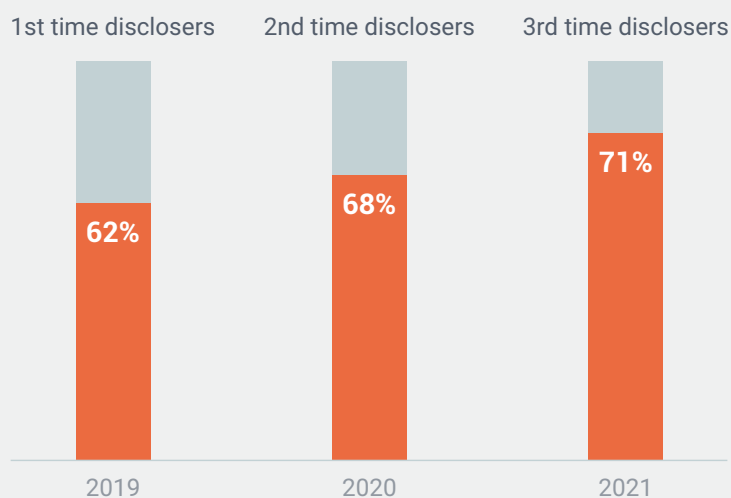
It is important to note that, at first request, suppliers may require a year or more to create the mechanisms required to collect data. When comparing first-time responders with suppliers reporting through CDP for the third time, the percentage of suppliers disclosing operational (Scope 1 and 2) emissions rises from 62% (first year) to 71% (third year).

Data quality needs improving

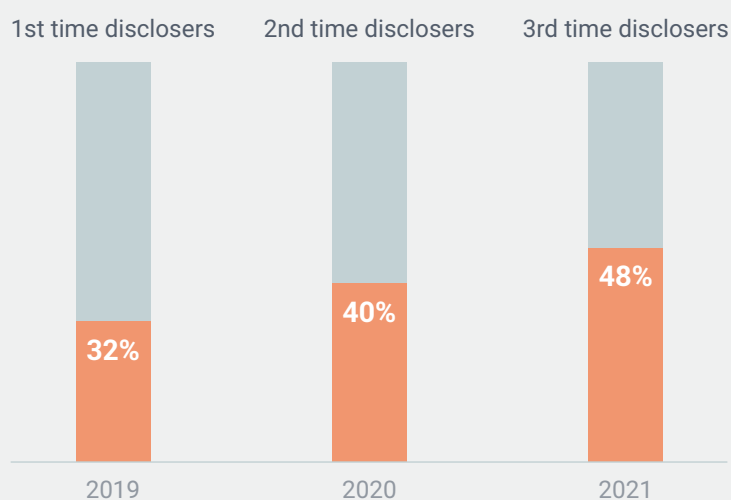
Demonstrating increased confidence in their data, there is a growing number of suppliers opting to disclose their information publicly. In 2021, 41% of responding suppliers agreed to have their climate change disclosure published on CDP's website. 59% of suppliers kept their response private, which shows that many companies are still concerned with the accuracy of their disclosure in the face of public scrutiny.

Looking more closely at the suppliers that reported to CDP over three years, the percentage of those disclosing publicly rises consistently with time, from 32% to 48%, highlighting again that disclosure improves and grows confidence over time.

As is the case with financial reporting, data accuracy and verification must be built into the process in order to ensure the quality of the disclosed information. Among the suppliers responding on climate change, only 17% verify their operational emission data through third-party verification. Among the suppliers that disclose on water security, 12% externally verify the data reported through CDP, and 31% of suppliers reporting on forests verified the disclosed information.



Suppliers reporting operational emissions*



Publicly disclosing suppliers*

CDP analysis reveals that it takes time to perform a truly comprehensive and verified environmental impact assessment. Buyers are highly reliant on this information to understand their own supply chain impacts, as such engagement on this data (and improving it) is the first step for buyers in tackling their supply chain impacts.

Supply Chain members taking action on measurement

85% of surveyed members in 2021 engage with their suppliers on

expanding the scope and the quality of the data reported, 46% of whom have been doing so for over three years. Members engage with their suppliers on a constant basis and work with them to build capacity for environmental impact assessment and reporting. While environmental KPIs are being integrated into supplier code of conducts and criteria used for purchasing and supplier evaluation processes, members increasingly look at their suppliers' data as part of their own environmental performance, for example when setting science-based targets.

*among suppliers reporting through CDP over three years



Driving sustainable manufacturing and operations practices to minimize environmental impact is part of our mission at Flex. As part of our sustainability goals, we are targeting that 100% of our preferred suppliers will set greenhouse gas emissions reduction targets by 2030. We strive to use our position, as a diversified manufacturer, in the value chain for good by collaborating, educating and sharing our best practices and experiences with suppliers so they can be part of this journey.

We're excited to share that we have launched our supplier sustainability greenhouse gas emissions reduction program and are making good progress. Through working with CDP Supply Chain, a portion of our suppliers have disclosed their environmental information, and we look forward to growing this number. This is an integral step toward mitigating emissions throughout the value chain.

David Gessler, Vice President, Procurement & Supply Chain Management,
Flex



Arcos Dorados participated in the CDP Supply Chain Program in 2021 for the fifth consecutive year, achieving the highest response rates from our suppliers in disclosing their environmental impacts through CDP. In 2021, we achieved a 100% response rate from our requested suppliers in the climate change and forests, and 99% for water security. We asked suppliers – representing 79% of our regional spend across food, packaging, logistics and equipment – to report through CDP.

Arcos Dorados is one of the largest buyers of beef in the region, and beef is one of the top three contributors to the overall carbon footprint of our supply chain (Scope 3 emissions). Since 2011, we have supported and participated in global, regional, and national roundtables, bringing together partners to identify, develop and scale the most sustainable agricultural and cattle raising practices. We request our beef suppliers report their actions through CDP Supply Chain. The most relevant have their own climate targets, and we are working with them to develop tailored roadmaps to meet our global GHG emissions target.

Partnering with CDP enables Arcos Dorados to improve risk management. CDP offers Arcos Dorados a more holistic approach for collecting and analyzing the risk linked to the commodities we procure.

Gabriel Serber, Director of Sustainable Development and Social Impact,
Arcos Dorados



AMBITION

Are we aiming for the right level of action?

Once suppliers have successfully established their impact through accurate measurement, they are equipped to set ambitious, timebound goals to reduce this impact.

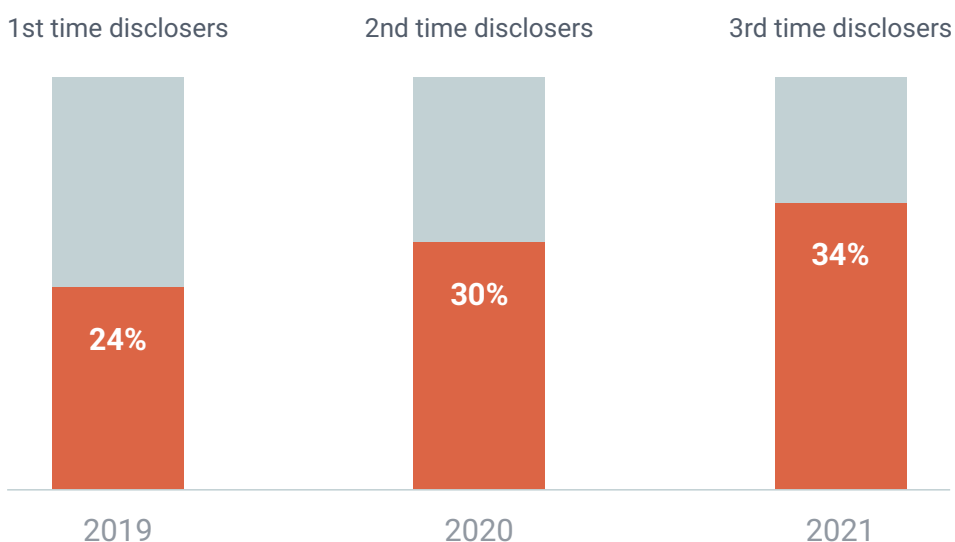
Currently, less than half of the suppliers that reported environmental data through CDP in 2021 have set any internal climate goals. And only 34% of suppliers reported structured climate targets with a goal period and base year emissions. A similar disparity is seen among suppliers who reported on their water impact. While 72% of water disclosers set a water target, only 46% indicate that these targets are quantifiable and timebound. Suppliers who report on their forests impact show fluctuating ambition levels depending on the specific commodity to which their deforestation targets are linked. As the climate crisis continues to rapidly unfold all over the world, it is evident that target setting must happen at a larger and faster scale than ever before. At the same time, it is important to design these targets in such a way that they are compliant with the time-critical criteria set out in the Paris Agreement.

Setting any target or goal takes time

CDP data demonstrates the time lag between suppliers assessing their environmental impact and setting emissions reduction targets. CDP recently analyzed suppliers who began disclosing in 2019 and consistently reported their climate impact over the past three years. The total number of

those setting climate targets improved by about five percentage points per year. Taking into consideration that more than half of the suppliers did not have any climate targets in the 2021 reporting year, this finding implies that, at the current pace, at least another decade would be required to ensure that all reporting suppliers set any climate target.

Suppliers setting climate targets 2019–2021



An annual **+5 %** of suppliers setting targets would be too slow to meet the standards set out in the Paris Agreement. Supply Chain data shows that practicing environmental stewardship by cascading targets and progressive policies down the value chain must be the next step.

COP put nature at the table with climate change for the first time in 2021. A new commitment to end deforestation was announced, with **133** world leaders responsible for around **90%** of the world's forests promising to end and reverse deforestation by 2030. A total of **33** financial institutions, with **\$8.7 trillion** in assets under management, committed to tackle deforestation this decade. **450** firms, controlling around **40%** of global assets, announced that they would align themselves with the Paris Agreement 1.5°C, potentially unlocking trillions in private capital funds to the green transition.

Getting the ambition level right

Setting any target is a critical first step. However, the science is clear; we are too close to the deadline for averting dangerous climate change unless the **right** goals and

targets are set. Structured climate targets, which currently make up a third of reported targets, only mark the beginning of the climate target journey. The most ambitious targets are based in science and align with a 1.5°C future.

Cascading 1.5°C ambition down the value chain



Buyers' ambition

Over the last two disclosure cycles, the Supply Chain program has seen tremendous growth in the number of its members adopting approved science-based targets. Today, around 50% of CDP Supply Chain members have science-based targets that are approved and validated by the Science Based Targets initiative.



Suppliers' ambition

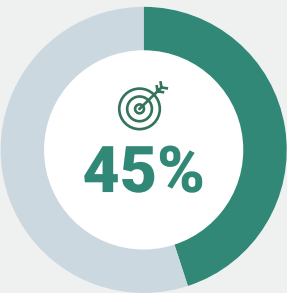
While these Supply Chain members demonstrate best practice, the vast majority of their suppliers are still far from matching the members' ambition levels. Only 2.5% of suppliers reported targets in 2021 that are third-party approved science-based targets, aligning with emissions reductions needed to stay below 1.5°C of global warming.

The countdown to 2030 is ticking fast, and with ever-growing global emission levels, a very small window of time remains to bring all companies on track with what is needed to avert climate disaster. As such, in September 2021, CDP Supply Chain members stepped up to drive SBT target setting at scale. 26 CDP Supply Chain members, spending \$500 billion annually, joined investors representing \$29.3 trillion in the CDP Science-Based Targets Campaign. This encourages high-impact companies globally to set 1.5 °C-aligned science-based targets through the Science Based Target Initiative (SBTi).

Policies help to ramp up ambition

CDP water data also demonstrates that policies can be effective supplemental instruments to scale up water-related target setting. The number of suppliers that set water related goals was 40% higher when a water-related policy was present simultaneously. Suppliers with more comprehensive policies also reported more advanced and detailed water goals. For example, the number of suppliers with water efficiency targets was three times higher among suppliers who also reported to have a comprehensive water policy in place. Suppliers without comprehensive policies performed worse on questions pertaining to specific water-related target setting.

However, currently 70% of suppliers already have a broad water policy or a plan to integrate one soon. This is encouraging, as it will enable these suppliers to build out more comprehensive policy structures in the future that hopefully also drive ambitious target setting. Comprehensive policies are important because environmental goals and outcomes work in tandem. Climate action can only be amplified if we also ramp up ambition on safeguarding water resources and preventing deforestation.



of suppliers disclosing information through the CDP forests questionnaire report to have set a cross-commodity forest-related policy. However, at the specific commodity level, there are still stark disparities in ambitious target setting.

Companies that are further ahead in their sustainability journey can lead by example and cascade ambition, target setting and policies down the value chain. However, considering the demonstrated time lag and the limited time left to keep global warming from passing critical tipping points, it is crucial to get these suppliers started on their journey now.

The CDP Supply Chain program amplifies members’ ambition and leverages their suppliers’ data to develop a tiered approach for supplier KPI and goal setting. This approach eventually sets all companies on a path to achieve their Scope 3 emissions reduction goals, all while accounting for their different maturity levels today.

Deforestation targets

		Percentage of suppliers with a forest-related target
Cattle products		27%
Cocoa		42%
Coffee		58%
Rubber		28%
Palm Oil		66%
Soy		41%
Timber products		45%

CDP nature-positive challenge

At COP26, CDP launched the nature-positive challenge to drive collaboration for deforestation-free, restorative supply chains. This initiative connects companies to implement forest and land-use projects. Collective action is needed if we want to halt and reverse deforestation, which is imperative for limiting warming to below 1.5°C and seeing a nature-positive world.

How does the challenge work?

Projects for inclusion in the challenge can be submitted from any company disclosing through CDP on forests. For Supply Chain members and their suppliers, CDP also plays an active matchmaker role to streamline the process and identify relevant projects in line with the challenge’s guiding principles, based on data already disclosed through the supply chain module of the forests questionnaire.

Visit the [website](#) to discover the exclusive benefits offered and sign up to the challenge.

Supply Chain members taking action on ambition



The Earth is finite and only has so much carrying capacity for greenhouse gas emissions. It's crucial for companies to set science-based targets that align with what's needed to avoid the most devastating impacts of climate change. Stanley Black & Decker committed to a science-based target approved by the SBTi in 2018, and we have set a goal for two-thirds of our supply chain by spend to set Scope 1 and 2 science-based targets by 2025.

Steven Katzfey, Chief Procurement Officer,
Stanley Black & Decker



In January 2021, MRV committed to the SBTi (Science-Based Targets initiative), becoming the first construction company in Latin America to commit to reducing greenhouse gas (GHG) emissions by 2030. Our focus is to mobilize our supply chain to adopt targets to reduce their GHG emissions, driving the transition towards a low carbon economy.

Eduardo Fischer, Chief Executive Officer,
MRV



NEC Group aims to achieve zero GHG emissions from the entire supply chain by 2050, and is working to reduce GHG emissions based on a reduction plan that complies with SBT 1.5°C. Since Scope 3, Category 1 accounts for more than half of GHG emissions in the entire supply chain, we initiated supplier engagement through CDP Supply Chain membership in 2019. Based on the response we received, we now hold individual feedback meetings for suppliers with relatively low evaluations. We also promote engagement by sharing NEC's policy and cases with our suppliers and commending their excellent GHG emission reduction measures. NEC will continue to enhance supplier engagement to achieve our SBT of 1.5°C and contribute to the realization of a decarbonized society.

NEC Group



ACTION

How much progress have suppliers made?



Almost **1.8 billion** metric tons of GHG emissions reductions last year, saving over

US\$29 bn



60%

of the emissions targets with a target year before 2021 were met



2/3

of suppliers failed to reduce their water withdrawals from water-stressed areas



60%

of forest responders report to have a policy that includes forest-related issues

It is now time to turn the momentum discussed in previous sections into tangible actions to reduce companies' environmental impact across all tiers. Urgent and consistent measures are needed; this hinges on the collaboration of all actors in the value chain.

When surveyed, almost 90% of responding CDP Supply Chain members said they are currently engaging their suppliers on improving environmental performance, with an additional 9% planning to do so soon.

Suppliers are responding to this engagement. They reported almost **1.8 billion** metric tons of GHG emission reductions last year, saving over **US\$29 billion**. This is great progress and also shows that, in most cases, climate action makes business sense.

However, similar to targets, there is a time lag between companies assessing impact and the action that is driven by doing so. The percentage of suppliers that disclosed through CDP over three years and also report to have emissions reduction activities

in place has grown year over year: 45% in 2019, jumping to 49% in 2020 and reaching 51% in 2021.

The scale of action must be increased as well. Currently, not all suppliers have upheld their commitments. The analysis on reported emissions targets with a target year before 2021 shows that only approximately 60% of absolute targets were met, and lower performance was registered for intensity targets, where only 55% reported to have reached the desired emissions reductions.

Similarly for water accounting, suppliers that measure and monitor their activities reduce their impact. Almost half of the suppliers disclosing in 2021 reported reducing their water withdrawals, consumption and discharges when compared with the previous year. However, **two thirds** of suppliers failed to reduce their water withdrawals from water-stressed areas.

Almost 60% of suppliers who disclose on their forest impact report to have a policy that includes forest-related issues, and nearly 50% made a public forest-related commitment.

The fail of the cascade

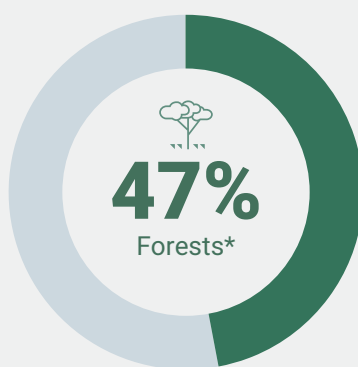
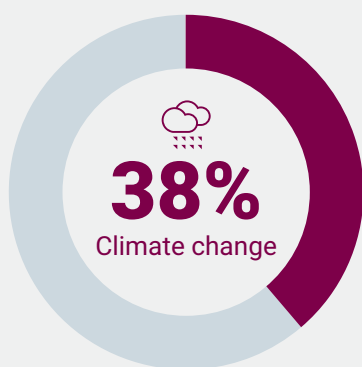
One of the biggest takeaways from this report is that the necessary cascade of action down the supply chain is not happening. With the majority of impacts lying in a company's supply chain, it is a key indicator of the efficacy of companies' environmental strategies. Our data has shown that it often

takes years from initial engagement to setting appropriate targets and taking necessary action. **Therefore, it was disheartening to see that only 38% of companies are engaging their own suppliers on climate change, and even more concerning, only 16% do so on water security.**

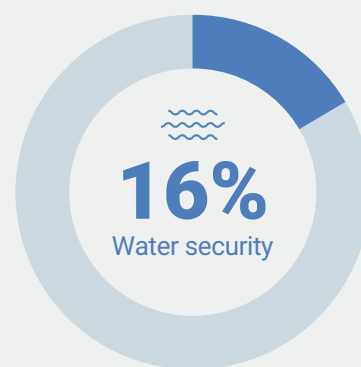
To halt deforestation and practices that damage ecosystems,

collaboration with all suppliers - smallholders, direct and indirect suppliers - is key. Across all commodities, 62% of companies reported engaging their direct suppliers, while less than half (43%) of downstream companies (processors, traders, manufacturers, retailers) work with smallholders and go beyond their first-tier suppliers (47%; traders, manufacturers, retailers).

Companies that disclosed in 2021 and actively engage with suppliers on each theme:



*downstream companies (traders, manufacturers, retailers) working beyond their first-tier suppliers to manage and mitigate deforestation risks.



The comparison of engagement percentages against last year's performance shows little to no progress. This is no surprise as the demand from customers to cascade engagement down their suppliers' own value chain is often deprioritized. However, cascading action through the value chain is necessary to eventually meet ambitious targets and must be amplified by continued supplier engagement.



Supply Chain members cascading action



CDP's member survey showed that **85%** of Supply Chain members engage with their suppliers on expanding the scope and the quality of the data they reported.



46% of whom have been doing so for over three years.



67% of responding suppliers in 2021 reported that they set an emissions target.



CDP Supply Chain membership allows us to gain better insights into our Scope 3 emissions and highlights opportunities to engage with our suppliers to reduce emissions across the value chain. We invited our top 250 suppliers to participate, and more than 70% of those suppliers disclosed their climate change data, including dozens of suppliers who had never disclosed through CDP previously. Through CDP Supply Chain membership, we hope to accelerate supplier engagement on our sustainability journey, and gain a better understanding of risks and opportunities. We also want our suppliers to commit to learn, improve and progress on their own journeys, be willing to establish goals and KPIs based on our sustainability priorities, and join us in collaborative projects and initiatives to deliver on these goals. Together with our suppliers, we want to build a strong foundation and scale the impact to achieve results.

AstraZeneca



We have been CDP Supply Chain members since 2017, following a strategy of continuous improvement. In addition to requesting the reporting of our suppliers' actions regarding climate, forests and water-we will be integrating the performance measured through CDP in our supplier scorecards that will guide future actions and decision-making. CDP's forests and water questionnaires support us in decision-making and in the designing of strategies for suppliers. Such strategies cover capacity-building and encourage initiatives across these themes. Meanwhile, the data backs internal decisions, such as MRV's commitment through Conselho da Amazônia (the Amazon Council) to ensure the due origin of all acquired timber and to eliminate all acquisition of hardwood. The results have been improving year on year as CDP supply chain membership grows and the quality and volume of reporting increases.

**Eduardo Fischer, Chief Executive Officer,
MRV**



TRANSFORMATION



28%

suppliers disclosed that they have a low-carbon transition plan in place



One feature required to transform environmental concerns in supply chains is board-level oversight. Around **82%** of suppliers reporting board-level oversight on Forests, **73%** on Climate and **64%** on Water reported that their board oversee issues related to the respective themes.



73%

of suppliers report board-level oversight on climate change



82%

report board-level oversight on forests



64%

report board-level oversight on water security

To truly avert catastrophic climate change and ensure a deforestation-free, water-secure future, companies need to undergo a transformation in the way they work.

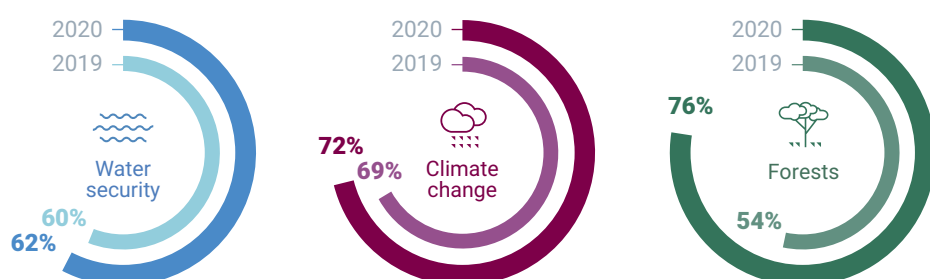
There is a clear need for increased corporate ambition alongside effective accountability mechanisms. Significant pressure for greater transparency around companies' plans to transition their business model to one that aligns with a net-zero economy.

Through CDP's platform, only **28%** of suppliers in 2021 disclosed that they have a low-carbon transition plan in place. This number is too low, and one that is expected to drop

further with assessment of these transition plans against stakeholder expectations. For example, do they have science-based targets? Are there sufficient accountability mechanisms in place to ensure delivery, and are they effectively tracked in a manner that allows stakeholders to assess progress?

Taking a deeper look at the data provided by suppliers, we often find that strategies do not match stakeholder expectations. As discussed in the Ambition section, **only 2.5% of these targets are approved science-based targets that are aligned with emissions reductions needed to stay below 1.5°C.**

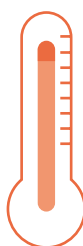
The data of previous years



The slow pace of transformation is noticeable. For 2020 and 2019, the figures for board level oversight were respectively 62% and 60% for Water and 72% and 69% for Climate. The percentage for Forests has a more significant increase, from 54% in 2019 to 76% in 2020.

Only **700 / 11,418** suppliers

reporting on Climate Change stated that they have a transition plan as a scheduled resolution item at their AGMs;



a share of **6%** of the overall sample and **21%** of suppliers reporting a transition plan.

This data shows that the speed of transformation in supply chains is slower than needed. As is the trend, the highest performance is on climate change with 70%, while positive reporting fails to reach 40% for water and 46% for forests. This is further exacerbated when it comes to financial planning; the average of supplier reports integrating climate, water or forest-related matters drops to 35% or less.

Supply Chain members encouraging transformation

Financial institutions and investors are increasingly focused on how companies manage their environmental risks and opportunities, including through their supply chains, in order to define interest rates, weighting in portfolios and criteria for access to credit and investment products. Accordingly, companies that manage to grasp and realize environmental opportunities will harvest the benefits of investment— in addition to the market benefits. Movements such as the Say on Climate Initiative, which is supported by CDP, aim to increase transparency through disclosure of credible transition plans with additional accountability mechanisms within those plans to ensure credible delivery of climate ambition. Investors, asset owners and managers are in-line to benefit from such initiatives, with increased transparency and accountability driving responsible investment.

Purchasers are following suit:



Almost **90%** of members surveyed reported that they are engaging or willing to engage with suppliers on governance and future strategies to achieve environmental goals and transitional plans.



Among them, **35%** are planning to integrate key performance indicators into purchasing processes or supplier code of conducts.

Unless companies pivot to a new paradigm where governance and strategy are improved, they are going to fail to realize opportunities. With companies reporting **\$338 billion** associated opportunities related to climate, the smart movers take action now.



Moody's strives to drive climate action and social equity across our supply chain. Through webinars and other activities, we give our vendors equal access to business opportunities and provide resources to help them set science-based targets and participate in climate change disclosures. Our partnership with CDP's Supply Chain programs enable us to advance our responsible sourcing efforts and move closer to our goal of reaching net-zero by 2040.

*Sheila Gunderson,
MD-Procurement and Sourcing,
Moody's*





To date the bulk of climate pledges have come from large corporates. However, the reality is that delivering on 'Scope 3' emissions won't happen unless a lot more is done to help the SMEs supplying their products. Since **HSBC's Sustainable Supply Chain Finance (SSCF)** program launch in 2019, it has incentivised Walmart's suppliers through improved financing rates. Eligible suppliers can approach **HSBC** for early payment on their invoices approved by Walmart. Pricing on the financing is linked to the Supplier's sustainability rating, with the highest ambition suppliers obtaining the lowest pricing. As more suppliers reduce their own emissions and by setting Science-Based Targets, both Walmart and **HSBC's** Scope 3 emissions are also reduced with all parties benefitting from engagement and increasing ambition on climate change.

*Mr Surath SENGUPTA, Global Head,
Trade Portfolio Management,
HSBC*



Ajinomoto Co., Inc. became a CDP Supply Chain member to enhance supplier engagement. The electronic materials is one of the core businesses of the Ajinomoto Group, in which we focus on providing interlayer insulating materials for semiconductor packages. As we enter an increasingly data-driven society, we are seeing a rapid increase in the demand for semiconductors used in PCs, servers, 5G base stations, and similar, and consequently societal demands for reduced CO₂ emissions by making these semiconductors more energy efficient. By leveraging our long-cultivated technical expertise and involving our supply chain stakeholders, we have developed new magnetic materials that enable power savings in ever-faster semiconductors. The innovative semiconductor package substrate attained through this magnetic material will significantly reduce electricity consumption and associated CO₂ emissions. The magnetic performance of this material also enables reductions in the size of the semiconductor power supply functions, which helps with lower component counts, thus achieving power savings, and contribute significantly towards the maintenance of a sustainable global environment.

Ajinomoto Co., Inc



SUPPORTING COMPANIES TO SCALE SUPPLY CHAIN ACTION



With only 38% of companies reporting engaging with suppliers on climate change, 55% on deforestation and 16% on water security, the need to scale supply chain action is clear.

It can seem daunting to change procurement processes and train companies on environmental issues. Not to mention engaging with a tier one of suppliers (which could number in the 1,000s) or even the full chain--hundreds of thousands of companies for some.

CDP is looking to help improve the speed and scale of supplier engagement globally, leveraging over a decade of Sustainable Supply Chain experience. As such, this year we are providing two tools to companies:

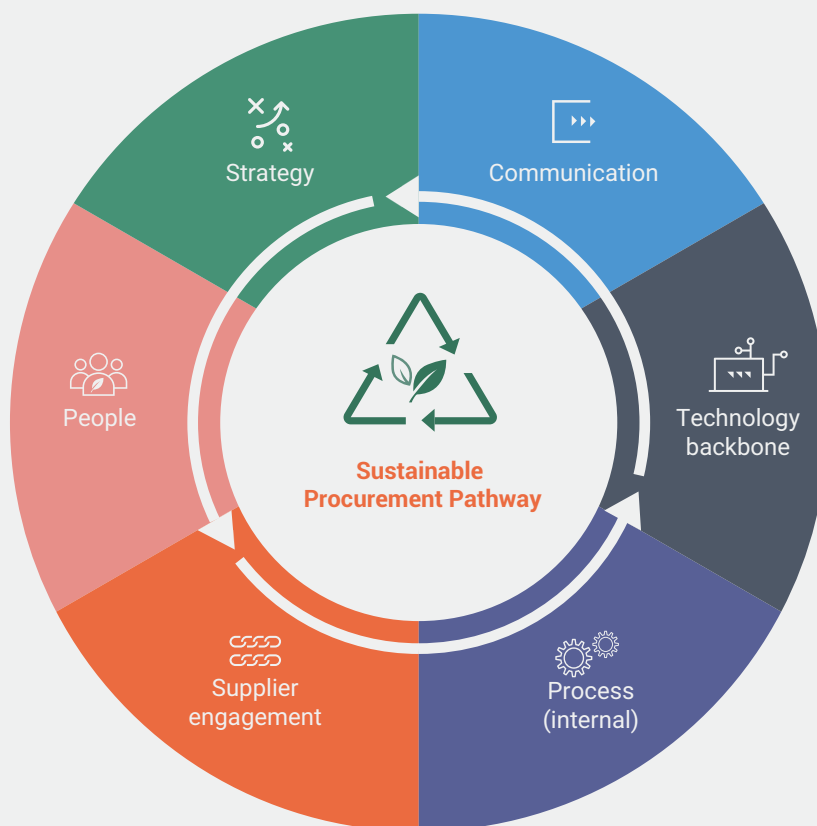
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Sustainable Procurement Pathway


To answer the need of a simple and scalable approach, CDP and BCG designed the **Sustainable Procurement Pathway**. This tool aims to cover key aspects of a sustainable procurement strategy to achieve a consistent reduction of environmental impacts across the value chain.



The Pathway 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 represent the end goal.



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




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

	Foundation	Practice	Embed	Enhance	Lead
 Strategy	<p>Agree overarching Sustainability objectives for procurement. Simple Sustainable Procurement policy in place endorsed by CEO. Communicate to staff and key suppliers.</p>	<p>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.</p>	<p>Augment the Sustainable Procurement policy into a strategy covering risk, process integration, marketing, supplier engagement, measurement and a review process. Strategy endorsed by CEO.</p>	<p>Ensure Sustainable Procurement policy fits in with industry best practices and communicate the progressing nature of the policy with key stakeholders.</p>	<p>Integrate environmental, purchasing and business strategy and move the business towards a successful 1.5 aligned future.</p>
	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	<p>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.</p>	<p>Give procurement staff basic training in sustainable procurement principles. Give key staff advanced training on sustainable procurement principles.</p>	<p>Organize targeted refresher training on latest Sustainable Procurement principles. Include Sustainable Procurement factors in Performance objectives and appraisal. Develop a simple incentive programme.</p>	<p>Include Sustainable Procurement in competencies and selection criteria. Include Sustainable Procurement as part of employee induction programme.</p>	<p>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.</p>
	Illustrative KPIs you could leverage				
	<p>% procurement staff trained to sustainable procurement principles: 30%</p> <p>% procurement staff trained to advanced sustainable principles: 0%</p>	<p>% procurement staff trained to sustainable procurement principles: 80%</p> <p>% procurement staff trained to advanced sustainable principles: 30%</p>	<p>% procurement staff trained to sustainable procurement principles: 100%</p> <p>% procurement staff trained to advanced sustainable principles: 50%</p> <p>Procurement staff incentivized on emission reduction: 25%</p>	<p>% procurement staff trained to sustainable procurement principles: 100%</p> <p>% procurement staff trained to advanced sustainable principles: 100%</p> <p>Procurement staff incentivized on emission reduction: 50%</p>	<p>% procurement staff trained to sustainable procurement principles: 100%</p> <p>% procurement staff trained to advanced sustainable principles: 100%</p> <p>Procurement staff incentivized on emission reduction: 100%</p>

	Foundation	Practice	Embed	Enhance	Lead
 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%
 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.

	Foundation	Practice	Embed	Enhance	Lead
 Technology backbone	Review current scope 1&2 ¹ data collection and quality and define new standards.	Finalize automation of scope 1&2 data collection and centralize in data hub.	Agree on terminology standards across key suppliers. Establish annual data export according to agreed format.	Integrate sustainability-related information from key suppliers in data hub and establish automatic data upload.	Ensure continuous data integration across SC for sustainability-related data. Develop Data visualization / dashboarding tool to track status quo and progress of initiatives.
	Start automating scope 1&2 data collection and reduce data silos.	Embed KPIs for the data collection process.	Ensure automatic and reproducible data analysis on key supplier data.	Develop simplified dashboard to track progress on key initiatives.	Build statistical models to estimate scope 3 emissions where primary data is not available.
	Start reporting on scope 3 data based on generic estimations (procurement spend x generic emission factors).	Develop data models describing the SC and define suppliers' profiles across the SC . Get ad-hoc annual analysis from key suppliers.		Develop scenario-based simulations to support abatement-driven decision making.	
	Define data governance processes and checks.				
	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				
	Tracking of scope 3 emissions: Annual Achieved ambition: 50% Completeness of mitigation plan: 70%	Tracking of scope 3 emissions: bi-annual Achieved ambition: 75% Completeness of mitigation plan: 80%	Tracking of scope 3 emissions: quarterly Ambition achievement: 90% Completeness of mitigation plan: 100%	Tracking of scope 3 emissions: monthly Ambition achievement: 100%	Tracking of scope 3 emissions: monthly Ambition achievement: 100%

2

Supplier Engagement Rating

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 their suppliers to ensure that climate change action is cascading down their supply chain.

Companies can access the public SER methodology [here](#).

Companies can access the public Supplier Engagement Leaderboard [here](#).

THE FUTURE OF SUPPLY CHAIN ACTION

Enabling the decarbonization journey

Written by Sonya Bhonsle (Global Head of Value Chains at CDP) & Frank Cordes (Managing Director and Senior Partner at Boston Consulting Group (BCG))

We know that supplier engagement drives essential environmental action:

Suppliers reported that engagement from over 200 Supply Chain members drove 231 million tons of emissions reduction initiatives last year. However, those Supply Chain members are in the minority of global purchasers. With only 38% of companies reporting engaging with suppliers on climate change, 47% of downstream companies (traders, manufacturers, retailers) working beyond their first-tier suppliers to manage and mitigate deforestation risks, and just 16% of companies engaging with their suppliers on water security, the need to scale supply chain action is clear.

It can seem like a monumental task to change procurement processes, train buyers on environmental issues and engage with your supply chain, which for some companies, can number in the thousands of suppliers.

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.

1. The Sustainable Procurement Pathway

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 (e.g., KPIs and target definition). It is enriched by CDP questionnaire respondent feedback, with the ambition to share best practice.

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, until the Lead phase, which represents the end goal.

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

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

2. Supplier Engagement Rating

Alongside this tool, any company that reported to CDP's full climate questionnaire will receive a Supplier Engagement Rating (SER). This rating includes data from all companies that disclosed to CDP's full climate change questionnaire. The rating methodology includes aspects of supplier engagement, climate governance, scope 3 emissions accounting, targets and CDP climate change scores.

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



Across regions and industries, an increasing number of CEOs see the fight against climate change as one of their top priorities. To truly advance on their environmental journey, it is crucial for companies to collaborate as supply chain emissions are 11.4 times higher than operational emissions. We see ecosystems acting now and our role as BCG is to unlock the full potential of their collaborative efforts to tackle emissions and other environmental footprints.

Rich Lesser,
Global Chair,
Boston Consulting Group



3. Product-level emissions data in the supply chain

To translate supplier engagement into true supply chain action, more transparent, granular and precise product-level sustainability data is needed. It will enable organizations to take targeted and high-impact action.

Fortunately, pressure for better product level emissions data is intensifying from regulators and buyers alike. When surveyed, 66% of responding CDP Supply Chain members said that lifecycle analysis is one of the key future trends for driving sustainable supply chains.

However, suppliers are rarely able to provide the desired product-level sustainability data e.g., only 2% (247) of suppliers reported any product-level life cycle footprints to CDP in 2021.

In order to tackle the issue, consistent standards and methodologies must be in place, as well as the technical solution for not only seamless and secure data exchange—but also advanced analytics supported sustainability computations.

We Mean Business partner WBCSD has been working with the GHG Protocol (and others) to develop a new product carbon footprint methodology. Launched at COP26, 'the Value Chain Carbon Transparency Pathfinder' is a new cross-value chain initiative to define standards and methodologies to accelerate credible, verified primary product-level emission data sharing.

In line with the standard setting and methodology efforts, BCG and CDP are pleased to announce their strategic partnership to build CO2 AI Product Ecosystem, a free platform that enables companies to collaborate on—and accelerate—their emissions optimization journeys by sharing product-level sustainability data in a secure, auditable, and action-oriented manner. The platform's key benefits include bringing transparency to scale, and more granular and accurate measurement of scope 3 emissions — external emissions that occur in the value chain of the reporting company, including upstream and downstream emissions. As such, it helps to identify and assess hot spots across the customers' supply chains, serving as the tech backbone of action-oriented decision making and decarbonization.

With this CO2 AI Product Ecosystem, companies will be enabled to set better targets and use simulations to identify the most impactful opportunities to reduce emissions and optimize operations at the product level. They will have the capability to manage complex, large-scale programs and concurrent initiatives at a granular level.



New technology can be a tremendous enabler for the world's decarbonization journey. CO2 AI by BCG, a patented, end-to-end AI-powered solution, has demonstrated improvements in sustainability baseline granularity and precision by 30-50% in companies across industries such as pharmaceuticals, consumer products, steel and many more. A reliable baseline is key for reporting purposes but more importantly, it also allows companies to define ambitious sustainability targets confidently and employees to steer sustainability efforts effectively thereby, enabling a footprint reduction of up to 30-40%, demonstrated across industries. Now, we are excited to present a unique tech platform for ecosystems to exchange sustainability product-level data and accelerate their decarbonization journey in collaboration with CDP.

*Charlotte Degot,
Managing Director and
Partner,
Boston Consulting Group and
CEO, CO2 AI by BCG*



Conclusion

Environmental action is needed at speed and scale to develop sustainable supply chains and deliver on worldwide ambitions such as the Paris Agreement. This is only possible through collaboration, both internally, to bring sustainability to the top of the agenda, and externally, throughout the supply chain. Solutions available today are effective, affordable, and needed to ensure business continuity. Although technology will not solve the climate crisis itself, AI-enabled technology can contribute significantly. This is why CDP and BCG will launch a new product lifecycle platform that will enable companies to effectively collaborate and securely share their product-level sustainability data - to drive transparency at scale.



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