Normative

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Enterprise Value Chain Carbon Emission Reduction

Six building blocks to measure and reduce value chain carbon emissions

In this guide

Reducing your value chain's emissions contributes to the fight against climate change while keeping your businesses competitive and legally compliant.

Here's how to get started.

Getting Everyone to Net-Zero

Climate change will not wait: we need to act now. To meet the goals of the Paris Agreement and prevent the most harmful effects of climate change, we must enact immediate and drastic emission reductions. For many companies, the majority of their emissions are in the value chain, which includes both upstream emissions from the supply chain as well as downstream emissions from product use and disposal. To reduce emissions and reach net zero, companies must engage their value chain, as the latest IPCC report makes clear.

At Normative, we work with companies to reduce their carbon footprints, with a special emphasis on the value chain emissions. And in our work, we see that many companies want to act but don't know where to start. So this guide is intended to clarify the path forward for companies that want to begin this journey.

The first step to reduction is to measure your value chain emissions. Once you have identified your hotspots, you can devise a strategy for engagement and prioritization. Value chain engagement can take many forms: engaging your suppliers, switching to low-carbon financial investments, decarbonizing your product and service design, or implementing circular economy principles.

For many companies, suppliers account for a large share of value chain emissions. By engaging and inspiring suppliers to reduce emissions, you will have a positive impact on your own carbon footprint as well. Supplier engagement is a powerful mechanism to get as many companies as possible started on the path to net zero, enabling an economy-wide net zero transition.

There are no shortcuts to net zero. Businesses need to measure and reduce their emissions in order to be compliant with legislation and have the competitive advantage a sustainable business model creates. Without proper measurement, you may only be accounting for part of your carbon footprint – and could potentially face accusations of greenwashing.

We know that value chain engagement can be difficult at first. The good news is that a little bit of strategic focus and target-setting goes a long way – jump-starting your net-zero journey and bringing in new business opportunities. This guide can lead you through the process.

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Kristian Rönn

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CEO & Founder

The Paris Agreement and climate targets

The Paris Agreement commits the world to a global temperature increase of less than 1.5°C. To meet this target and avoid the worst effects of climate change, global greenhouse gas emissions must be cut in half by 2030 and reach net zero by 2050.

Net Zero.

When a company has reached net zero, its activities do not contribute any additional GHG emissions on balance. In practice, this means that the company first reduces its emissions as much as possible and then purchases high-quality carbon removal to compensate for any residual emissions that it can't eliminate.

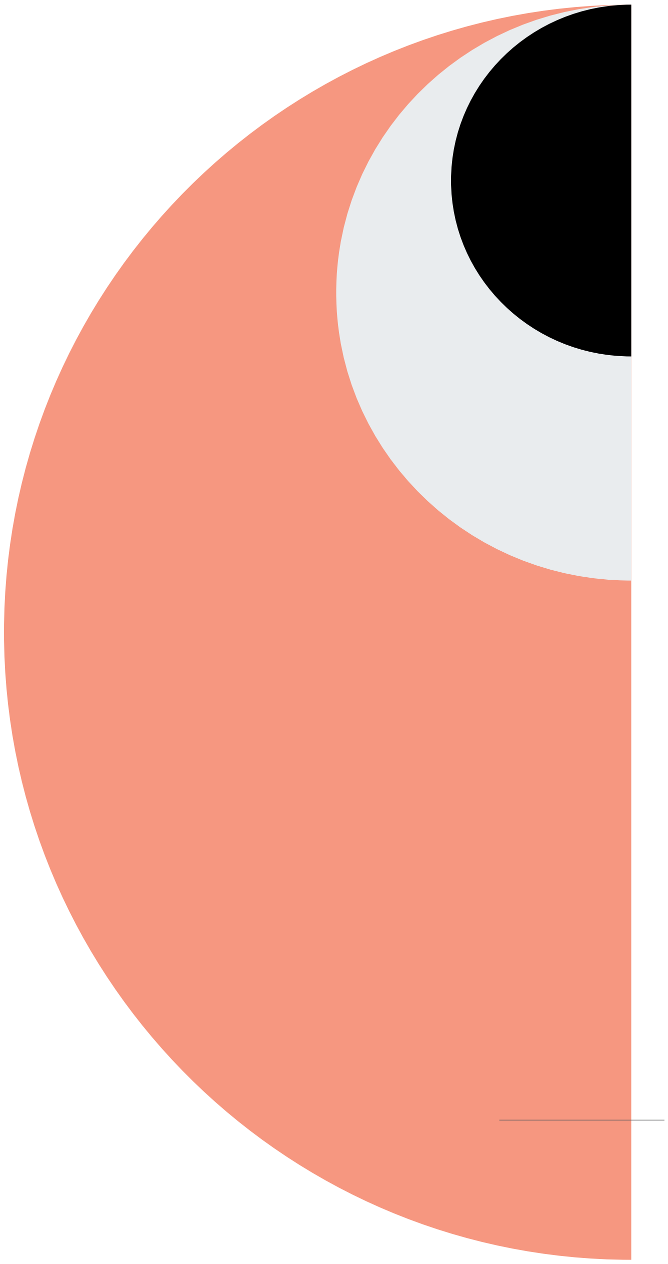
The private sector is responsible for the vast majority of global emissions. Companies have a crucial role to play on the path to net zero, and there are many things they can do to reduce emissions.

For most companies, over 90% of their emissions are in the value chain. This makes value chain engagement a central component of any successful emission reduction plan. Value chain emissions (also known as scope 3 emissions) are emissions that the company does not directly produce itself, but that nevertheless happen as a result of its business activities.

For example, this includes both upstream emissions produced by suppliers and downstream emissions from product use and disposal. It also includes a range of other categories, such as business travel, employee commuting, and investments.

While many companies are good at keeping track of their scope 1 and scope 2 emissions, measuring and reducing scope 3 emissions can present a unique set of challenges. To make it easier to get started, we've provided a practical guide to value chain engagement: a set of strategies and tools for reducing emissions in your value chain.

Emissions are divided into three scopes



Scope 1

Direct emissions resulting from vehicles, fuel use, and/or chemical leakage.

Scope 2

Indirect emissions resulting from bought electricity, cooling, heat and/or steam

Scope 3

Other indirect emissions that occur in the value chain of a company and are not already included within scope 2 (such as emissions resulting from purchased goods and services, transport, or business travel)

90% of emissions are typically within scope 3

Where did Scope 1, 2, and 3 come from?

The emissions scopes were created by the The Greenhouse Gas Protocol (GHGP), which provides standards, guidance, tools, and training to measure and manage climate-warming emissions.

Why now?

This is how value chain carbon reduction enables you to make necessary progress on climate change, keep up with regulations and stakeholder pressure, and attract customers and employees.

Make meaningful progress on climate change.

The latest IPCC report emphasizes that reaching net zero requires "coordinated action throughout value chains." Because over 90% of a company's emissions are typically in scope 3, value chain engagement can lead to a substantial reduction in total emissions. Moreover, by encouraging your suppliers to reduce emissions, you're also helping other companies that use those suppliers, creating knock-on effects throughout the economy.

Stay ahead of regulations.

Regulators are increasingly realizing the importance of disclosing carbon emissions, including in the value chain. For example, the EU's CSRD (Corporate Sustainability Reporting Directive) will come into effect 1 January 2023, requiring many more companies to disclose environmental impacts such as emissions. Similarly, the U.S. SEC (Securities and Exchange Commission) has recently unveiled a regulation proposal that would require public companies to disclose emissions, including scope 3 emissions if they are material. Start engaging your value chain today, to ensure that you stay compliant in the future.

It's good business.

Customers, employees, and investors are increasingly concerned with a company's record on climate change. Emission-intensive parts of your value chain face greater risk, whether from tightening regulation or rising cost of fossil fuel. Jump-starting your net zero journey by addressing your largest value chain emissions makes good financial sense. Get started now and unlock new opportunities for collaboration, as more and more companies take serious climate action.

Interview: how Mastercard engages its value chain

“We want our supply chain to set their own net zero goals.”

Athanasia Xeros
Director of Environmental Sustainability at Mastercard

What are Mastercard’s climate targets?

In the long term, our goal is to bring all of our greenhouse gas emissions to net zero by 2040 – including our value chain emissions. For this goal, we want to align with SBTi’s net zero standard.

We also have near-term science-based targets for 2025, which are to reduce Scope 1 and 2 emissions by 38% and Scope 3 emissions by 20%, with 2016 as the base year.

How does value chain engagement factor into your net zero strategy?

For a company like Mastercard, we have to engage our value chain to meet our climate targets.

We don’t have a data center, or produce hardware, and so on – our direct emissions are relatively small. So, like others in our industry, the majority of our emissions are in our value chain.

For our value chain reduction work, we’ve chosen to engage with a group of suppliers who account for 75% of our value chain emissions.

How are you engaging with those suppliers?

We want our supply chain to set their own net zero goals. A big part of this is our collaboration work, where we partner with the suppliers to help them find ways of reducing their greenhouse gas emissions, and build their ability to do so.

For example, some of our suppliers have never worked with their carbon emissions. So we help them do their first measurements and find long-term greenhouse gas reduction strategies, connecting them to projects around renewable energy or efficiency.

Since we started this program in 2016, we’ve noticed an increase in enthusiasm for these projects over time. And the attitudes have changed even more markedly recently, with the SEC’s proposal and the increasing legislative requirements in the EU – soon, this type of work will no longer be optional.

What are your recommendations to other businesses that would like to get started?

Jump in right away.

The first thing to do is get a baseline, and your first baseline is not going to be perfect, but you will still start to understand your emissions and learn where your hotspots are – and this will help you create your program and make incremental change.

Again, you don’t have to be perfect. You can begin with spend-based calculations, and over time you can refine these with activity data. You don’t have to know everything to start this journey.

Get started

To start engaging your value chain, it's vital to be strategic and focus your efforts. Here are the key steps to follow.

1. Find support.

Value chain engagement can seem daunting at first, but there are experts and tools that can guide you through the process.

2. Measure.

The first step of value chain engagement is to measure your scope 3 emissions. This reveals your biggest emission hotspots, helping you decide where to focus your efforts.

3. Plan.

Once you have a clear picture of your scope 3 emissions, the next step is to formulate a value chain engagement plan.

- Decide which part of your scope 3 emissions to tackle first. Use your emissions measurement to identify high-impact areas to prioritize, and start from there.
- Set targets. How much do you plan to achieve? How much of your scope 3 emissions do you hope to reduce, and by when? You should plan for net zero by 2050 at the latest, but it's good to set intermediate targets as well.
- Formulate a strategy. Concretely, what steps will you take? The precise nature of the strategy will depend on the area of value chain engagement, e.g.:
    - **Supplier engagement.** Reduce your emissions by making suppliers reduce theirs.
    - **Procurement policy.** Make decarbonization a key part of the process in evaluating major purchases and vendor relationships.
    - **Financial investments**. Review the GHG emissions associated with your assets.
    - **Product design.** Integrate net-zero principles into your design.
    - **Customer engagement.** Help customers reduce the carbon footprint of their purchases.

The rest of this guide focuses on supplier engagement, which can be a particularly difficult part of value chain engagement to get started on.

4. Follow up.

Measuring on an ongoing basis helps you follow your reduction efforts and see if you're on track.

Engage your suppliers

A practical step-by-step guide

Your supply chain often makes up a large part of your emissions, yet suppliers can vary significantly in their awareness and progress toward net-zero. This step-by-step guide helps you pick the right approach for your suppliers.

1. Focus.

Identify which suppliers to focus on, using criteria such as supplier GHG emissions, GHG emission reduction potential, the readiness of suppliers to engage, and strength of relationship with suppliers. Measuring your scope 3 emissions will give you crucial insights.

2. Plan.

Decide on a strategy. Depending on the situation, there are several different ways of engaging suppliers. Broadly speaking, there are three main types of strategies, summarized in the table below.

Approach	Summary	Level of Complexity
Informative approach	Sharing best practices and materials on how to address emission reduction.	Medium to low complexity. Medium involvement for the company. Suitable for all companies.
Passive enforcing approach	Updating internal procurement guidelines to prioritize suppliers that comply with sustainability criteria.	High complexity. High level of involvement for the company. Suitable for larger, high-revenue companies.
Active enforcing approach	Updating supplier Code of Conduct to make it mandatory for suppliers to disclose their emissions. Obligatory reduction targets.	High complexity. High level of involvement for the company. Suitable for larger, high-revenue companies.

3. Communicate.

Good communication is a crucial part of successful supplier engagement. Explaining why climate performance insights are important to you helps to build trust and identify opportunities for collaboration and support.

Some suppliers may already be making good progress toward net zero, whereas others may not know where to start. Ask suppliers whether they are tracking emissions and following reduction targets. Make sure to communicate to suppliers what's in it for them:

1. Make progress on fighting climate change
2. Stay ahead of upcoming regulation
3. It's good business - gain competitive advantage and unlock funding

4. Encourage.

For suppliers that are still in the early stages and lack the know-how, consider running information-sharing sessions such as webinars. Point suppliers toward third-party services that can help them get started.

You can use different ways of encouraging suppliers to track and reduce emissions. For example, you can have a supplier recognition program. Additionally, you can work closely with your procurement team to prioritize low-emission suppliers or impose certain sustainability requirements on suppliers.

5. Monitor.

Net zero is an ongoing process. Make sure to follow up with suppliers at least yearly.

Key takeaways

Engaging your value chain: A checklist

1. **Get the support you need.** There are value chain engagement experts who can guide you through the process.
2. **Measure your emissions.** Identify your biggest hotspots and impact areas.
3. **Be strategic.** Don't try to engage all of your suppliers at once. Begin with your emission hotspots and build from there.
4. **Support and encourage.** You are on a joint journey towards net zero, and we are stronger together.
5. **Be one step ahead.** Work closely with your procurement team.
6. **Follow up.** Net zero is an ongoing process.

Reducing your value chain's emissions is a crucial step in the journey toward net zero. With this guide, you are ready to start today – to meet climate goals, stay ahead of regulation, and unlock new business opportunities.

The path to net zero starts with accurate carbon accounting. Normative measures your company emissions and identifies hotspots.

Our carbon specialists use this intelligence to create a tailored reduction plan – and a climate investment strategy for what you can't reduce. Together, we ensure your business stays compliant, competitive, and equipped to reach net zero.

Learn more at normative.io