



The Upstream Scope 3 Imperative and Opportunity

To BCG's network around the world,

If we are to have any shot at meeting our climate goals, it's essential that we tackle supply chain emissions—or upstream Scope 3, in climate parlance—with greater urgency. Scope 3 represents 75% to 95% of the emissions for end products in major value chains, such as food, auto, construction, and electronics.

During my travels over the past month, I had two experiences—one discouraging, one encouraging—that reveal a lot about our current progress on Scope 3 upstream. I'll start by sharing those stories, and then highlight how we can set the stage for action despite the near-term macroeconomic pressures.

“Not One Penny More.”

In India, I met the CEO of a leading company, who was skeptical that major multinationals were serious about tackling supply chain emissions. He told me that in discussion with his procurement contact at a global consumer company—led by a CEO whom I personally know is committed to addressing climate challenges—he raised the opportunity to decarbonize a key product component relatively cheaply. The procurement person responded bluntly and directly: “Not one penny more,” he said.

When he pushed the procurement person, reminding him about his CEO's sustainability commitments, he said he didn't care. His KPIs depend only on the cost of this product. Anything that wouldn't reduce product cost was of no interest. Unfortunately, this is likely typical of conversations between upstream producers and their downstream customers around the world right now.

Plans for Action

On the flip side, at Davos, we had the second major gathering of the First Movers Coalition (FMC), an initiative started by the US State Department and the World Economic Forum. The FMC is now made up of 55 leading companies. Eight countries, including India, Japan, the UK, and Italy, are now teaming up with the US and the WEF to accelerate progress.

The focus of the meeting was on committing to purchase—at a premium—products with emerging decarbonization technologies. BCG, the knowledge partner of the FMC, joined with Google, Microsoft, Salesforce, Swiss Re, and others as founding partners in the newly added [carbon removal category](#). Overall, it was an action-oriented, forward-looking, energizing conversation—my favorite of the week.

Bridging the Scope 3 Gap

These two stories represent the challenge we're facing. On the one hand, CEOs of leading companies increasingly understand that they must create demand signals for decarbonizing hard-to-abate areas such as steel, aluminum, cement, aviation, agriculture, and shipping if they want to drive investment, innovation, and scaling. On the other hand, action has been way too slow and often hampered by short-term interests.

We have to find a way to bridge this gap quickly, despite the enormous short-term pressures. And while doing so will be hard, it won't be as hard as many business leaders believe.

First, as our [supply chain report](#) with the WEF highlighted last year, creating net-zero products from the eight biggest-emitting value chains leads to cost increases of 1% to 4% for end users—meaningful but not insurmountable. Second, these efforts will unfold over years, so taking the right actions now will generally not have an impact on short-term economic conditions. But they will give suppliers time to prepare and invest—and gain confidence that their customers will value these investments. And they will enable suppliers and their customers to prepare for the transition to a lower-carbon world.

There's a lot we can do right now:

- We can invest in better supply chain measurement, tracking, and decision support tools. BCG has created an AI-based tool to help our clients do this ([CO2 AI](#)), and others are developing tools, as well.
- We can transform our procurement teams, including making sure sustainability is central to their agenda—a topic Christoph will come back to more broadly next week.
- We can build stronger relationships with suppliers, starting a discussion about transparent emissions reporting and goal setting and planning more strategically for the years to come.
- We can educate our employees and our customers about why Scope 3 matters and think about collaborating on sector-level efforts (consistent carbon labeling is one example) so that the companies that do make progress are valued for it.
- We can advocate for smart regulation, reporting, and incentives that encourage investment, drive transparency, and set a level playing field without adding onerous burdens.
- We can make bold commitments for advancing technology, such as joining the FMC.
- And last but not least, we can develop a real business case for decarbonization. In many cases, we will find that spending “one penny more” will pay off in the medium term. This year’s report from BCG and the WEF, [The CEO Guide to Climate Advantage](#), lays out the value drivers.

The short-term pressures are indeed immense, but the fact is that this doesn’t have to be an either-or situation—managing the complexities of a challenging economy or moving toward bolder climate commitments across all scopes. To succeed at decarbonizing at the pace we need, we have to align our own organizations around this goal while sending clear signals of intent into supply chains—and now.

Until next time,

A handwritten signature in dark ink, appearing to read "Rich", with a stylized flourish at the end.

Rich Lesser
Global Chair

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