# Reducing Value Chain Emissions to Achieve Science-Based Targets

## Sustainability Matters Webinar Series: Climate Action in the Decisive Decade

Wednesday, March 22, 2020

BSR®

# Speakers

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# Agenda

1. The need for change
2. Current context of corporate climate action
3. Approaches to Scope 3 emission reductions
4. BSR's Reverse Sourcing Approach
5. Q&A

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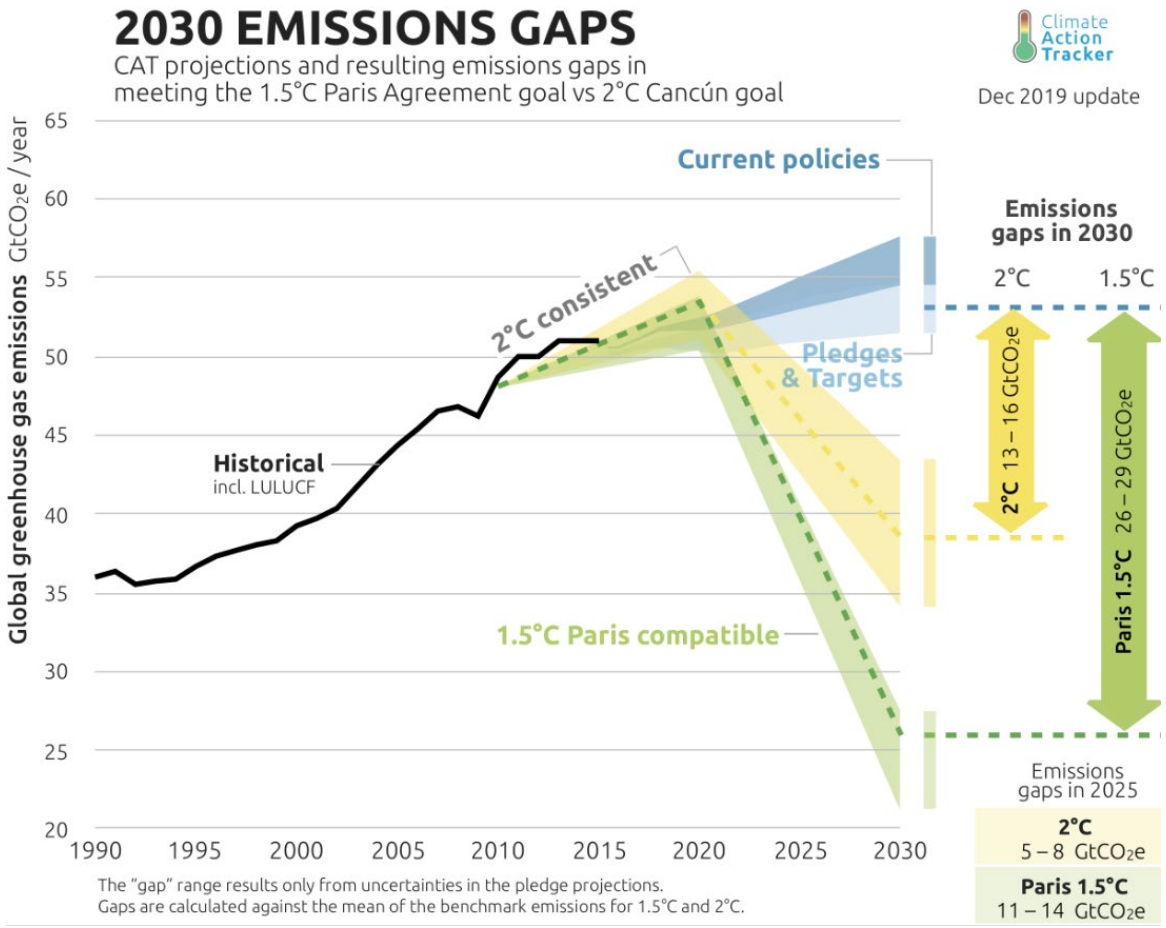
# 01

# The need for change

# As we enter the Decisive Decade, the world is not on track to attain the Paris goals

Only 5 years after completion of the Paris Agreement, we enter a decade when a world well below 2°C / 1.5°C can easily slip out of reach.

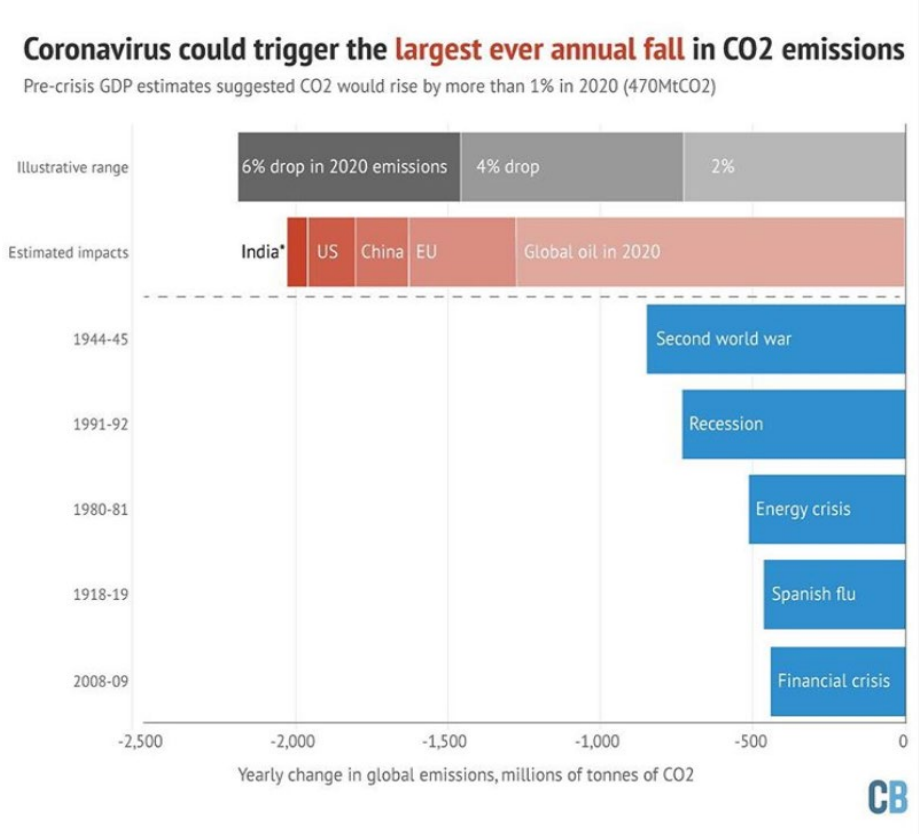



- GHG emissions rose by 1.5% per year in the 2010s, stabilizing only briefly between 2014 and 2016.
- Despite the ambition of the Paris Agreement, action is nowhere near where it needs to be (e.g. recent COPs, UNSG Summit…)
- COP26 is now being postponed due to COVID-19. But COPs have shown clear limits

Source: Climate Action Tracker / UNEP 2019 Emissions Gap report

# COVID-19 has been a major interruption on GHG emissions, but the scale of the challenge is much larger

The current pandemic is having devastating health and economic effects. It has also resulted in an unprecedented reduction in GHG emission due to plummeted electricity demand, lower industrial activity, reduced transport and supply chain disruptions. But what next?



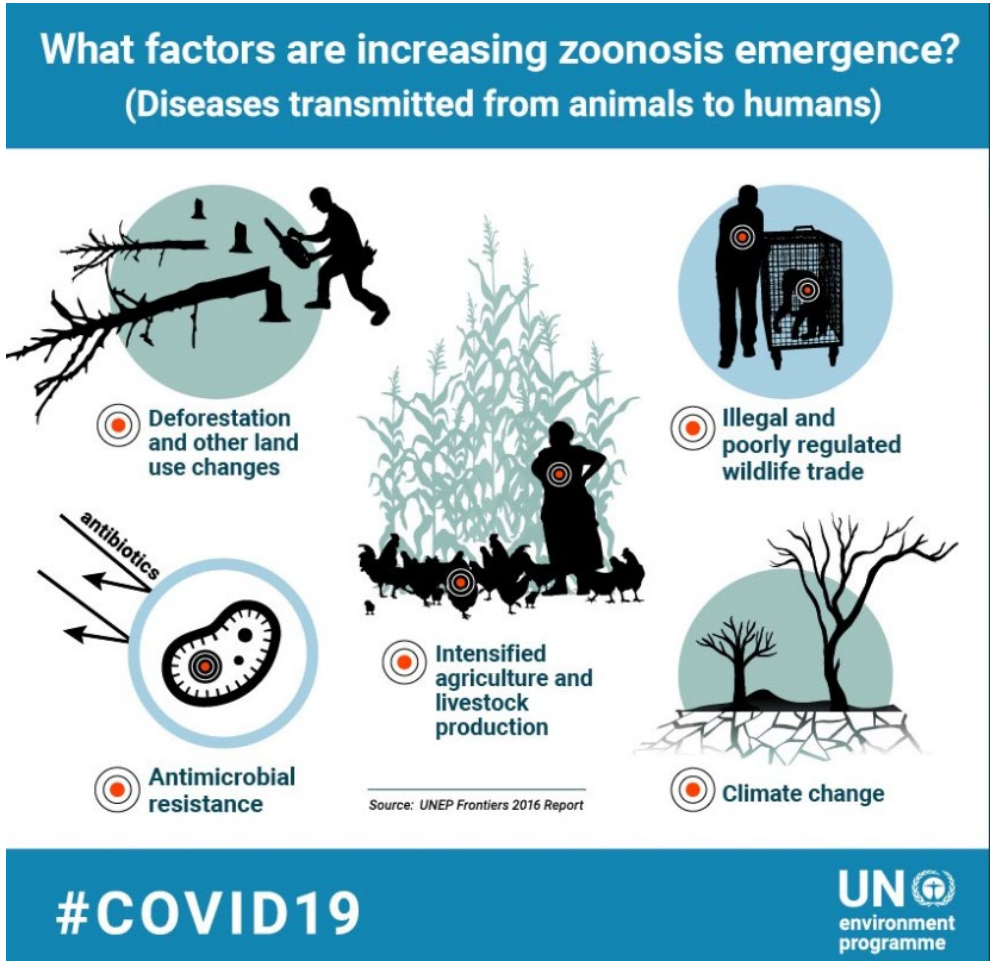

Source: Carbon Brief

- $CO_2$ emissions are expected to drop by 2,000MtCO2 in 2020. Such a 5.5% vis-a-vis 2019 is unprecedented.
- **A significant drop but not enough**, and a risk of rebound effect. To align to a 1.5°C pathway, the world requires a year-on year decline of 7.6% throughout the decade (2,800Mt $CO_2$).
- Reaching the Paris Agreement goals requires a long-term shifts in policies, investments and rethinking the way our global economies work, and **business have a key role to play**

# Reaching the Paris goals is a risk management strategy

COVID-19 has further exposed the economic, social and environmental shortcoming of our current economic system. Reducing GHG emissions is a way to mitigate risks

- A new study shows weak climate policy commitments head the economy towards astronomic losses of **USD $600 trillion** by 2100 compared to 1.5°C or well below 2°C compatible action.
- Climate change is a risk multiplier: it produces physical shocks, which then translate into an array of interconnected socioeconomics impacts (e.g. deforestation, air pollution impacts). Sustainable value chains can reverse this pathway
- **Increasing climate resilience across value chains is an inevitable business response to an uncertain world**



# 02

# Current context of corporate climate action

# Businesses have taken the lead and set targets: the 2020s are the time for delivery

Spurred by increasing recognition of the climate change challenges on business activities, and pressure from investors, employees and customers, **businesses stepped ahead in the last decade by setting ambitious targets**. Delivering against climate targets is a necessity to ensure business continuity.

**1,256** Companies committed to climate action through the We Mean Business Coalition Initiatives

**$24.8** Trillion of combined market capitalization

**854** Companies have commited to the Science Based Target initiative

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

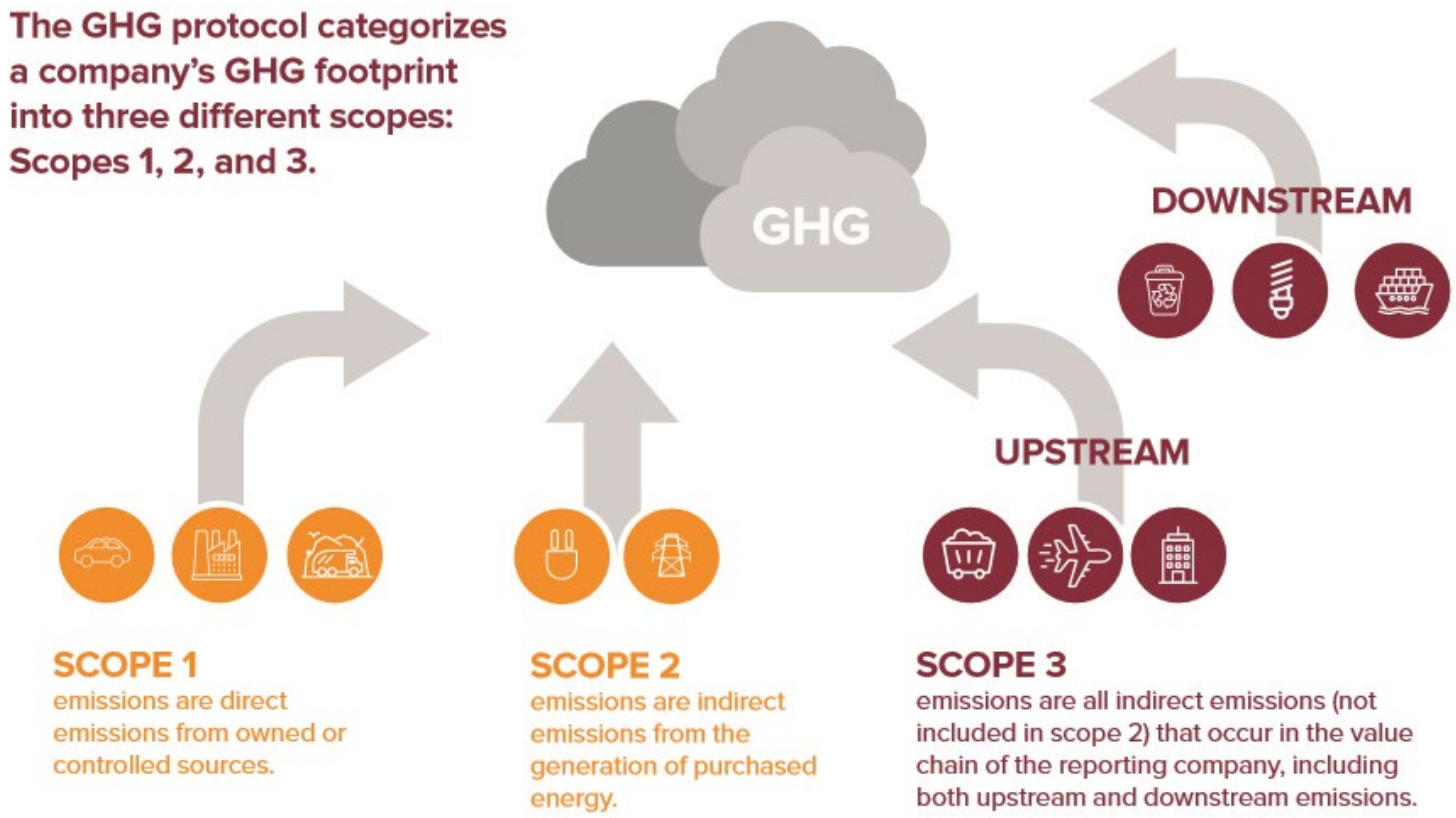
BUSINESS AMBITION FOR 1.5°C

**350** Companies have set SBTs, of which 197 have targets in line with 1.5°C or Well-below 2°C

Source: We Mean Business

# Moving to Delivery: The big opportunity for GHG reductions lies in the value chain

Most companies with SBTs commitments are already tackling scope 1 and 2, while Scope 3 action is still limited: but value chains present the largest source of emissions, as well as the greatest GHG – and risk- reduction opportunity.




*Source: GHG Protocol, adapted by BSR*

# Moving to Delivery: The big opportunity for GHG reductions lies in the value chain

***"According to CDP, emissions along upstream value chains are 5.5x greater than a company's scope 1 and 2 emissions."***

Emissions from value chain (Scope 3)

Emissions from direct operations (Scope 1 and 2)

Understanding and rethinking value chains is:

- The only way to deliver the needed **science-based GHG reductions in the 2020s**
- Key to **reduce risk** exposure and ensure **business-continuity**

*Source: CDP supply chain*

# 03

# Approaches to Scope 3 emission reductions

# Value Chain SBTs Require a Combined Approach

Pioneering companies have piloted strategies to achieve their Scope 3 goals; but dealing with complex, globalized value chains presents challenges. Combining different approaches is essential to deliver a full value chain GHG reduction potential.

**Prerequisites:**

- Understand Value Chain
- Leverage value chain collaboration

**Engage with suppliers or customers** to act on their scope 1 & 2

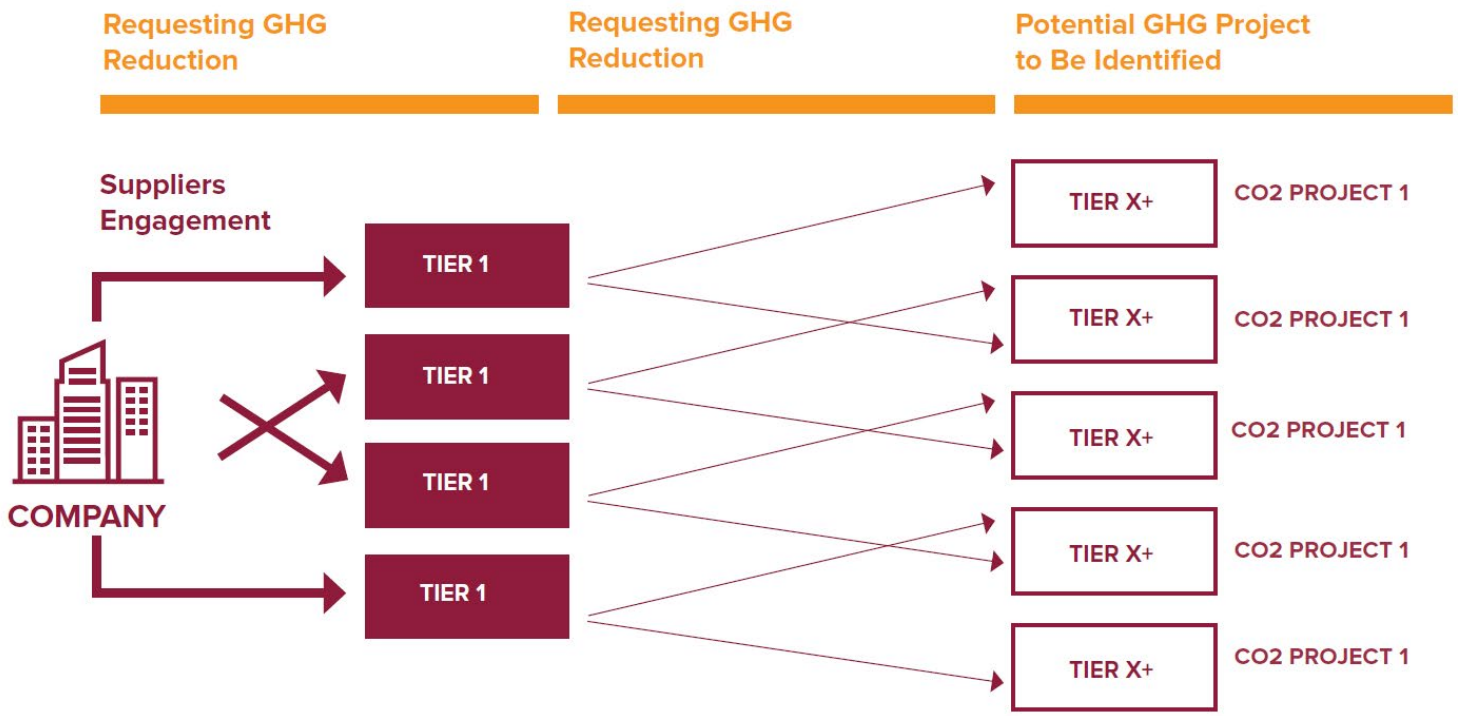
Choose **low-emission suppliers**

**Eco-design and circularity**

**Shift** to Low-carbon Alternative Materials/ **Product Innovation**

# Scope 3 emissions have traditionally been cascaded from tier to tier

A **traditional** Scope 3 reduction approach targets first GHG emissions at direct suppliers (Tier 1). These suppliers in turn activate their relationship with their suppliers to tackle their emissions.



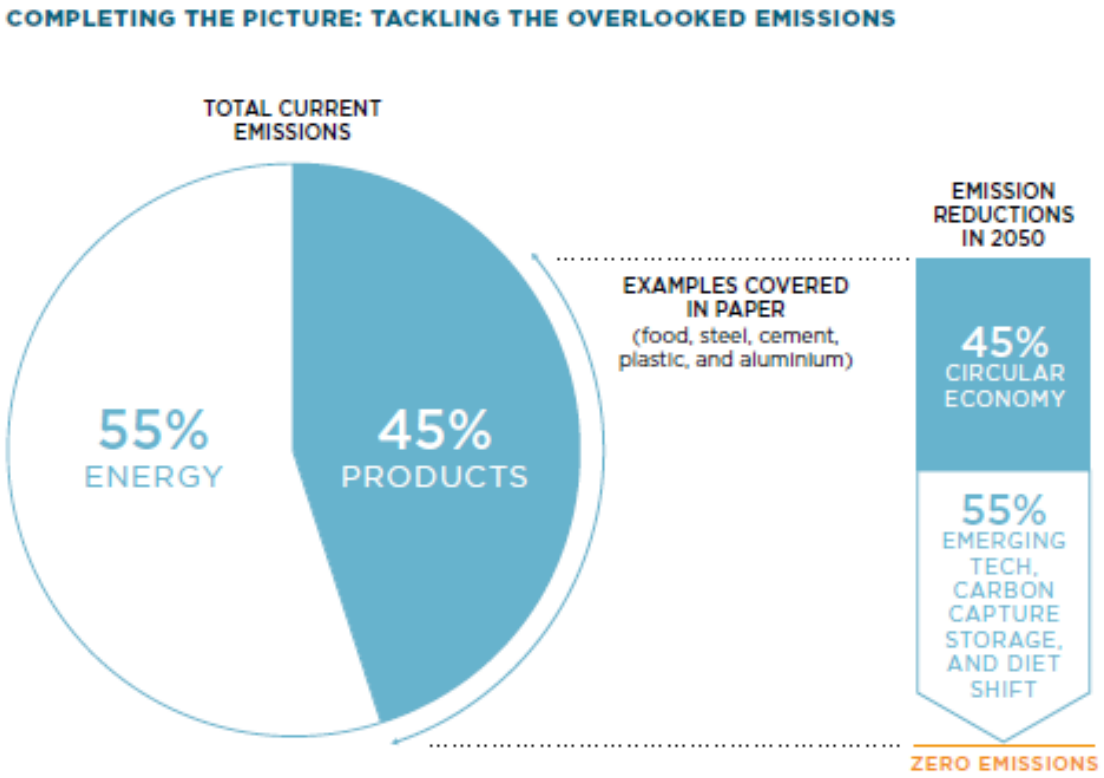

This approach is systematic, but works best in combination with other approaches:

1) It does not necessarily focus on the greatest GHG reduction potential

2) It loses effectiveness if buyers have limited purchasing power

# The importance of product-related emissions

Product-related emissions (**upstream** and **downstream**) have a large impact, from sourcing materials to product use. Eco-design and circularity approaches can play a key role in achieving GHG targets.




- Beyond RE and efficiency at supplier level, there is a large opportunity to **reduce product-related emissions**
- From **material innovation**, to **waste reduction** and increased **recycling**, several emission reduction opportunities exist across sectors
- For both upstream and downstream value chains, **no company can do this alone**. It is about **innovating** business models and **collaborating** across the chain.

*Source: Ellen MacArthur Foundation*

# 04

# BSR’s Reverse Sourcing Approach

# Delivering SBTs: BSR's 3 steps approach to Value Chain emissions

Regardless of the SBT target set*, achieving **supply chain decarbonization goals** requires **urgent, targeted action to reduce emissions** and strong **collaboration** both internally and externally. BSR suggests an approach in three steps to deliver fast GHG reductions at scale, achieve a company climate target and thrive in the long-term: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** SBTi approaches include Absolute Reduction, Intensity Reduction and Engagement*

# Value chain mapping: understand the value chain GHG reduction potential

Start by fully understanding your value chain and identify the largest **GHG reduction potential** – and concentrate on what can be further optimized.

## 1. Understanding the Chain

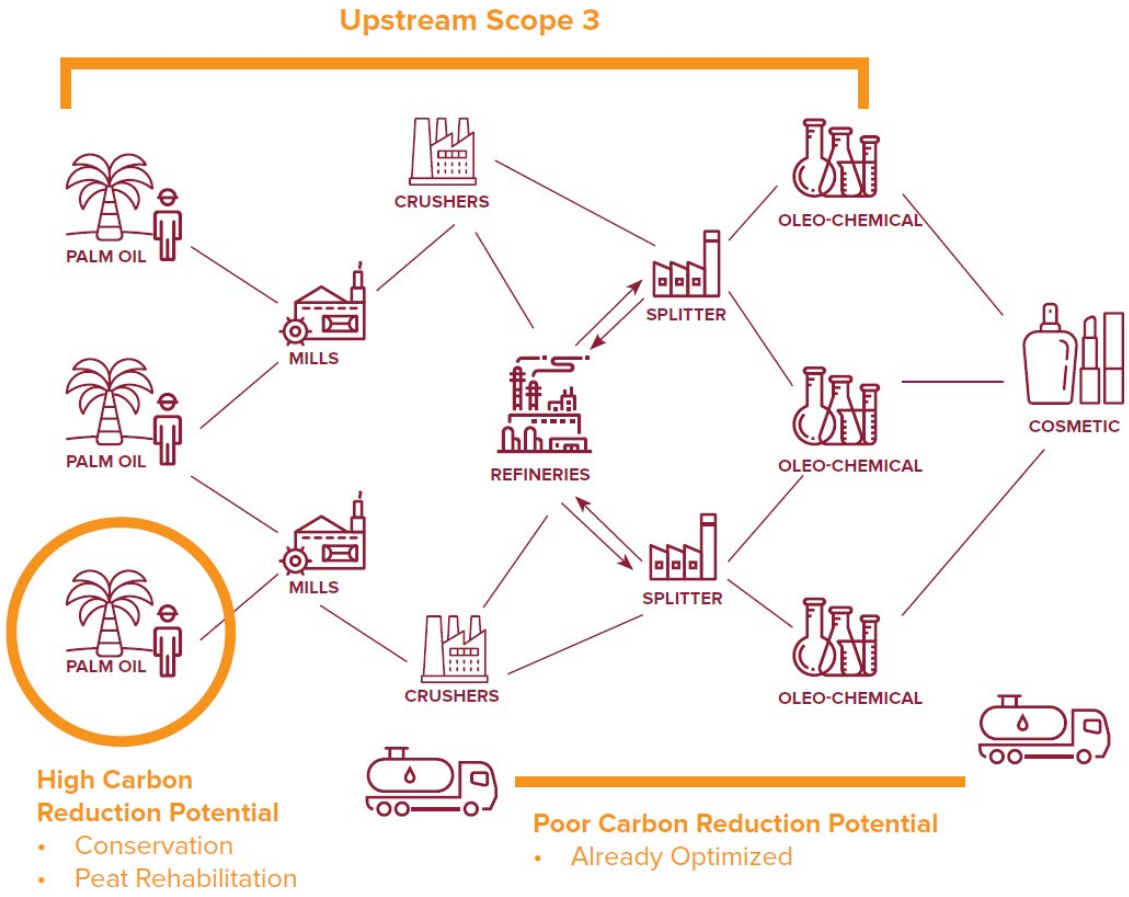
- Different tiers of suppliers
- Connection among players
- Key materials and their origins

## 2. Identify GHG hotspots

- Recognize the most GHG intense processes and materials.

## 3. Identify GHG hotspot with largest reduction potential

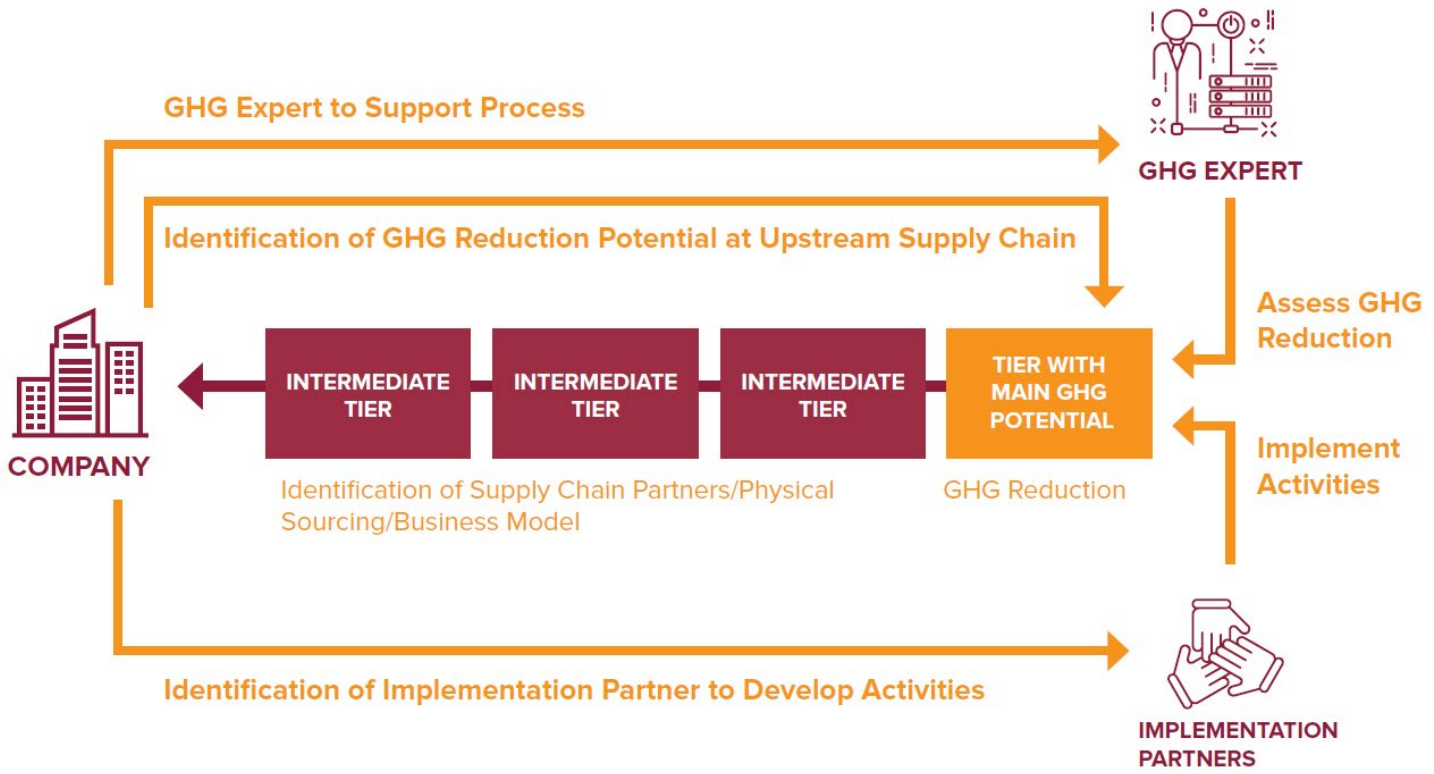
- The greatest reduction potential may not be the most obvious!



# Reverse Sourcing Approach

A **Reverse Sourcing approach** targets GHG reduction potential as a starting point, to engineer the **most appropriate solutions** in the value chain, ranging from raw materials projects to product innovation.

*"Reverse sourcing is not necessarily a complex approach. Nevertheless, it requires a shift of mindset and strong partnerships along the supply chain"*



# Demonstrate pilot projects to reduce GHG emissions through collaboration

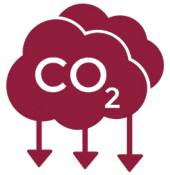
Close collaboration with peers and value chain participants are pivotal to successfully set up pilot projects to reduce GHG reductions.

## Identify high-potential pilots

- Discover and implement a set of relevant, high-potential GHG emissions reduction projects on different aspects in the value chain, e.g. alternative materials, R&D, product innovation

## Dialogue and Identify partners

- For each project identify, gather, and encourage partnerships among different value chain players
- Adequate engineering of long-term collaboration resulting in fair distribution of benefits
- Ensure no unintended side-effects on other social and environmental issues (human rights, gender equality etc.)




## Deploy pilots

- Think through responsibility for emissions reductions
- Pilots should demonstrate significant emission reductions

# Scale up in collaboration with value chain participants and peers

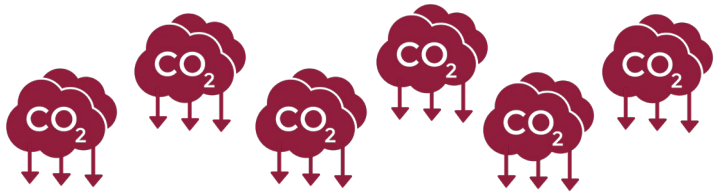
The pilots will provide learnings on how to best scale up GHG reductions. A **stakeholder engagement** phase will follow, to onboard internally and externally; build appropriate **engagement** and **procurement strategies**, to deliver effective GHG reductions on a large **scale**; and achieve SBT goals.

**Showcase GHG reduction from pilots**

- Reflect and exhibit the learnings from the pilot.
- If needed, tweak and adjust the projects according to findings

**Define large-scale GHG reduction strategies with value chain parties**

- Strategize with internal stakeholders (e.g. procurement, marketing, finance), peers and value chain members.




**Engage value chain stakeholders to scale up GHG reductions**

- Recognize and acknowledge efforts by other parties
- Scale effort collectively

# 05

# Q&A

# Thank You

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