



## Supply Chain Decarbonization: Urgency and Opportunity

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To BCG's network around the world,

In case you missed it, the latest projections say that there's a 2 in 3 chance we're going to pass the 1.5°C global warming threshold at least once over the next five years and nearly a 1 in 3 chance we will *average* a 1.5°C increase in temperature. In 2015, those odds were close to zero. As the impact of climate change goes up, the need for bold action is baring down.

Upstream Scope 3—that is, the emissions from a company's suppliers—generally contributes 3 to 12 times more emissions than Scope 1 and 2 (the emissions owned or controlled by a company). That makes supply chain decarbonization one of the most powerful climate action programs we have. But among the climate issues that vex CEOs, Scope 3 tends to be the most difficult. In fact, based on the CDP's database of almost 19,000 companies, nearly 60% have yet to disclose any Scope 3 emissions.

There are many reasons for this, but I hear about three most often. First, there's the complexity of gathering good data and consistently tracking the full scope of value chain emissions with enough confidence to be ready to report them. Second is the fact that Scope

3 includes upstream *and* downstream emissions—nomenclature that was created way back in 2001. Both are important but need to be addressed in radically different ways. Clustering them together leads to massive confusion and sometimes inaction. Finally, there's the basic challenge of influencing sometimes reluctant suppliers.

But change is coming fast:

- **Improved Standards.** Companies will soon be able to depend on a more common foundation for measurement, as the ISSB (International Sustainability Standards Board) releases its first standards next month. This shift should consolidate and integrate reporting expectations across geographies, grounded in financial materiality.
- **Tougher Reporting Regulations.** The EU Corporate Sustainability Reporting Directive starts next year and will include a broad range of ESG elements. These regulations will be challenging for many but will create much more consistency and transparency for nearly all businesses operating in Europe. How the SEC standards will evolve is less certain.
- **Stronger Data and Analytics Platforms.** Measurement and tracking platforms continue to improve, some using AI to estimate emissions for suppliers that lack internal capabilities. One such platform is [CO2 AI](#), newly spun off from BCG. It offers remarkable capabilities in measuring, tracking, and supporting the reduction of carbon footprints at scale.
- **Greater Pressure from Peers.** A flywheel effect is beginning to take hold. As one company sets expectations along its supply chain and forces changes, others in the same sector and industry are more likely to do the same.
- **Better Economics.** The [Inflation Reduction Act](#) in the US and similar policies being introduced elsewhere are creating incentives that will dramatically improve decarbonization economics across value chains and encourage action.

### Tackling Scope 3

We are doing so much work with clients these days to accelerate progress on Scope 3. Each situation is different, but here are five ways to get started:

#### **Decouple downstream and upstream strategies.**

Downstream is often about product usage innovation: working with

downstream partners, focusing on circularity, and aligning sustainable offerings with consumers' core needs. Upstream is about effective supplier engagement and expectation setting, product design innovation, the upskilling of procurement departments, and the use of increasingly sophisticated measurement and initiative tracking systems. There is overlap, but neither is a substitute for the other.

**Know your value chain.** Leading companies know the cost structures and emission drivers of their key suppliers, allowing them to educate and support suppliers on their reduction journeys.

**Set meaningful Scope 3 upstream targets,** irrespective of downstream goals. Base upstream priorities on both emissions levels and where your investments can make the greatest difference, depending on your influence as a buyer. It's equally critical to set expectations across your supply base that the bar will be rising over time.

**Reskill, upskill, and hire.** Procurement, product design, and supply chain departments need to be made up of people with sophisticated sustainability skills, starting with a deep understanding of supply chain emissions and an ability to embed climate topics in standard practices. That requires training, tools, and incentives—and in some cases, [new talent](#).

**Look beyond your direct suppliers.** As value chains shift, it can be important to talk not just to your customers, for example, but the customers of your customers. We see this happening as OEMs connect with mining companies and consumer packaged goods companies reach out directly to farmers.

There are wonderful examples of companies that have made step-change progress on upstream Scope 3. Walmart launched Project Gigaton in 2017 to engage suppliers in climate action and reduce 1 billion metric tons of greenhouse gas emissions by 2030. Since 2015, Mars has reduced emissions by 7.3% while experiencing substantial revenue growth. Part of its success is a result of a sustainable cocoa initiative, which traces cocoa supply back to more than 90,000 individual farms and trains over 85,000 farmers in sustainable agriculture practices.

Addressing our supply chains is essential if we want to make faster progress on decarbonizing our industries in this rapidly warming world. It's a move that will deepen supplier relationships and increase resilience overall. If this is an area you would like to

discuss further, please don't hesitate to reach out.

Until next time,



Rich Lesser  
Global Chair

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## Further Reading



### **Scoping Out: Tracking Nature Across the Supply Chain**

Companies need to work with their suppliers now on nature and climate to avoid falling behind.

[Read more](#)



### **How Decarbonization Drives Long-Term Resilience**

Companies may be tempted to deprioritize net zero efforts as they focus on reinforcing the resilience of their business. That would be a mistake.

[Read more](#)



## **Seven Forces Reshaping Procurement**

To support their company's strategic decisions, procurement leaders should monitor a wide variety of trends that affect supply availability and costs.

[Read more](#)

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