Reasons To Improve the Climate Impacts of Your Supply Chain

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CDP's Dexter Galvin explains how business can benefit by increasing their supply chain's commitment to sustainability.

(GreenBiz – Jocelyn Timperley: 2-4-16) Following the release this week of a report that showed that even green-minded multinationals can struggle to keep tabs on their supply chain's carbon footprint, Dexter Galvin of CDP —one of the organizations behind the report — discusses how and why businesses should be looking at where they are buying as well as where they are selling.

Supply chains account for the bulk of corporate emissions

If a company is aspiring to cut the carbon impact of its products, looking only within its own four walls won't cut it. The CDP research reveals most supply chain emissions are around four times the operational emissions for most companies (with the exception of energy or mining firms). "Essentially a lot of big purchasing organizations around the world have effectively outsourced their emissions to their supply chains," said Galvin, head of CDP's supply chain program. "We think one of the solutions is to get more and more companies to start measuring, managing and disclosing their carbon emissions."

Engagement takes time, and is trickier than you think

Many suppliers are still turning a blind eye to the climate debate — leaving many big firms in the dark as to the true impact of their business. Of the almost 8,000 key suppliers contacted through CDP's study on behalf of the multinationals, only 51 percent even gave a response. "These are the key suppliers for some of the world's largest corporations," said Galvin. "In light of the Paris Agreement, we think that there's very significant risk in corporate supply chains from suppliers who have no awareness of climate risk at the moment."

Major internationals are spearheading supply chain reform

While the high carbon impact of supply chains presents significant risk, it also presents a huge opportunity. Many big corporations are already beginning to take their supply chain impacts more seriously, and companies who don't could risk being left behind. CDP has 75 major multinationals — including Coca-Cola, Goldman Sachs and Walmart — signed up to its program and collecting data from their suppliers every year. Collectively, these organizations account for around $2 trillion of annual spending. Even the U.S. federal government is signed up, as well as the electronics industry through its industry group the Electronic Industry Citizenship Coalition (EICC). More than half of these companies are already using CDP data to assess their suppliers. L'Oréal, for example, has made a commitment that its top 300 suppliers will have a carbon reduction target in place by 2020 — and has made clear it isn't afraid to deselect suppliers who don't perform. Dell has a similar set of demands, and even requires suppliers to engage their own supply chain in turn.

Regulation is lurking around the corner

Following the Paris Agreement many countries are already beginning to take swift action on emissions. Only last week China announced that the list of industries set to be covered by its national carbon market will include petrochemicals, power, the construction and steel industries, and even aviation. Waiting for regulation can cause a lot of problems, not least cost increases in the supply chain, [while] companies that have been managing this issue in their own will naturally be more prepared for regulation. All this means companies that use a take-it-as-it-comes approach may find themselves disadvantaged down the line, as a world striving to keep up with an ambitious global agreement could have trouble finding the time to bring the laggards up to speed, said Galvin.

"There's a huge amount of risk out there in the world at the moment on climate change," said Galvin. "Waiting for regulation can cause a lot of problems, not least cost increases in the supply chain, [while] companies that have been managing this issue in their own operations for a number of years will naturally be more prepared for regulation."

Meanwhile, although many companies believe their "global sourcing strategy" means they can just source their supplies from elsewhere, it may not be as simple as this. “If we look at regulatory risk specifically, the Paris Agreement means that regulation will be implemented across the world in order to meet [the agreement’s] ambitions,” said Galvin. “The regulatory frameworks in most emerging markets would need to change very significantly.” All this means those areas companies typically may have moved to could be at the most risk of fast-rising cost increases, as regulation rapidly comes into play.

One example, said Galvin, is a recent estimate from Bank of America predicting the annual cost impacts on the company should the U.S. federal government pass a carbon tax. When the company alone was considered, it estimated the cost would be between $13 million and $26 million — but when the bank’s complex supply chain costs were factored in, it estimated that potential additional costs could reach between $180 million and $500 million.

Don’t forget water

While emissions reductions and energy often steal the limelight as far the climate goes, the CDP report also highlights the risk to companies of ignoring the issue of water shortages. Of the 8,000 suppliers CDP asked to report on their water risk, only 34 percent had even undertaken a water risk assessment. “A very important starting point for a company engaging on water as an issue is for them to understand how it’s going to impact their operations,” said Galvin. “It’s a very scarce commodity and we feel that a lot of the suppliers are not helping their customers to deliver water stewardship in their own supply chains.”

Supply chain reform has measurable effects …

While the CDP reported disappointing returns for the number of suppliers who responded to request for climate information, where suppliers did report back there were often significant improvements. Between the first and third year of being in the program, suppliers become far more likely to report on their emissions, much better at identifying risk to their organization, and even twice as likely to have a reduction target in place. “Of course to measure is to manage,” said Galvin. “When you look at the suppliers themselves, where the suppliers take management of this issue seriously, you can see that it yields results.”

Purchasers also can push progress by setting an emissions reduction target in their own supply chain. “Obviously those companies that have targets that include their supply chain are much more likely to see their suppliers respond, to report emissions reductions and to report emissions reductions targets as well,” said Galvin. “You can see a very significant increase in the performance of their suppliers.”

And saves cash

Reducing risk is not the only reason for purchasers to engage with their supply chain — it also can deliver huge cost savings. CDP found that those suppliers that did disclose their climate information reported combined savings of $6.6 billion. The savings also increase with time — those suppliers who have been reporting the information for at least three years reported average savings of $1.5 million per emissions reductions initiative. “We’re seeing very significant savings across the board,” said Galvin. CDP found that those suppliers that did disclose their climate information reported combined savings of $6.6 billion.

“If we look just at the emissions that suppliers have reduced that they attribute directly to their customer engagement with them … we’ve actually captured 3.5 million tons of carbon emissions that were directly attributable to customer engagement last year. Which is the equivalent of 90 million trees over 10 years.”

Supply chain engagement is going public

CDP is concerned that too few companies are engaging their supply chains on climate — so this year it will begin scoring companies on the management of carbon and climate change across their supply chains, with rankings to be released in a year’s time. For companies keen to keep their green credentials clean, this may be the right year to check that all of their house is in order.