

Transformation

Guide

BUYER-SUPPLIER ENGAGEMENT TO
REDUCE UPSTREAM SCOPE 3 EMISSIONS

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Introduction

Transform to Net Zero is a cross-sector initiative to accelerate the transition to an inclusive net zero global economy. The initiative includes founding member companies that are climate leaders in their industries – Danone, Maersk, Mercedes-Benz, Microsoft, Natura &Co, Nike Inc., Starbucks, Unilever and Wipro – plus Environmental Defense Fund, and BSR as Secretariat.

To support companies in meeting targets backed up by transformation plans to achieve net zero no later than 2050, Transform to Net Zero is publishing a series of Transformation Guides. Each Transformation Guide shares experiences and lessons learned by two to three Transform to Net Zero members when addressing a challenging issue in net zero implementation.

A Transformation Guide does not prescribe a single way to tackle net zero implementation and invites readers to choose between and combine different approaches depending on which is best suited to their circumstances. The first Transformation Guide focuses on how companies can engage and support suppliers to reduce upstream scope 3 emissions.

The views expressed in this publication have been informed by the collective work of the Transform to Net Zero members, but do not necessarily represent the views of every member on each issue.

The Problem

To achieve net-zero emissions, companies need to set ambitious science-based emissions reductions targets across their value chains. Many companies with decarbonization targets have taken steps to address their operational (Scope 1 and 2) emissions, but few have set targets that include measuring and reducing their value chain (Scope 3) emissions, even though the latter is typically the largest source of emissions across sectors. According to **CDP**, a company's Scope 3 emissions are on average 11.4 times larger than its Scope 1 and 2 emissions. For certain companies and industries, this proportion could be even higher.

It is clear, then, to have a meaningful net-zero target, a company must also commit to addressing and reducing their indirect emissions. If this is well-understood yet failing to translate into action, then we must first understand — what are the roadblocks in moving forward? To begin, these indirect emissions are hard to track given the complexity of a supply chain. Some corporations have tens of thousands of

suppliers across different geographies. Data to establish a baseline of Scope 3 emissions to then determine a reduction target is also challenging. With each rung down or up the supply chain, it becomes more difficult to obtain data and visibility of their supply chain; what data can be obtained has limited usability due to quality and accuracy of emissions reporting and greenhouse gas calculations. Companies also struggle with figuring out where to start, which suppliers to prioritize engagement, and how to translate pilot projects into structured policies and programs that address their entire supply chain. And suppliers, many of whom are small and medium enterprises, often lack knowledge, capital, and capacity to measure and reduce their own emissions.

In this Transformation Guide, three Transform to Net Zero members, Unilever, Nike, and Microsoft, all of whom included Scope 3 reduction in their net-zero commitments, share their approach of engaging suppliers to bring them along in the decarbonization journey.

The Questions

01

How should companies prioritize suppliers for scope 3 engagement?

02

What incentives can companies provide to a supplier to decarbonize?

03

How can companies address emissions several tiers up the supply chain?

04

How can companies enable suppliers to measure and report carbon reductions?

Microsoft

APPROACH



Module 0

GHG Emissions Accounting 101



in partnership with



and



As part of our carbon negative ambition, we are reducing our absolute Scope 3 emissions by more than half and removing the remainder to reach carbon negative by 2030. We see our suppliers as critical partners and a vast valuable network to not only help us achieve our climate goals but also amplify positive changes across the globe. We have implemented a three-part strategy of accountability, education and engagement, and we are incentivizing and supporting our suppliers to reduce their scope 1, 2, and 3 emissions. We are working with our suppliers to implement consistent and accurate reporting and to pursue effective emission reduction opportunities.

SETTING EXPECTATIONS

We know our greatest impact comes when we work together with shared values and goals for people and the planet. We rely on our suppliers every day to support our mission. Microsoft understands we cannot achieve our bold ambitions alone as scope 3 greenhouse gas (GHG) emissions represent the majority of Microsoft's total emissions. In 2020, we enhanced our Supplier Code of Conduct to require suppliers to disclose scope 1, 2, and 3 GHG emissions and to provide plans to reduce GHG emissions in alignment with Microsoft's requirements. This is the first step to increase transparency and enable us to work collectively with our suppliers to help reduce their emissions.

MEETING SUPPLIERS WHERE THEY ARE

Microsoft contracts with thousands of suppliers in the indirect space in over 100 countries across the globe. To focus our efforts to create the greatest impact, our Procurement team identified a subset of suppliers that account for 80% of our indirect supplier emissions to engage on emissions disclosure and reduction requirements.

We then assessed hundreds of suppliers on their level of sustainability maturity and tailored our approach to meet their needs. For suppliers well into their sustainability journey, we partner with them on piloting emissions reduction programs. For suppliers embarking on their sustainability journey, we focus on training and knowledge sharing. To support emissions disclosure and reduction, we addressed the top request from our suppliers - the need for simple, comprehensive GHG accounting resources and recently launched a **tools and resources hub** to aid with these efforts.

CHANGING OUR BUSINESS PRACTICES

It requires leaders to provide a clear tone from the top, unwavering energy and a planful approach to drive a cross-Microsoft commitment. To fund our commitment to be carbon negative and raise awareness of our climate footprint,

we internally charge a fee on carbon emissions (\$ per metric ton), which we levied across our business in 2012. In January 2021 we expanded our existing Scope 1 & 2 carbon fee to include Scope 3 emissions from our supply and value chain. There's now a price for carbon across everything, and we charge our business units quarterly based on their carbon emissions. We use those funds to innovate and invest in carbon reduction and removal, purchase renewable energy, and invest in other sustainability projects in water, waste, research, and AI for Earth.

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We are piloting ways to enable the carbon fee to influence purchasing decisions. This may include presenting a project's associated carbon fee alongside the traditional cost of the project to the Microsoft business decision maker during the buying process to incentivize "green" supplier selection.

PARTNERING FOR SUCCESS

In July 2021, **we entered into a partnership with the International Finance Corporation (IFC)**, a sister organization to the World Bank, to help reduce Microsoft's energy-related supply chain emissions. IFC will work with designated Microsoft suppliers in emerging markets, primarily in Asia, to identify technical solutions and financing opportunities that can reduce GHG emissions in the production process.

The size and scope of IFC's loan and advisory services will vary based on tailored arrangements with the suppliers depending on their needs. We also plan to scale the program offerings to our suppliers' suppliers, thereby creating impacts beyond our Tier 1 supply chain.

Through these initiatives, we are providing real economic incentives and tangible educational, technical, and financial support to help our suppliers make the transition to a lower-carbon economy.

N.B. Microsoft has separate programs to partner with direct suppliers (i.e., hardware, construction and real estate suppliers) to help them reduce emissions. In this paper, we focused on our efforts with indirect suppliers.

Nike

APPROACH



In the race against climate change, Nike is creating solutions for athletes and the planet. The game-changer is our ability to scale those solutions.

We are addressing climate change throughout our extended value chain by collaborating with our suppliers to find better alternatives for production methods and energy sourcing. Our end-to-end approach focuses on carbon & energy, waste, chemistry, and water across the entire product lifecycle to help improve conditions for people and places worldwide.

BUILDING ON LONG-TERM RELATIONSHIPS – SUPPLIER SUSTAINABILITY COUNCIL (SSC)

In 2020, Nike launched the Supplier Sustainability Council (SSC) with ten of our footwear and apparel partners. There are now eleven members of the SSC. Suppliers were selected because of the size of their impact: These eleven strategic suppliers represent approximately 50% of Nike's FY20 Footwear and Apparel, and Accessories finished goods volume.

SCAP provides suppliers with the management tools they need to set and achieve ambitious climate targets

The SSC creates an opportunity for our sourcing partners to drive sustainability from the inside to enhance operational performance, mitigate risk and drive collective action. Because we know that the faster we can collectively do more for the environment, the better it will be for generations to come.

Through the program, suppliers take on a leadership role around sustainability issues, benefiting the industry at large. The SSC meets regularly to share learnings and progress.

The SSC at-large is focused on broad sustainability issues, but we found that climate change was among the top concerns that were initially raised with a focus on rising energy costs, impact of increasing temperatures on working conditions, increasing intensity and frequency of extreme weather events, and government regulations and carbon taxes.

CREATING CHANGE TOGETHER – SUPPLIER CLIMATE ACTION PROGRAM (SCAP)

To help our manufacturing partners within the SSC engage more assertively and urgently in the climate space we created the Supplier Climate Action Program (SCAP) with the help of trusted partners World Resources Institute (WRI), the leader in GHG emissions inventories, and CDP, the leading climate disclosure platform.

Launched in May 2020, SCAP is focused on encouraging suppliers to address climate change strategically through development of their own long-term climate mitigation plans,

while aligning with Nike's Science-based Targets – set for 2030, which include reducing absolute GHG emissions in owned/operated by 65% and reduce emissions by 30% across the extended supply chain.

SCAP builds on long-term partnership fostered with suppliers over the past decades. It provides suppliers with the management tools they need to set and achieve ambitious climate targets, and requires suppliers to conduct corporate GHG inventories, set Scope 1 & 2 emissions reductions in line with science, disclose through CDP, and consider climate risks and opportunities. We also confirm that Nike and our suppliers' targets align with other industry-wide Nike commitments like the UN Fashion Charter.

SCAP not only provides technical assistance to our suppliers to help set more ambitious climate goals, but turns the process of achieving our extended supply chain emission reductions into an aligned strategic effort.

SSC partners have committed to ambitious reductions across their entire Scope 1 & 2 emission footprint across their footwear and apparel businesses (not only Nike-related emissions) – a projected 42% cut in baseline emissions over 10 years. This level of emission reductions is what is needed collectively across the globe to avoid the worst impacts of climate change. At its heart, this program is supporting the deepest parts of our supply chain to take climate action – creating ripple effects for the industry.



The SSC and SCAP are ground-breaking because they enable suppliers to drive strategic action on climate change in partnership with Nike. Because of the long-term relationships we have formed with our suppliers, we're able to work together to effect real change.

Over the coming months, Nike and the suppliers participating in SCAP will create a joint climate action plan, which will serve as a roadmap for emission reductions over the next 10 years and help drive further action toward our shared climate ambition.

Unilever

APPROACH

Relative Greenhouse Gas Footprint of Our Ingredients and Packaging Materials



Unilever is committed to help driving the low-carbon transformation. We have set ambitious goals of net zero emissions across our value chain by 2039 and halving the footprint of our products by 2030. Our '**Climate Transition Action Plan**' sets out how we will achieve these targets, and engaging with our suppliers is a critical component of our plan.

SUPPLIER SEGMENTING AND PRIORITIZATION

Unilever's raw and packaging materials account for more than half of our direct value chain emissions. The bulk of these emissions arise in a small subset of materials and ingredients we use to make our products.

As Unilever sources from over 56,000 suppliers, we needed to develop an encompassing approach that covers all of our upstream value chain, while at the same time identifying where to focus for maximum impact.

We mapped the materials with the biggest GHG impact, where they were in the value chain, and our primary suppliers of these materials. The result is that we were able to identify the 300 suppliers that contribute a meaningful share of our upstream scope 3 emissions, and with whom we should work as a priority.

We have also been able to identify whether embodied emissions in our material portfolios are in the direct control of our suppliers, or whether – as in the case of agricultural commodities – the emissions occur further up the value chain. For emissions that arise upstream of our suppliers' operations we need to work collectively with suppliers and their upstream supplier ecosystem. In other cases, we can engage directly with our suppliers.

SUSTAINABLE AND REGENERATIVE SOURCING OF AGRICULTURAL COMMODITIES

Unilever has over a decade of experience in the sustainable sourcing of agricultural commodities such as palm oil, soy, cocoa, and tea. Our strategies include sourcing policies that lay out the requirements and expectations of suppliers and working to raise the standard of agricultural practices such as through our Sustainable Agriculture Code and most recently our Regenerative Agriculture Principles (RAP).

Our work over the past decade with farmers and suppliers to drive up social and environmental standards is informing our approach to tackling the climate challenge in the

upstream value chain. This includes how we identify and prioritize where to work and how to engage for impact. We also take lessons from how we have built and leveraged supplier relationships, developed internal capabilities, and integrated sustainability considerations into the end to end buying strategy and processes.

TACKLING OUR UPSTREAM SCOPE 3 EMISSIONS

The urgency of the climate challenge and the scale of emissions from our upstream value chain means we need to work together with our supply partners to meet our net zero goal. By combining incentives and capability-building in a true spirit of partnership, we want to motivate our entire supply base to take ambitious actions to reduce their footprint.

This is why we set up The Climate Promise, a Unilever initiative through which we are inviting our suppliers to set public commitments to halve emissions by 2030, publicly report on progress, and share their emissions data with us.

We also established **The Climate Programme** to support the 300 prioritized suppliers that were identified from our segmentation exercise in implementing climate actions. In 2021 and 2022 we are developing and piloting the concepts with a small subset of suppliers, before moving to scale from 2023 with the majority of the 300 suppliers. We will partner closely with these 300 suppliers to set meaningful reduction targets and develop implementation plans.

We don't have all the answers, so we engage with other companies via platforms and initiatives like the Exponential Roadmap Initiative's 1.5°C Supply Chain Leaders and Transform to Net Zero to share our experience and learn from others. Net zero transformation is a collective challenge and by sharing insights and success stories we aim to help millions of businesses globally to put climate strategies into place to reach net zero emissions by 2050.

Additional Resources

Microsoft

- Microsoft Supplier Code of Conduct and Training
- Tools and Resources - Microsoft Sustainability
- Microsoft Sustainability

Nike

- Nike 2020 Impact Report
- Nike 2025 Targets
- Nike Sustainability

Unilever

- Unilever Climate Transition Action Plan
- Unilever Sustainable and Regenerative Sourcing
- Unilever Climate Action

Other

- Companies in the 1.5°C Supply Chain Leaders initiative have pledged to work with their suppliers to halve emissions before 2030 and achieve net zero emissions before 2050. Engagement and dialogue with suppliers are key to achieve this ambition. We highly recommend companies to review guidance, tools, and resources that the initiative will publish on this topic in 2021.
- The SME Climate Hub present tools and guidance to help small and medium-size companies decarbonize in line with the 1.5°C Ambition. The Hub is a great resource that companies can leverage to support their SME suppliers to take climate action.

 Transform
to Net Zero

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Secretariat



BSR