Reaching net zero:
incentives for supply chain decarbonization

In collaboration with

Contents

1 Introduction

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In response to the mounting urgency of the climate crisis, WBCSD launched its flagship project SOS 1.5 (Safe Operating Space) in 2020, accompanied by its SOS 1.5 Roadmap report.

The project is a global, cross-value chain business platform that facilitates collaboration to accelerate and unlock decarbonization solutions. The project mobilizes members to scale these solutions, helping them to transform their businesses and value chains, to collectively limit the earth's temperature rise to 1.5°C. The SOS 1.5 roadmap report contains a robust framework to support companies in achieving net-zero carbon emissions, including practical guidance on how companies can reduce their footprint across all three Scopes.

Given the prominence of value chain mobilization in the SOS 1.5 roadmap, SOS 1.5 runs an Incentivizing Supply Chain Decarbonization working group, to deepen the practical guidance shared and drive action on Scope 3 emissions. By collectively identifying and addressing barriers to lower-carbon supply chains, the group helps companies to match their climate ambition with the strategy, tools and skills needed to undertake net zero systems transformation. The project leverages members' diverse expertise, experience and resources to develop accessible insights and resources for businesses across industries.

This paper has been developed in collaboration with PwC, drawing on consultation with eleven multinational businesses, across ten sectors. This research took place within the WBCSD SOS 1.5 project Incentivizing Supply Chain Decarbonization working group.

As an introduction for practitioners, this paper identifies a framework of supplier incentivization levers that companies can use to take action on decarbonizing their supply chains, ranging from penalty-based to reward-based levers. The framework is supported by case study examples of how companies are already using these to catalyze climate action within their supply chains and limit their Scope 3 emissions.

This paper also assists readers in understanding what actions are best suited for their current circumstances and how they should prioritize such incentives within their supply chain.

To conclude, this paper summarizes key areas of action, suggesting a direction and next steps for supply chain decarbonization at both the company and industry level.

2 Decarbonizing the supply chain to reach net zero

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PLACING SUPPLY CHAIN AT THE HEART OF DELIVERING NET ZERO

The IPCC's 2021 report issued a stark warning that climate change impacts are occurring at an increasing and unprecedented rate - impacts which will only worsen if we are unable to reduce carbon emissions and limit warming to within 1.5°C.[1] Corporate net zero targets will not be achieved without addressing supply chain emissions - the diagram below showcases the many elements of this challenge and highlights a range of approaches that can be considered.

Taking action on net zero

In an endeavor to tackle the climate emergency, many companies have set ambitious net zero targets. This means reducing GHG emissions to the extent possible and balancing any residual emissions through high-quality carbon removals.

38% of Fortune Global 500 companies have delivered a significant climate milestone or are publicly committed to do so by 2030, up by 8% from last year. However, committing to and achieving net zero, requires action across direct and indirect carbon emissions.

Delivering net zero through supply chain decarbonization

Whilst the distribution of GHG emissions varies from company to company, an organization's Scope 3 emissions, from both upstream and downstream supply chains, often represent the majority of total emissions.

11.4x It is estimated that a company's supply chain produces more than 11 times the emissions of operations, on average. Reaching net zero requires target boundaries to include Scope 3 emissions, much of which are supply chain emissions by definition, and work with others to drive down emissions.

Activating enablers for decarbonizing supply chains

To date, there has not been a concerted effort to mobilize practical action on supply chain emissions, beyond the issues of accountability and double-counting. Whilst there have been pockets of leadership, there is an acute need to reform our approach, considering the below **enabling areas** in tandem.

Governance
Companies must promote clarity on responsibility and accountability for driving supply chain decarbonization.

Data
Complete, accurate data is essential to monitor decarbonization of supply chains. There is a pressing need for quality primary data, that is collected and stored centrally.

Incentivization
Companies need to motivate suppliers to take action on decarbonization. Incentives look to stimulate change through consistent and meaningful supplier engagement.

Innovation
Innovation is essential to stimulate new solutions across the supply chain, accelerating progress towards decarbonization.

Collaboration
Given the overlapping nature of supply chains within and between companies, strategies to reduce emissions are fertile ground for synergies and collaboration.

A focus on incentivization

Focusing on the area of **incentivization**, this report explores the following four strategies, including the incentivization levers that sit within them. These levers are focused on motivating action amongst suppliers, as opposed to consumers.

Building capability | **Rewarding progress** | **Leveraging procurement** | **Enforcing performance**

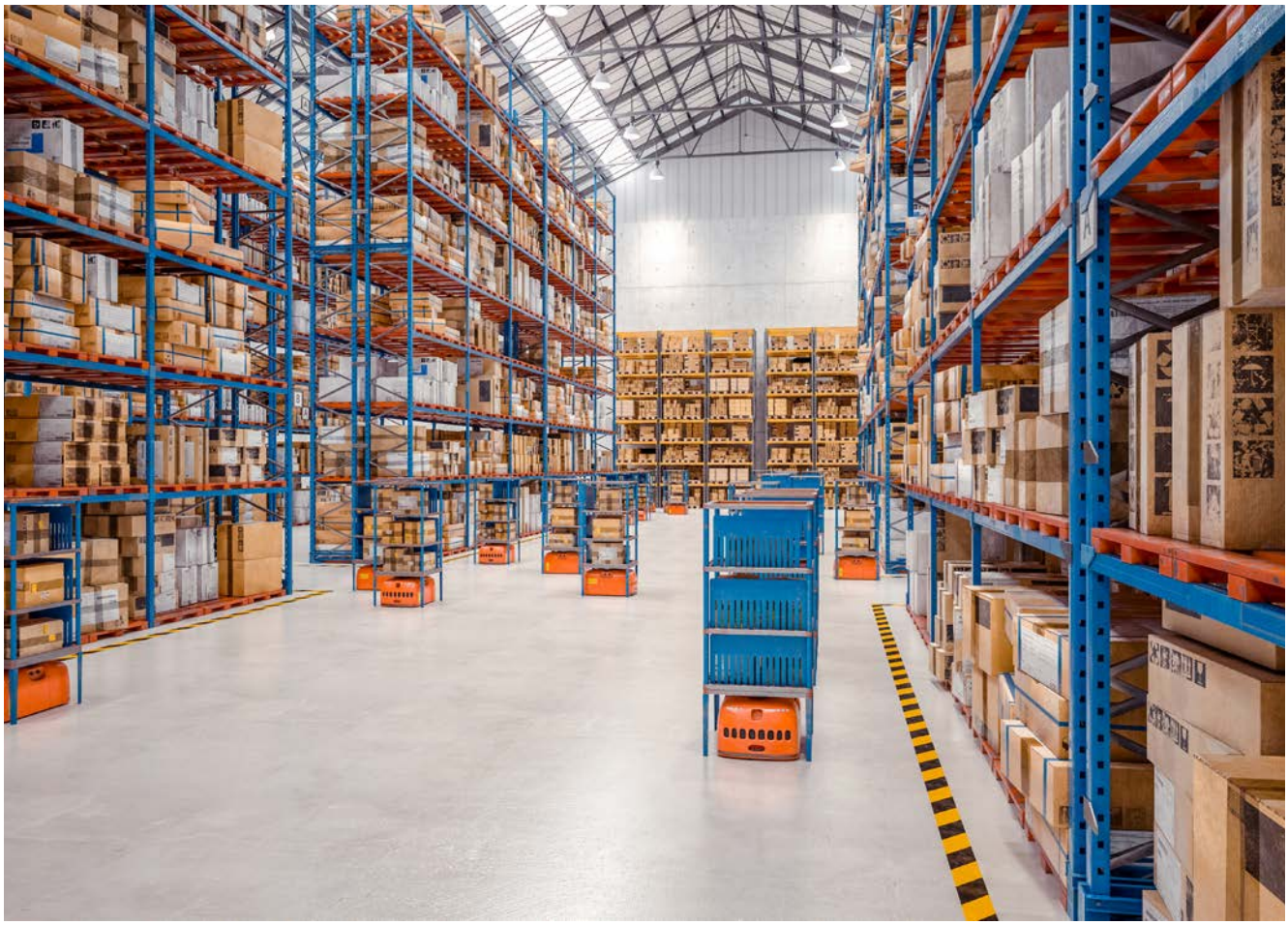
2,3,4,5,6,7

A FOCUS ON INCENTIVIZATION TO UNLOCK NET ZERO POTENTIAL

Effective supplier engagement and development has long been the nirvana of procurement. However, historically, organizations have struggled to prioritize this against more immediate cost reduction or operational risk management priorities. Additionally, supply chains that used to be clear, linear and vertically integrated are rapidly transitioning to complex, interconnected ecosystems.

The combination of competing business priorities with supply chain complexity has led many organizations to stall or delay action in this space.

With decarbonization emerging as a longer-term, purpose-led transformation goal across all sectors and geographies, now is the time for companies to embed **supplier incentivization** as a meaningful undertaking and secure broader change in the supply chain through effective engagement and collaboration. Given the absence of guidance and frameworks in this space, this document aims to support organizations in setting a direction and developing an approach to incentivizing decarbonization within their supply chain. It is worth noting that this focus on incentivization hones in on business-to-business (B2B) interventions, as opposed to business-to-consumer (B2C). We hope this framework will be a first step in fostering much-needed consistency and direction across sectors, supporting companies in taking action on supply chain decarbonization and reducing Scope 3 emissions.



3 Solutions to incentivize supply chain decarbonization

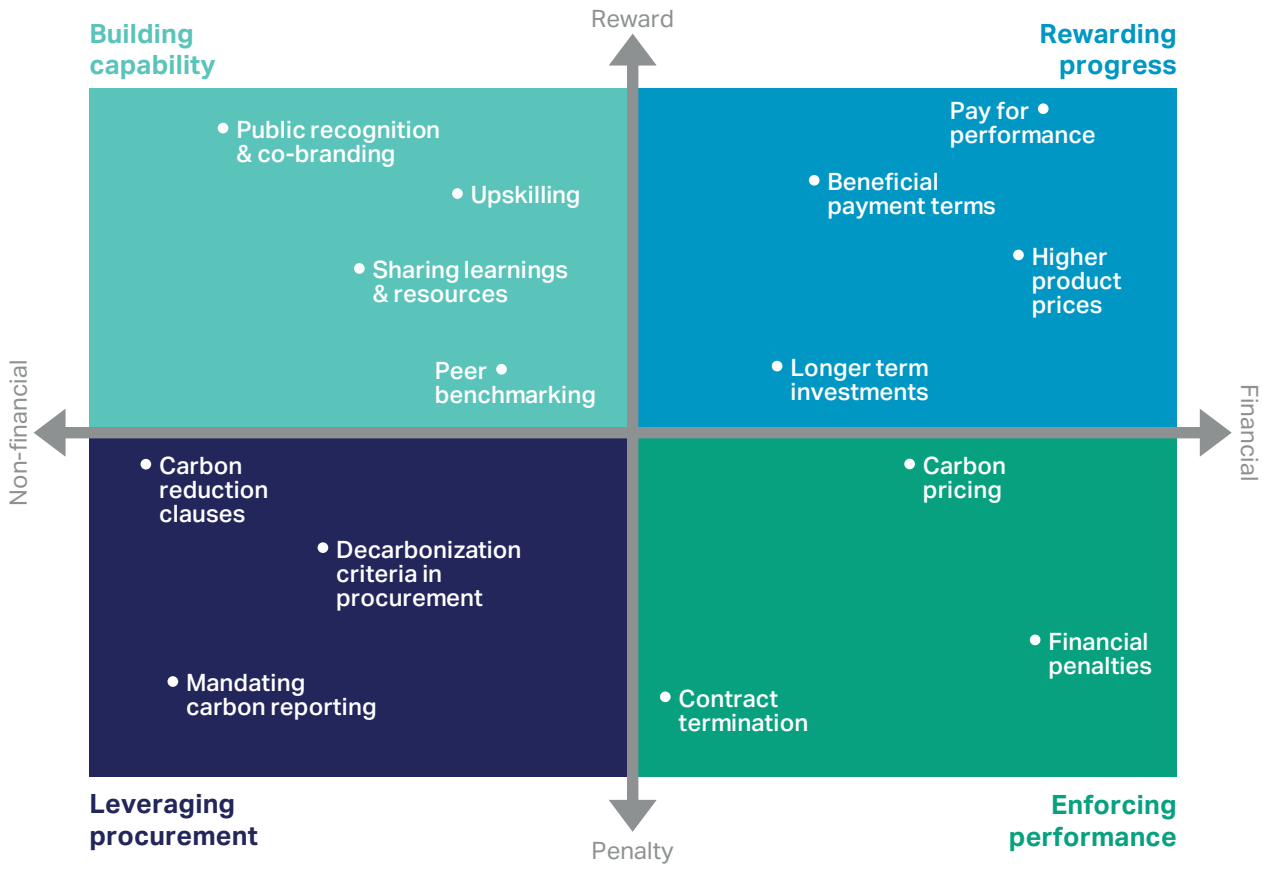
3 Solutions to incentivize supply chain decarbonization

INCENTIVIZING DECARBONIZATION: STRATEGIES AND LEVERS

Given corporates typically sit at higher tiers of the supply chain, they are in a unique position to influence supplier behaviors, operations and investments through incentives.

When considering the universe of incentivization levers available, it can be helpful to identify an organizing principle. Following sustained consultation with the WBCSD SOS 1.5 Incentivizing Supply Chain Decarbonization members, we have developed an incentivization framework, which organizes recognized levers into four broad strategic approaches, based on common characteristics. One axis shows the outcome of supplier engagement, ranging from incentives that offer **reward-based** outcomes, to those that take a more **penalty-based** approach. The second axis shows whether the incentives are monetary in nature, ranging from **financial** to **non-financial**. The result is four groups of levers across the following strategic approaches to incentivizing supply chain decarbonization: (1) Building capability; (2) Rewarding progress; (3) Leveraging procurement; and (4) Enforcing performance. The positioning of levers on the diagram below is indicative.

With managing Scope 3 supply chain emissions becoming a strategic necessity for many businesses, this set of levers offers a menu of incentives that companies can draw on to develop a cohesive approach to engaging suppliers on decarbonization. The below section details these levers, including real-world examples from WBCSD members. The following section explores how companies can evaluate which strategies and levers might be best for them to deploy in their specific context, both now and over time.



Building capability

Incentivization levers within this category are non-financial and reward-based. They initiate a move away from isolated interactions with suppliers, towards a more continuous learning and engagement approach.

Share learnings and resources: When implementing carbon reduction measures internally, buyers have an opportunity to share these learnings with suppliers, so that they can benefit from existing R&D. This allows corporates to share insights and best practices, reducing duplication of efforts whilst also strengthening buyer-supplier relationships. There are additional opportunities for suppliers to share learnings amongst each other, as they might face similar challenges. This can be facilitated in supplier forums or workshops, organized by lead buyers or external bodies.

Public recognition and co-branding: By taking advantage of their own reputation, larger organizations can offer public exposure as a reward for suppliers that have met certain emissions reduction targets or milestones. This could take many different forms, ranging from featuring their progress in press releases, to co-branding on specific products and services.

Upskilling: Organizations can invest in educational initiatives, to upskill and build supplier capabilities for supply chain decarbonization. This can take the form of dedicated training modules, upskilling of key staff members, or focused workshops. Here, it is important to emphasize the dual benefit for both buyer and supplier.

Peer benchmarking: By collating carbon emissions-related information across the supply chain, organizations can show suppliers how they perform in relation to their peers. This element of competition can incentivize improvements amongst lower performing suppliers. A ranking or scoring system could also be considered here.

Case study

PEPSICO

A value chain engagement strategy to enhance supplier capability

As part of its commitment to reach net zero carbon emissions by 2040, PepsiCo is continuing to build a comprehensive value chain engagement strategy. This strategy focuses on enhancing capability of its partners to contribute towards addressing climate change and collaboration for collective solutions, including:

- Joining forces with Guidehouse and peers to launch the Supplier Leadership on Climate Transition (S-LoCT) program, to empower its value chain towards climate action. This program will enable PepsiCo's partners to not only measure their footprint but also set them on a path to setting and achieving science-based climate targets.
- Developing a program for targets capability building on renewable electricity. The aim of the program is to collectively go to market on power purchase agreements.
- Developing an online resources library on climate, enabling value chain partners to access curated materials that will help them take action on climate change.
- PepsiCo has engaged bottlers in Latin America on operational efficiencies, which has led to over 50% decline in that portion of its emissions.
- Engaging high maturity suppliers one-on-one at the leadership level to align on priorities and collaborative initiatives. With agricultural suppliers, PepsiCo engages in development and implementation of on-farm projects as well as improvements in operational efficiencies and renewable electricity sourcing. PepsiCo also engages packaging suppliers on innovative and alternative materials that will lead to positive climate outcomes and contribute to circularity.

Case study

Recognizing operational excellence on sustainability

Dow's Logistic Supplier Award Programs (S4TAR & DowGOL) are designed to encourage and recognize Dow's supply chain partners for excellent performance in the areas of safety, sustainability, social responsibility, and service (the 4Ss). Kicking off in Latin America 2001, the award program has been highly recognized in the chemical logistics industry as a platform for best practice sharing, partnership cultivation, operation excellence recognition, and sustainability advocacy.

To select winners each year, Dow asks its logistics partners about their sustainability strategies, certifications, carbon reduction efforts, waste reduction, recycling efforts, and water conversation, as well as employee training and incentivization. The award program continuously raises the bar year over year to maintain the highest standards in the industry.

The responses are shared with all participants to encourage a collaborative environment and cultivate new ideas for improvement, and the S4TAR awards ceremony itself is used to showcase and recognize best practices. Suppliers participating in the program also have access to learning opportunities throughout the year, expanding the capacity of suppliers on the program's core topics.

Dow's goal with logistic supplier awards is to drive operational and sustainability excellence by sharing and recognizing best practice with its supply chain partners. Due to its success, Dow leveraged this program across Asia in 2011 and Europe in 2019 and is expanding to North America in 2021.

Case study

A digital collaborative platform to help reduce Scope 3 emissions

In pursuit of enabling the energy transition, Shell saw an opportunity to help accelerate the reduction of carbon emissions across its global supply chains, through the development of a digital platform; the Supplier Energy Transition Hub. The Hub is a complimentary, public platform, that allows companies to baseline their emissions, understand their emission footprint, set progressive ambitions and benchmark their status against other users. Users can share best practices examples and view lower-carbon solutions for all industries, including hard-to-abate sectors that go far beyond carbon offsetting.

Using existing industry standards for greenhouse gas reporting, the Hub collates the corporate emissions data provided by users and maps out potential pathways to reaching desired ambitions within a designated time frame, Alongside its emissions reporting capabilities, the platform allows users to invite their suppliers and customers to exchange emissions data in the tool, giving them insights into their own end-to-end supply chain emissions.

Since its launch in April 2021, Shell is looking to continuously expand the functionality of the Hub, in close collaboration with NGOs and existing users. By expanding its user base, the Hub aims to develop a better understanding of the Scope 3 footprint and, in collaboration with customers and suppliers, enable the energy transition towards a lower carbon future.

Rewarding progress

Incentivization levers within this category are financial and reward-based. Through exerting 'soft' power, these levers financially recognize supplier progress towards decarbonization goals.

Pay for performance:
The ultimate positive financial incentive for suppliers is for them to be financially rewarded when they achieve agreed emissions reductions targets. Organizations can work with suppliers to establish certain reduction thresholds, which would trigger financial rewards when reached. This is a lever that remains relatively unexplored and is currently not widely observed.

Longer-term investments:
Investing in initiatives that support suppliers to decarbonize in the longer term, not only provides financial support and reassurances, but also helps build trusted buyer-supplier relationships, given extended longevity. Such initiatives could include power purchase agreements or carbon insetting projects, that demonstrate longer-term sourcing commitments from buyers. By investing in initiatives that support supplier emissions reduction plans, or providing favorable loan terms, they can help suppliers overcome capital expenditure barriers to decarbonization.

Higher product prices: Buyers can incentivize change through accepting a premium for alternative products and services that offer lower carbon emissions when compared to competitors or existing offerings. This helps offset some of the anticipated costs suppliers would face when working to reduce the carbon intensity of their operations. Here, it is important to consider the trade-off of accepting higher costs, against the relative degree of carbon reductions offered.

Beneficial payment terms:
Organizations can offer suppliers preferential payment terms or financing rates based on carbon reduction targets, disclosure and progress. Such terms can encourage suppliers to accelerate rates of decarbonization, whilst also creating a culture of awareness and continuous improvement.

Case study

PHILIPS

Launching initiatives to support the Supplier Sustainability Performance program

Philips recently launched several new initiatives through which it actively supports its suppliers and incentivizes them to adopt and meet SBTs as part of a major push to decarbonize the company's supply chain.

Building on the company's existing Supplier Sustainability Performance program, in which more than 250 suppliers participate annually, Philips will take an active role in supporting its suppliers in identifying decarbonization opportunities in their factories. This is facilitated through free-of-charge on-site factory energy scans that identify cost-effective reduction measures. So far, more than 20 of Philips' suppliers participated in this program as a pilot. In 2022, Philips plans to bring the program to scale, with approximately 50 supplier factories receiving assessments that year.

As part of its endeavor to have suppliers adopt science-based targets, Philips also offers more than 75% of its supply base maturity-based guidance to support continuous improvement towards climate action. Several of its key suppliers also joined a pilot program together with CDP, intent on accelerated climate action maturity which resulted in setting science-based targets on scopes 1, 2 and 3.

One of the expected requirements from Philips towards its suppliers, is setting greenhouse gas reduction targets. This is formally captured in all its contracts since January 2021, as part of the Company's Supplier Code of Conduct. To further increase the speed of reduction, it is now also looking to offer its suppliers beneficial payment terms, once certain reduction thresholds are met. The company expects this to be a major incentive for change, especially for some of its small- and medium sized supply partners.

Case study

Microsoft

Partnering to provide financing opportunities for carbon reductions

In July 2021, Microsoft partnered with the International Finance Corporation (IFC), a sister organization to the World Bank, to work with designated Microsoft suppliers to identify technical solutions and financing opportunities that can reduce greenhouse gas emissions in the production process. These suppliers are located within emerging markets, primarily in Asia.

This partnership will allow Microsoft suppliers to draw on the IFC's experience in working with complex international supply chains and its commitment to helping emerging market manufacturers achieve more efficient and environmentally-friendly practices. Microsoft's partnership with IFC seeks to promote additional investments in sustainability among the wider consumer electronics industry, while demonstrating the financial and economic benefits from resource efficiency and renewable energy investments that can be realized at all levels of the supply chain.

Leveraging procurement

Incentivization levers within this category are non-financial and penalty-based. These levers focus on embedding decarbonization commitments and expectations into procurement processes, moving from rewards towards a more regulatory approach. It is important to note that the effective implementation of such levers will rely on the provision of timely, accurate carbon data.

Mandate carbon reporting: Encouraging or mandating reporting, even in the absence of contractual consequences based on performance, enhances awareness and transparency around carbon emissions within the supply chain. This can softly push suppliers to decarbonize or, at the very least, initiate a conversation between buyer and supplier on plans and progress made on decarbonization.

Decarbonization criteria in procurement: In the pre-tender phase, organizations can introduce core selection criteria that assess suppliers against their commitment to reducing carbon emissions. They can then weight supplier selection towards those with clear plans of action or demonstrably lower emissions, in comparison to competitors. This is a cost-effective way to embed decarbonization incentivization into the supply chain, as it integrates with existing procurement processes and can be formalized over the lifetime of a contract.

Carbon reduction clauses: Organizations can include clauses that translate carbon reporting requirements and targets into specific performance management criteria, against which the supplier is formally assessed. This could include making commitments to Scope 3 science-based targets, as well as evidence of third-party verification of progress towards these, to demonstrate the credibility of reductions and to avoid the risk of greenwashing. Failure to meet the agreed targets can then result in remedies, or if they fail to recover performance ultimately it can lead to the termination of the agreement for cause.

Case study

Implementing sustainability contract clauses to incentivize carbon reductions

In 2018, BT launched a sustainability contract clause, with Nokia as one of the first signatories. As of 2021, 12 key suppliers have a clause in their commercial contracts with BT or Openreach that commits them to make measurable carbon savings over the term of the contract with BT.

The key process in implementing the clause is gaining agreement to participate from suppliers and facilitating the understanding that opportunities will exist for energy savings and therefore carbon reduction. Led through BT's Procurement function, this process demonstrates to the supplier that BT is prioritizing suppliers' carbon reduction efforts as key to reducing BT's supply chain carbon footprint. A key business benefit from carbon reduction is not only the environmental benefits, but also the associated commercial benefits for the supplier.

BT's Procurement team work with suppliers to:

- Identify a product or service to focus on, considering spend and embodied carbon impact of the product;
- Conduct product life cycle assessment analysis to identify the critical components and production processes with the greatest carbon impact;
- Collect data on production processes and progress-to-date on energy efficiency, to enable validation that a carbon reduction opportunity exists and to prepare for an energy efficiency audit;
- Undertake an energy efficiency audit, to establish a baseline;
- Agree an implementation plan and carbon reduction targets; and
- Monitor implementation and measure and report results achieved.

In FY20/21, BT offered some suppliers free energy audits of their premises and carbon-saving guidance from experts at The Carbon Trust. Seven suppliers received direct consultation with a Carbon Trust expert in order to systematically review all major energy using systems and provide insightful commentary on improving deficient systems to be in line with best practice. The findings of this program suggest energy cost savings of 35% and carbon savings of 32%, on average.

Case study

Microsoft

Supporting Microsoft's carbon ambitions through supplier sustainability requirements

To help achieve the company's broader sustainability goals, Microsoft is implementing additional sustainability requirements for suppliers. In July 2020, Microsoft updated its Supplier Code of Conduct, adding new language to support the company's bold carbon ambitions.

This new language requires suppliers to disclose complete, consistent, and accurate Scope 1, 2 and 3 greenhouse gas (GHG) emissions data, or the components required to calculate such data. If requested by Microsoft, suppliers must also provide plans on how they will reduce their GHG emissions, in alignment with Microsoft's requirements.

Given the time and expertise needed to effectively disclose carbon emissions, Microsoft has taken a phased approach to the rollout and has spent the past year introducing this requirement across its supply chain. To support suppliers in this process, Microsoft has developed a collection of sustainability-related learning resources, designed to equip them with the skills to report their GHG emissions, develop clean energy strategies and reduce their energy-related emissions.

"Requiring emissions disclosure in our Supplier Code of Conduct has already increased transparency and helped us more effectively partner with our suppliers to reduce emissions." said Lucas Joppa, chief environmental officer at Microsoft. "In addition to our own environmental commitments, we are committed to empowering our suppliers, customers, and partners to reduce their carbon footprint."

Enforcing performance

Incentivization levers within this category are financial and penalty-based. An exertion of hard power, these levers impose monetary payments as a result of inaction or underperformance. It is important to note, however, that these levers can be more difficult to enforce in law, when compared to 'softer' approaches.

Carbon price: Carbon pricing directly applies a cost to carbon emissions. This shifts the accountability for emissions towards the suppliers who are not only responsible for those emissions, but who also have the ability to address them. Through implementing carbon pricing across a supply chain, organizations can not only encourage lower-carbon behaviors, but can also channel further investment into decarbonization activities. Whilst we are observing the implementation of internal carbon prices, this is currently less common across supply chains.

Financial penalties: Related to the lever of *carbon reduction clauses*, organizations can include the prospect of financial penalties if these agreed targets or milestones are not met. Such penalties could lead to an automatic reduction in fees due or discounts on purchased products.

Contract termination: Again, as mentioned within *carbon reduction clauses*, if suppliers do not meet the decarbonization requirements written into their contract, a buyer can reserve the right to terminate the agreement.

Levers included under the 'enforcing performance' strategic area, tend to be incorporated alongside other incentivization levers. For example, financial penalties and contract termination would be attached to mandated carbon reporting and carbon reduction clauses, as penalties for non-compliance. It is for this reason that there are no case studies included specific to this section.

4 Driving net zero through supply chain decarbonization

4 Driving net zero through supply chain decarbonization

Alongside the business imperative of net zero, all companies are dealing with multiple priorities requiring commitment in terms of time, resources and headspace. It is important to move from theory to practice and understand how companies can address supply chain decarbonization in the context of competing organizational pressures.

When evaluating how to take these actions forward, there are a number of additional factors to consider that can make or break the success of new supply chain decarbonization initiatives. First, organizations must assess which **incentivization levers** will be most feasible and effective to implement, based on both buyer and supplier characteristics. Second, is the presence of complementary **enabling factors**, such as systems for governance, data, innovation and collaboration, which facilitate the effective activation of incentivization levers.

INITIATING INCENTIVES FOR SUPPLY CHAIN DECARBONIZATION

The below graphic summarizes a series of sequenced actions that companies can take, depending on where both they and their suppliers are on their decarbonization journey. Whilst this offers a normative model, it is important to acknowledge that each organizations' journey will be unique, and the levers available to them will vary based on factors such as sector, geography and purchasing power.

1. Conduct a **supply chain baseline and mapping exercise.** This enhances understanding of supply chain tiers and Scope 3 emissions hotspots.
2. Set and/or review own **Scope 3 decarbonization targets and progress**. Includes setting emissions baselines and reviewing existing supplier commitments, in relation to net zero plans and science-based targets.
3. **Segment suppliers** based on chosen characteristics. Examples include proportional supplier spend, carbon footprint, supplier ambition, supplier maturity, geography, sector, or supply chain tier.
4. **Prioritize suppliers** based on anticipated decarbonization impact. Considerations include total carbon emissions (abatement potential), supplier ambition (likelihood to engage) or existing capabilities (relative need for support).
5. **Match appropriate incentivization levers** to selected supplier segments. Considerations include strength of existing relationships, supplier culture, spend category, decarbonization maturity and anticipated return-on-investment.
6. **Develop a rollout plan** for implementing supplier decarbonization incentives. Consider overlap with the other four enablers, for example *collaborating* with industry peers to address shared suppliers or developing *data* collection systems to track emissions reduction progress.
7. **Embed into Business as Usual** operating model. Includes integrating carbon metrics into supplier selection and contracting processes to ensure changes are sustained and not a point-in-time exercise.

Evolve incentivization strategy as progress is made and gaps are identified

TAKING AMBITIOUS ACTION, ONE STEP AT A TIME

The goal of 1.5°C warming is still within striking distance, if we elevate ambition and accelerate action on supply chain decarbonization. As we move from an approach based on reporting and disclosure, into the decade of action, it is clear that companies must reconsider their approach to supply chain decarbonization.

Whilst there is huge opportunity for incentivization levers to catalyze decarbonization within the supply chain, multi-stakeholder collaboration is needed to unlock cross-industry barriers and accelerate progress. Actions identified by the working group include:

- **Facilitating knowledge-sharing and collaboration**

  Communities of interest offer a space for corporates and suppliers alike to share information and learnings. These could take the form of industry working groups, opening up a forum for industry-specific challenges and opportunities to be raised and offering a space for shared solutions to be developed. Topics could include how companies are quantifying emissions, measuring baselines, capturing reduction efforts and tracking progress. They could also offer an opportunity for suppliers of various sizes, geographies and industries to collaborate on topics such as standards and joint investments, particularly those with shared suppliers. **WBCSD and partner organizations are aspiring to launch a Net Zero Action Platform** to empower businesses to turn net zero pledges into action and foster supply chain decarbonization collaboration. This will be achieved by creating an accessible centralized, location for effective climate solutions.

- **Embedding carbon accounting in systems**

  Currently there is a lack of emissions data at a service specific level for both customer and supplier transactions. Current Finance and Procurement systems which capture unit cost and volume data, including indirect taxes, do not capture the equivalent emissions data. Developing a long term roadmap where carbon accounting is as commonplace as financial accounting will help embed and sustain a focus on emissions in the supply chain. **WBCSD has launched the** Carbon Transparency Partnership, which provides a forum for businesses and decarbonization stakeholders to collaborate across industries and geographies. This partnership aims to strengthen GHG emissions transparency across supply chains, which is a key enabler for strengthened emissions accountability and accelerated decarbonization.

- **Developing maturity models**

  Visibility across the tiers of the supply chain is often poor and incomplete, with supplier appetite for decarbonization often not aligned with buyer ambitions. Even established supplier relationships are coupled with varying degrees of capabilities and knowhow on decarbonization, an issue that tends to worsen within deeper tiers of the supply chain. **WBCSD and partner organizations are creating a Common Maturity Framework**, to provide businesses with a credible methodology for assessing their climate maturity. This will also enable the fair assessment of value chain climate maturity.

- **Building common reporting platforms**

  There is a notable absence of consistent, agreed standards and methodologies on calculating and reporting Scope 3 carbon emissions, with approaches varying within and between suppliers and industries. To achieve a consistent and effective approach for carbon data standards and methodologies, there is an undeniable need for collaboration and alignment between organizations and industries. The development of sector-specific question sets would enhance data standardization through simplifying and streamlining the collection process. This would not only minimize the time taken for suppliers to complete data reporting exercises, but would also ease data collation and analysis, therefore encouraging engagement.

Endnotes

[1] IPCC Sixth Assessment Report

[2] Reality Check: The third annual study to assess how Fortune Global 500 companies have increased their climate actions and commitments.

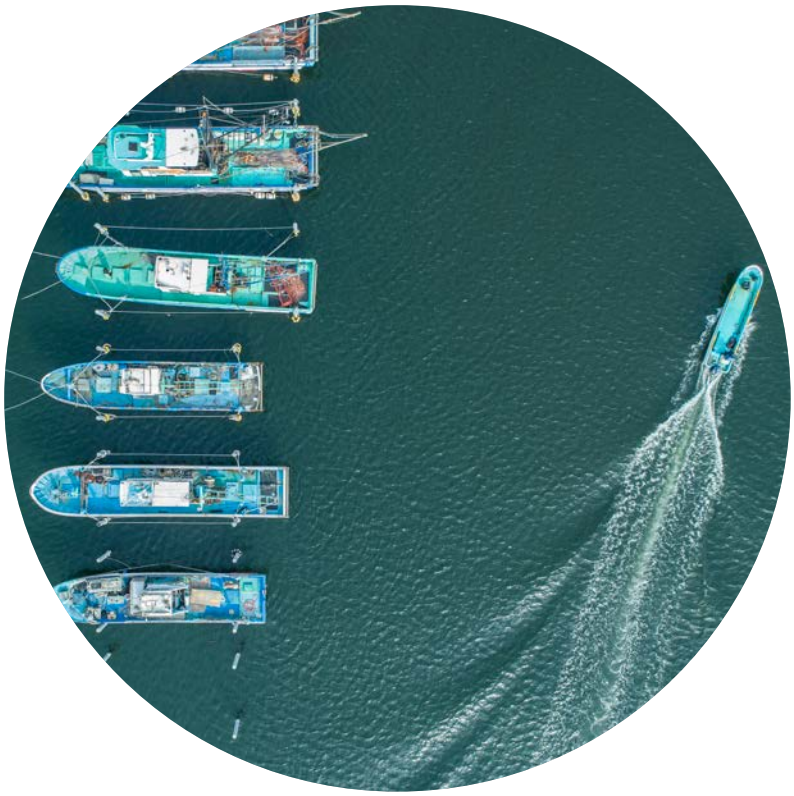
[3] Net Zero Climate

[4] Transparency to Transformation: A chain reaction

[5] The Greenhouse Gas Protocol

[6] Scope 3 Inventory Guidance | US EPA

[7] Best Practices in Scope 3 Greenhouse Gas Management



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DISCLAIMER

This paper is released by WBCSD, which is responsible for final conclusions and recommendations. Like other WBCSD-authored papers, it incorporates contributions from WBCSD staff and experts from member companies. PwC, the global management consulting firm, provided analytical insights and support to the efforts of the SOS 1.5 Incentivizing Supply Chain Decarbonization working group.

ABOUT WBCSD

WBCSD is the premier global, CEO-led community of over 200 of the world's leading sustainable businesses working collectively to accelerate the system transformations needed for a net zero, nature positive, and more equitable future.

We do this by engaging executives and sustainability leaders from business and elsewhere to share practical insights on the obstacles and opportunities we currently face in tackling the integrated climate, nature and inequality sustainability challenge; by co-developing "how-to" CEO-guides from these insights; by providing science-based target guidance including standards and protocols; and by developing tools and platforms to help leading businesses in sustainability drive integrated actions to tackle climate, nature and inequality challenges across sectors and geographical regions.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD $8.5 trillion and 19 million employees. Our global network of almost 70 national business councils gives our members unparalleled reach across the globe. Since 1995, WBCSD has been uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability, united by our vision of a world where 9+ billion people are living well, within planetary boundaries, by mid-century.

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