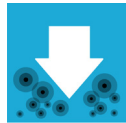




SUPPLIER ACTION GUIDE



**How to halve emissions
in your supply chain
by working with your suppliers**

INTRODUCTION

To achieve the 1.5°C ambition, we need to halve global greenhouse gas (GHG) emissions before 2030 and we need to reach net zero no later than 2050, while at the same time removing some of the carbon already emitted into the atmosphere*. Companies that can make progress quickly can create significant competitive advantage and enhance their own long-term resilience, allowing better possibilities for complying with upcoming climate regulations.

The Supplier Action Guide specifically addresses one critical component of decarbonization: engaging suppliers to take climate action.

In this guide you can find guidance and tools on how to ensure that your strategic suppliers contribute to you successfully achieving your net zero commitment, in line with the latest climate science - from the UN's Intergovernmental Panel on Climate Change (IPCC) - linked below. Furthermore, this action guide links to the second pillar of the 1.5°C Business Playbook – reducing your value chain emissions.

* IPCC WG1 Sixth Assessment report

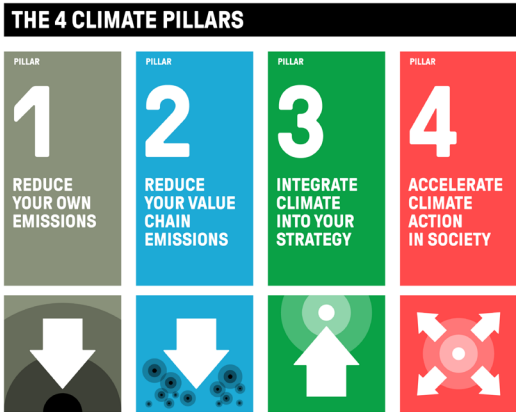


Figure 1. Business Playbook - the 4 climate pillar

GLOSSARY:

Net Zero definition: State reached by an organization that has reduced its value chain emissions (scope 1, scope 2 and scope 3 emissions) following science-based pathways, with any remaining residual greenhouse gas (GHG) emissions being fully neutralized by permanent or like-for-like removals exclusively claimed by that organization. The term "residual" refers to residual emissions that remain technically unfeasible to be eliminated. Such residual emissions shall not exceed 10% of baseline emissions.

Halving by 2030: The science as assessed by the UN's Intergovernmental Panel on Climate Change (IPCC), and as per the Carbon Law, highlights how emissions need to halve every decade until 2050 in order to keep global warming by the end of the century to a maximum of 1.5°C. The first halving needs to be achieved by 2030.

SBTi- The Science-Based Targets Initiative (SBTi) is an organization that sets frameworks for companies' emissions reductions goals in line with climate science. The initiative translates global goals into sector pathways and provides detailed guidance on the levels of reductions required. Companies can apply to have their near-term and long-term emissions reductions goals approved by the initiative.

CDP: The Carbon Disclosure Project (CDP) is a global organization that provides a platform for larger companies to disclose their emissions data, climate actions and other environmental activities in a standardized format. Company-specific data is made accessible to investors.

Goals: referring to a company's overall climate ambitions.

Targets: referring to supplier targets in order to achieve different goals (eg. halving by 2030).

ABOUT THIS GUIDE

This guide provides a practical framework that any company can use to work with suppliers to set and meet 1.5°C aligned targets. This approach can be cascaded by suppliers across their own supply chains.

The Supplier Action Guide is aligned with the 1.5°C Business Playbook and suggests a structure for simplifying supplier engagement on climate and harmonizing buyers' requirements, providing leading practices and frameworks for supplier engagement.

FREQUENTLY ASKED QUESTIONS

How does this handbook relate to our company's overall climate target?

This guide assumes that your company already has an overall 1.5°C aligned climate goal. Having a supplier target, such as is presented in this guide, is only one mechanism for reducing emissions and reaching your overall supply chain target. Other contributions to the overall target may include improved product or service design, enabling increased use of renewable energy in your supply chain, adjusting business models, and more. However, having a supplier target is a valuable component for increasing action from your suppliers.

Are suggested activities applicable to all suppliers and supply chains?

As every supply chain is different, companies may select the actions from the Guide that are most appropriate for their circumstances.

Individual suppliers will each face their own challenges and opportunities – based upon sector, geography and other factors. Some may require additional support or innovative solutions to deliver on their 1.5°C target, while others may be well-positioned to act faster, and should be incentivised and supported to do so.

Which suppliers should companies work with to set 1.5°C aligned targets and move to action?

In line with the warning from the IPCC's WG1 Sixth Assessment report, all companies need to take climate action to align with the 1.5°C ambition and halve GHG emissions by 2030. This guide suggests that companies encourage all suppliers to align with the 1.5°C ambition, and link them to resources they can use. However, a company may prioritize a subset of suppliers to work with directly.

WHO IS THIS GUIDE FOR

The primary audience of this guide is employees in company functions working with suppliers and/or on decarbonization, such as procurement, supply chain engagement and/or sustainability teams. Companies will have different focal points for this work, depending on their internal preferences and the shape and complexity of their supply chains.

While the Supplier Action Guide provides a common framework, companies should adapt it for their own circumstances, while always remaining focused on the target of halving GHG emissions by 2030 - an important milestone to reaching net zero emissions well before 2050.

GUIDE FRAMEWORK

This guide is based on best practices from world leading companies, aligned with the UN-backed Race to Zero campaign.

FOUNDATION

- Management commitment
- Setting a 1.5°C Supplier Target
- Supply Chain GHG Mapping and prioritization

PROCUREMENT

- Convey expectations to suppliers
- Process Integration
- Operationalizational integration

SUPPLIER ENGAGEMENT

- Supplier dialogue
- Supplier support
- Supplier recognition

REPORTING

- Suppliers' progress reporting
- Management of suppliers' performance data
- Disclosure suppliers yearly progress

COLLABORATION & INNOVATION

Collaboration and innovation can help companies identify new solutions, contribute to systemic approaches towards achieving 1.5°C aligned supply chains in partnership with stakeholders.

FOUNDATION

MANAGEMENT COMMITMENT

Clear management support from the start, as well as a defined structure of responsibilities, will help achieve the goal of halving supply chain emissions before 2030. Often, several departments within an organization need to be involved.

ACTIVITIES

- Explore on what levels and in which departments commitments need to be secured.
- Have relevant management functions facilitate alignment on climate strategy with relevant departments, such as sourcing, indirect procurement, R&D, and finance.
- Assign clear responsibilities, identify potential actions, and clarify implications for each department or function.

SUPPLIER ENGAGEMENT TARGETS

Setting a target to work directly with priority suppliers to halve their GHG emissions before 2030 is a key step in aligning a company's supply chain with climate science. Publicly stating your 1.5°C Supplier target communicates to stakeholders – including suppliers – the company's ambition to align its procurement with climate science.

ACTIVITIES

- Set and publicly state a goal to halve your supply chain GHG emissions before 2030.
- Set a target for requesting suppliers to halve emissions before 2030, in alignment with the 1.5°C ambition.
- Prioritize which suppliers to engage with directly for maximum impact.
- If you have a long tail of small suppliers, direct them to publicly-available tools and resources like the SME Climate Hub.
- Disclose your supplier target and report publicly on progress at least annually.
- Include interim targets to facilitate follow-up on progress.

POSSIBLE TARGET METRICS

- X% or number of strategic suppliers to halve their GHG emissions.
- Suppliers representing x% of company procurement spend to halve their GHG emissions.
- Reducing supplier GHG emissions by a specified x% by a given target year.
- Number of strategic suppliers that report into CDP, SME Climate Hub or other public channel that feeds into the UNFCCC Global Climate Action Portal.

Note that reducing supplier emissions by a certain percentage is a great target. But, it may take some time to get the emission estimates to a good enough quality to be able to measure and follow up. So, a simpler target, such as counting suppliers, may be more appropriate.

SUPPLY CHAIN – EMISSIONS MAPPING

Mapping your company's supply chain GHG emissions, identifying hotspots and finding potential reductions will show where supplier engagement efforts are likely to have the greatest impact and will help you to prioritize.

ACTIVITIES

- Understand the steps in your supply chain, from upstream raw material sourcing to the products/services delivered to you.
- Map your company's supply chain GHG emissions, to the best extent possible.
- Conduct a GHG hotspot analysis to understand where the largest GHG emission sources are located.
- Prioritize which suppliers to engage with directly, using criteria such as:
 - » supplier GHG emissions,
 - » GHG emission reduction potential,
 - » readiness of suppliers to engage and
 - » strength of relationship with suppliers.

It is hard to get high quality GHG emissions data for supply chains. Estimations are often sufficient for starting work, and for prioritizing. The estimations will become more accurate as the work continues.

SPEND WITH SUPPLIER	EMISSION FACTOR OF PRODUCT/SERVICE
MATURITY OF SUPPLIERS CLIMATE WORK	STRATEGIC PARTNERSHIP WITH SUPPLIER
RELATIONSHIP WITH SUPPLIER	GEOGRAPHY OF SUPPLIER

These are factors that can be considered when mapping what suppliers to prioritize when reducing emissions in your supply chain.

PROCUREMENT

COMMUNICATING EXPECTATIONS


Clearly communicating the expectation that suppliers should halve emissions before 2030 will encourage them to set aligned targets and take action. Communicating from your top management will strengthen the message; and from procurement to sales/key accounts to make them actionable through the relevant business channel.

ACTIVITIES

- Create communication of your expectations that is clear and easy to understand both by your organization and suppliers.
- Include support for your suppliers in the communication, with information about available resources. See section on “Support” in this guide.
- Aligning your ask with other buyers’ will send a unified message to suppliers about the need to halve emissions before 2030.

COMMUNICATION CAN TAKE MANY FORMS, FOR EXAMPLE

- Letter or email sent from your company leadership or procurement function.
- Press release or mention on the company webpage to be sent to suppliers.
- Including the expectations in your Supplier Code of Conduct.
- Joining relevant initiatives such as 1.5° Supply Chain Leaders or Sustainable Freight Buyers Alliance.



Joining forces with other buyers through 1.5°C aligned procurement pledges sends and strengthens a unified message, providing an additional incentive for suppliers to act.

Make sure to use standard messages that are aligned with science and best practice, see example on the next page.

Dear Supplier,

Conducting business responsibly is fundamental to <insert company name>'s strategy and culture. If the planet continues to heat, the impacts on society will be catastrophic. Climate action on a global scale is needed now.

As a member of the UN-backed Race to Zero Campaign, <insert company name> is working to align with the science of keeping global warming to 1.5°C. To achieve the 1.5°C ambition, global greenhouse gas (GHG) emissions must halve by 2030 towards net zero by 2050 while protecting nature. An urgent, collaborative and aligned approach is needed to achieve the required momentum for sufficient global climate action, and we expect our suppliers to join us on this crucial journey.

We are now asking you as our supplier to:

- Set a public target to halve your absolute emissions by 2030 and start taking action.
- Disclose progress publically on an annual basis.
- Share this letter and request with your suppliers and communicate your climate commitment to your customers.

<insert company's climate ambitions or targets, and beneficial reasons for your suppliers to align, for example, a higher score when you evaluate them as a supplier and gaining a competitive advantage>

To our already aligned suppliers, we thank you for your dedication and look forward to mutual progress on this topic. This is a race we can only win together!

For further information on how to align with the 1.5°C ambition, please see:

- 1.5°C Business Playbook – a guide for your organization to align strategy and action with the 1.5°C ambition. Free to use and distribute.
- SBTi (Science Based Targets initiative) – used to set 1.5°C aligned targets and has useful information for how to calculate targets. Often used by larger companies.
- SME Climate Hub – a one-stop-shop for small and medium-sized companies on how to commit, act and report on climate action with free tools and guides for the different stages.
- 1.5°C Supplier Engagement Guide – provides support on how to work in your own supply chain with the 1.5°C ambition.

We look forward to you joining us on this necessary transformation to keep global warming at 1.5°C. Please get back to us before *<insert date>* with your plan on how to set a 1.5°C aligned target, or a link to an already public target. Thank you for your commitment and valuable support.

Best regards,
<company representative's name and title>

PROCESS INTEGRATION

Integrating your expectations into procurement documents and processes will provide clarity to both suppliers and your procurement team.

ACTIVITIES

- Include text requiring suppliers to halve their emissions by 2030 and to report on GHG emissions in line with recognized standards (e.g. GHG Protocol) in key procurement documents. This includes, but is not limited to:
 - » New supplier contracts
 - » Supplier Code of Conduct
 - » RFI/RFPs
 - » Supplier self assessments
 - » Performance cards
- Include climate considerations in the processes and documents in your procurement portal.
- Include climate-related requirements in the evaluation of new suppliers and renewal of contracts with existing suppliers.
- Work with the procurement team to integrate the climate target into existing supplier relationships, as part of ongoing supplier dialogues.



Because contractual relationships and suppliers' maturity levels on climate vary, process integration may require flexibility across different suppliers.



Evaluate the potential opportunities and differences between working with your existing supplier base, versus working with new suppliers and renewed deals. Different mechanisms may be used in the different cases.



CLIMATE - CODE OF CONDUCT EXAMPLE

Disclaimer: note that the following example only reflects the general climate requirements for the suppliers, thus it does not cover the entire environmental requirements. It may also be complimented with further and more specific requirements on climate, depending on your industry.

GENERAL

Supplier shall address its climate impact in a structured way, based on the following: Supplier shall publicly commit to reduce its GHG emissions with the ambition level of meeting the 1,5-degree scenario as presented by IPCC8 (November 2018). This means at least halving GHG emissions in the supplier's whole value chain every ten years.


Supplier shall set verified science-based targets or similar (for relevant Scope 1, 2 and 3 as described in GHG Protocol Corporate Standard) within *X* years. In addition, by the end of (enter year), the supplier shall have a plan in place to achieve a climate-neutral value chain by 2030 (including subcontractors). Further requirements on energy consumption and climate mitigation may be applicable.

INTERNAL ALIGNMENT

The procurement team has a fundamental role in implementing your supplier strategy and in achieving your goal of halving supply chain GHG emissions by 2030. For that reason, procurement teams may require training to understand your company's strategy and the role they can play. Appropriate internal incentives linked to achieving climate goals can further strengthen internal buy-in.

ACTIVITIES

- Identify the key employees who are central to achieving your supplier decarbonization target.
- Train selected members of the procurement team on your company's climate goals, the importance of halving supply chain emissions before 2030 and the role of procurement in meeting those goals.
- Consider appropriate incentives linked to climate performance for procurement and sustainability teams. For example, relevant climate KPIs could be integrated into employee review and performance evaluations.



Consider adding your supplier engagement efforts and supplier climate target to your internal communications to raise awareness amongst a larger number of your employees to generate engagement and strengthen momentum.

SUPPLIER ENGAGEMENT

SUPPLIER DIALOGUE

An open dialogue with suppliers on climate helps clarify expectations and the action needed to reduce emissions, builds trust between the organizations, and helps identify support needs and opportunities for collaboration.

ACTIVITIES

- Include climate performance in ongoing business interactions between procurement and other relevant departments, with the supplier representatives.
- Make sure that the message that suppliers are expected to halve emissions before 2030 is received and understood.
- Ask suppliers if they have existing emission reduction targets and see if they are in line with expectations. If not, ask them to revise their targets.
- Review suppliers' reduction plans to make sure that they are relevant and aligned with the expected reductions.
- Ensure you understand any concerns suppliers have, for instance about setting up appropriate targets and how to reduce their emissions.
- Regularly discuss climate performance with suppliers, to follow progress, provide examples of peer performance, and identify mutual needs and opportunities.

SUPPLIER SUPPORT

Supporting suppliers with information, tools, and examples can speed up their process for setting goals and enable them to take action.

ACTIVITIES

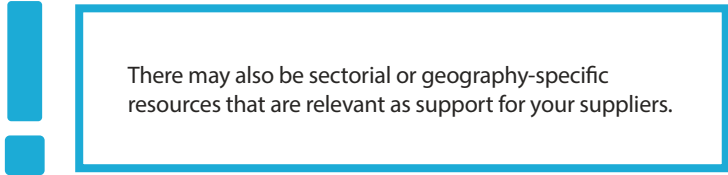
Direct suppliers to publicly available tools and guides as appropriate. Below are some examples of tools that are freely available online.

- GHG Protocol: GHG accounting standards, guidance and tools.
- Science-Based Targets Initiative (SBTi): target-setting methodologies and tools.
- 1.5°C Business Playbook.
- SME Climate Hub: tools and resources tailored specifically for small- and medium-sized businesses.

Offer ad-hoc support, where suitable and realistic, such as:

- Grouped supplier webinars or other gatherings.
- One-on-one or group support on specific topics of interest, such as quantifying GHG emissions, and purchasing renewable energy.

Assist suppliers in pursuing shared solutions, e.g. facilitating the provision of virtual PPAs.



There may also be sectorial or geography-specific resources that are relevant as support for your suppliers.

RECOGNITION

Well-designed and relevant incentive schemes may provide a boost to suppliers that are less mature on their decarbonization journey, lack motivation, or simply do not have the right resources to get started. Incentives and recognition can take many forms.

ACTIVITIES

Design appropriate ways to recognize good supplier climate performance, and embed these in procurement processes.

Recognition may include:

- Acknowledging supplier climate performance publicly, e.g. through website or with peers.
- Providing preferential conditions, for example, improved payment terms, or locked-in longer contracts linked to climate performance.
- Applying discount factors in contracts, linked to progress towards climate targets.
- Financial contributions to GHG reductions, e.g. switch to renewable energy in a supplier factory.
- Collective financing with suppliers, for example, for renewable energy installations.

REPORTING

SUPPLIERS' PROGRESS REPORTING

Annual reporting by suppliers on GHG emissions and progress against targets creates accountability and allows tracking. Public reporting by suppliers allows them to share the same information with all of their customers and with other stakeholders at the same time, thereby reducing one-to-one dialogues.

ACTIVITIES

- Request suppliers to set and publicly disclose a target to halve emissions before 2030.
- Request suppliers to publicly report their Scope 1, 2 and 3 GHG emissions annually, in line with international standards such as the GHG Protocol.
- Request suppliers to publicly report progress each year towards their target of halving emissions before 2030.

A basic example of a questionnaire requesting information that is relevant when reporting on company climate action:


1. List your company name, reporting year and baseline year.
2. Describe emission reduction targets.
3. Are they absolute or intensity reduction targets?
4. Are the targets verified by organizations such as SBTi or similar?
5. Have you communicated requirements as well as your own climate targets to your suppliers?
6. State the tools used to perform emission calculations.
7. State the methodology calculation used in all three scopes.
8. Has the calculated emission data been verified by a third party? If so, who?
9. Emissions reporting (for the baseline year):
 - » Scope 1 (in tonnes CO2)
 - » Scope 2 (in tonnes CO2)
 - » Scope 3 (in tonnes CO2)
10. Emissions reporting (for the reporting year):
 - » Scope 1 (in tonnes CO2)
 - » Scope 2 (in tonnes CO2)
 - » Scope 3 (in tonnes CO2)
11. Additional sustainability targets to be reported (ie. renewable energy).

MANAGEMENT OF SUPPLIERS' PERFORMANCE DATA

Tracking suppliers' annual disclosures allows you to assess suppliers' progress and to understand how targeted efforts with select suppliers contribute to achieving your company's own climate goals.

ACTIVITIES

- Define responsibility and process for tracking progress annually within your organization. Use suppliers' public reporting to track:
 - » Existence (or not) of a goal to halve emissions before 2030.
 - » GHG emissions and annual progress towards target.
 - » Make an overview of suppliers' climate performance available to procurement teams for their dialogue with suppliers.



Tracking is sometimes a manual process. Consider opportunities to automate the process within your data management platforms in order to minimize errors and save time.

Note that reporting from suppliers will cover their entire organization's scope, not just the proportion of emissions directly associated with the production of your products or services.

COMPANY PROGRESS REPORTING

Tracking the aggregate progress of suppliers helps your company monitor progress towards its 1.5°C supplier targets and to adjust your approach if needed. Data on suppliers' performance is an important component of your company's public climate reporting and demonstrates transparency to your stakeholders.

ACTIVITIES

- Publicly disclose your company progress on achieving your 1.5°C Supplier Targets.
- Tie suppliers' disclosure to company progress towards your overall supply chain decarbonization goal.
- Use relevant channels for reporting, such as sustainability report/ website, or other platforms.

EXAMPLE PROGRESS REPORT IN ANNUAL REPORT

Tracking the aggregate progress of suppliers helps your company monitor progress towards its 1.5°C supplier targets and to adjust your approach if needed. Data on suppliers' performance is an important component of your company's public climate reporting and demonstrates transparency to your stakeholders.

TARGET

The company has a target to by 2024 have 200 high emitting direct suppliers set their own emission reduction targets aligned with the 1.5°C ambition.

The results of this target covers approximately 80% of the company's supply chain related carbon footprint.

For a supplier's target to be accepted, it must include relevant emissions from scopes 1, 2 and 3 and be made public and be accompanied by annual public reporting on progress to achieve those targets.

2023 RESULTS

By year end, 189 suppliers had set targets that meet the criteria, and the company is on track to achieve its 2024 supplier climate target.

COLLABORATION AND INNOVATION

ACCELERATING ACTION THROUGH COLLABORATION

Collaboration can accelerate action by helping identify new solutions, enhancing knowledge, sharing best practices and driving collective solutions at systemic or industry levels to halve GHG emissions by 2030.

Harmonizing decarbonization approaches across departments, stakeholders and industries can:

- Reduce climate action 'fatigue' for buyers and suppliers.
- Encourage other buyers to join the movement, thereby encouraging collective progress.
- Incentivize suppliers to take action, if they receive unified requests from multiple buyers.

Companies that seek to accelerate action through collaboration should consider doing so in partnership with stakeholders outside their existing operations.

You may consider:

- Teaming up with like-minded partners to drive decarbonization at a systemic level, such as 1.5°C Supply Chain Leaders.
- Teaming up with like-minded buyers to accelerate change amongst common suppliers to halve GHG emissions by 2030.
- Working with partners to deploy programs or other solutions aimed at supporting climate action in your supply chain.
- Collaborating with a broad range of stakeholders outside of normal scope of business operations, such as peers, NGOs, customers, governments, academia, to support a systematic approach towards decarbonization.
- Educating customers about your efforts and enlist their support.

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WE WELCOME YOUR FEEDBACK AND SUGGESTIONS
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