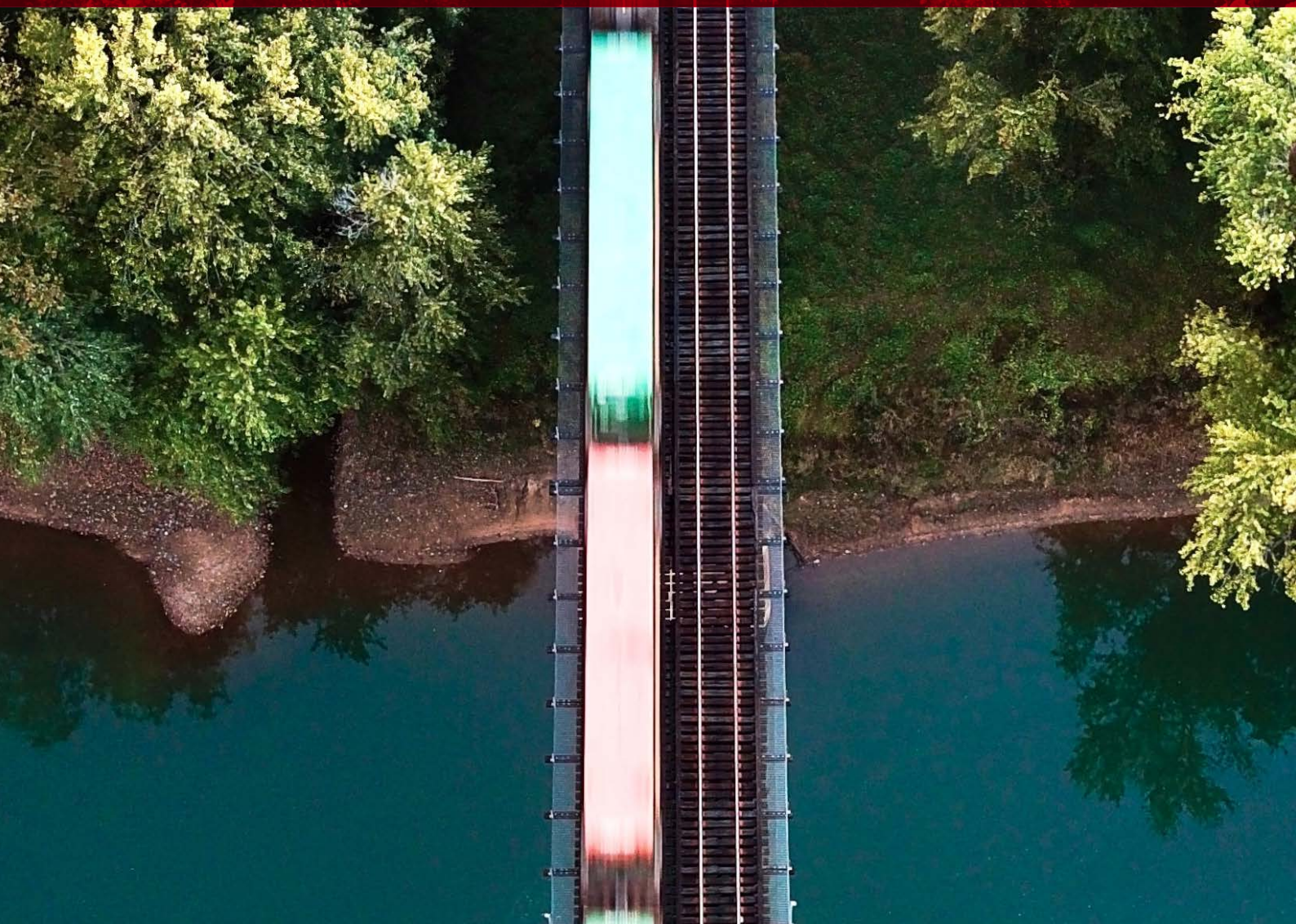
CO2 AI

CDP
DISCLOSURE INSIGHT ACTION

Call to Action

Companies need to provide product-level data to properly address Scope 3 decarbonization challenges

February 2024



Introduction

Global emissions will need to reduce by

7%

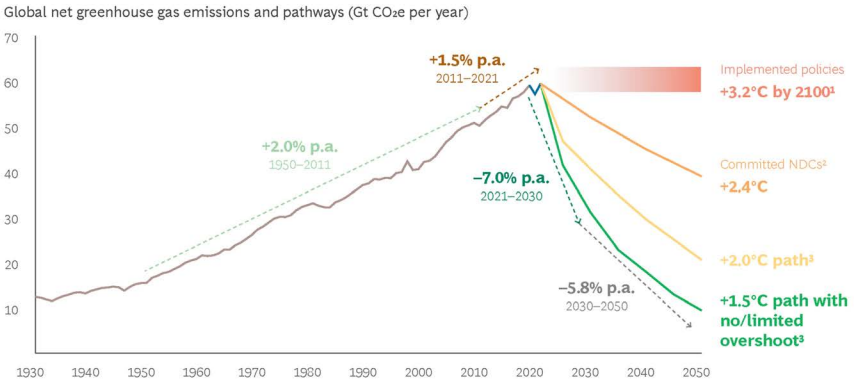
every year until 2030 to get back on track.

The first Global Stocktake, agreed at COP28, shows that we are not on track to limit global warming to 1.5°C. The window for change is closing, and the time to act is now.

Global emissions will need to reduce by 7% every year until 2030 to get back on track, which will rely on major course correction across all actors, given that emissions are currently increasing by 1.5% annually.

In this call to action, we outline why we must do more to help companies tackle their Scope 3 emissions to make our economy work for people and planet in the long term – and how CDP and CO2 AI empower companies to gather actionable product-level data through Product Ecosystem platform to achieve this.

The 1.5°C target calls for an emissions reduction of 7% per year until 2030, but emissions are still increasing by 1.5% per year



Sources: Intergovernmental Panel on Climate Change; Potsdam Institute for Climate Impact Research; Climate Action Tracker; BCG analysis.

Note: The blue line plot segment represents estimates for 2020–2021, extrapolated from IPCC's 2019 data. NDCs = nationally determined contributions; p.a. = per year.

¹IPCC median projection, 5th to 95th percentile range: 2.2°C to 3.5°C, at medium confidence.

²Climate Action Tracker's median projection.

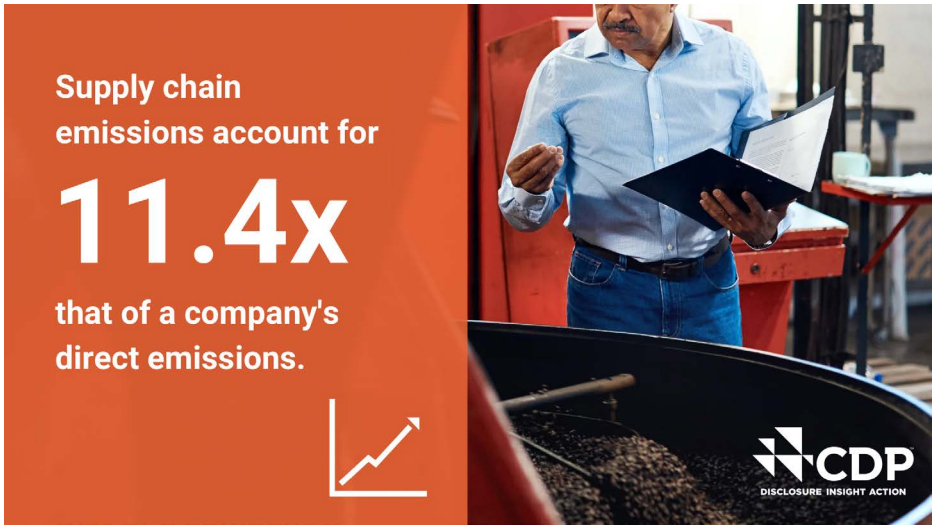
³IPCC median projection.

Source: BCG-WEF Project: CEO Climate Leaders | BCG

1 Meeting the objectives of the Paris Agreement means decarbonizing Scope 3, and it cannot be done without actionable product-level data

Scope 3 is the major challenge companies must address

Main source of emissions to tackle



Source: CDP Supply Chain Report 2022

Significant source of financial risk

It is also important to note that the financial risks associated with the supply chain are significant.

In 2020, over 8,000 suppliers disclosing through CDP reported that US$1.26 trillion of revenue is likely to be at risk over the next five years due to climate change, deforestation, and water insecurity.

The anticipated financial risk covers potential loss of revenue due to changing consumer preferences, loss of access to capital, and increased operational costs.

The increased costs alone amount to US$120 billion and are caused by physical environmental impacts and addressing regulation and market changes[1].

1 https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/554/original/CDP_SC_Report_2020.pdf?1614160765

In 2022, Scope 3 targets only made up

15%

of all new or in-progress targets.

Today, targets and supplier engagement are nowhere near ambitious enough on Scope 3...

In 2022, Scope 3 targets only made up 15% of all new or in-progress targets, despite Scope 3 emissions accounting for 11.4 times the direct emissions of a company.

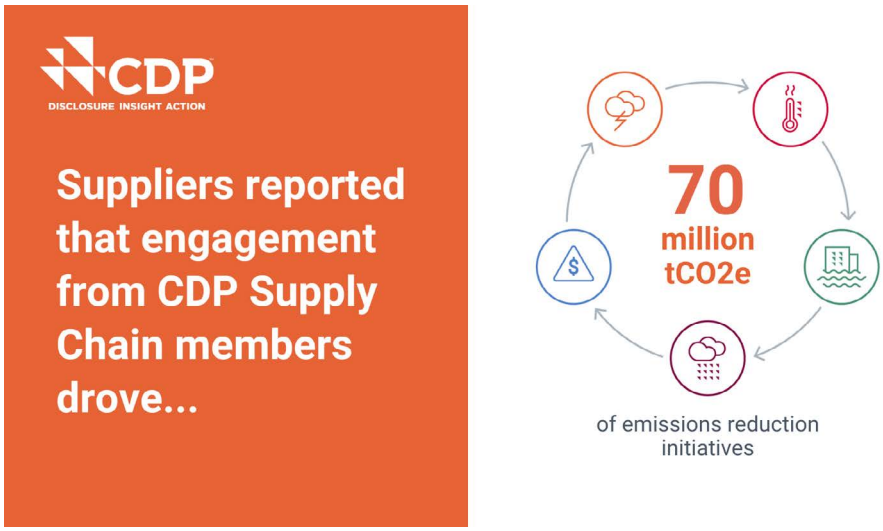
The quality of targets also needs to be taken into consideration. They must be science-based and align with a 1.5°C future. They help businesses invest in future proof growth and in abatement initiatives that will have the most impact in companies' transition to a net-zero emissions operating model. They also build resilience, boost investor confidence and act as a catalyst for innovation.

There is still a lot of engagement work to do with the suppliers to increase both their readiness to disclose and the quality of their data therein.

... but companies are starting to move forward, and some trailblazers are already emerging.

A small but growing group of CDP Supply Chain members are blazing a trail to truly meaningful environmental action.

In 2022, 16,462 suppliers reported through CDP at the request of their customers. Their engagement year on year drives action. For instance, 26% of first-time respondents report setting climate targets, while 57% of repeat respondents do so, highlighting how annual disclosure drives target setting.



Source: CDP Supply Chain Report 2022

Their suppliers reported saving 70 million tCO_2e due specifically to CDP Supply Chain member engagement, showing that engagement does drive action globally.

By being first movers and trailblazers, those companies are paving the way to meaningful environmental action. In very competitive markets such as retail, automotive or consumer goods, companies can gain a strong competitive advantage that increases mindshare (as more and more consumers are concerned about the environmental impact of their purchases) and deliver financial outcomes (as proving the eco friendliness of a product can also justify a “green premium”).

66%

of responding CDP Supply Chain members said that LCA is one of the key future trends for driving sustainable supply chains.

To deliver on Scope 3 decarbonization, companies need data at product level

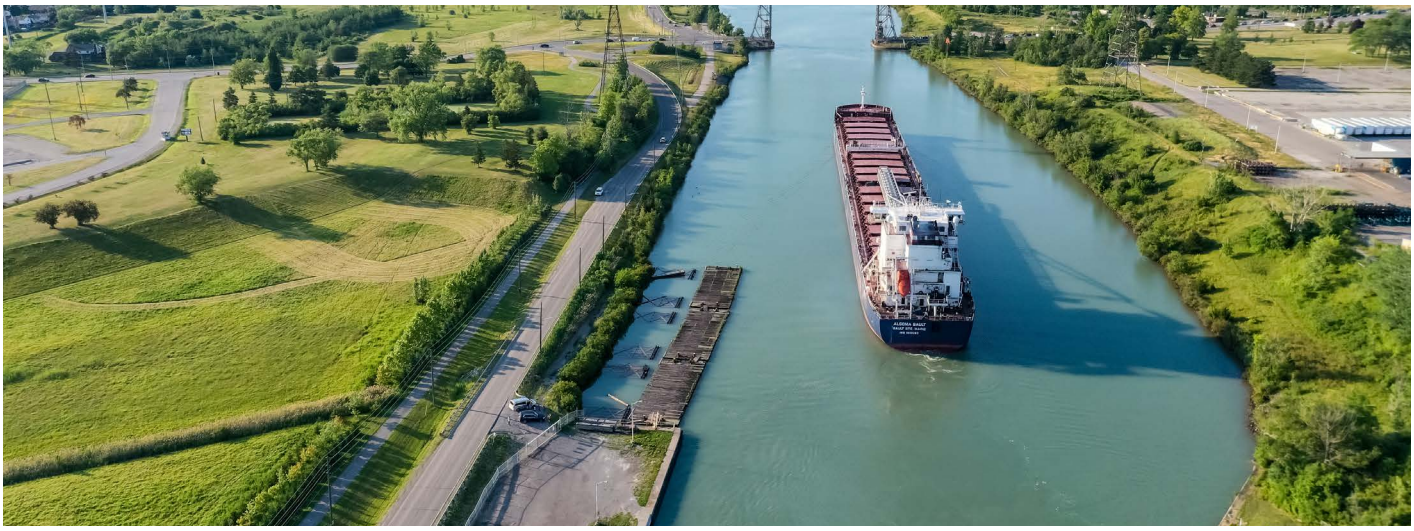
The direct correlation between business growth and emissions growth, from using industry average emissions that factor in footprint calculation, traps companies into far too simplistic solution planning: reducing spend as a method of reducing emissions.

Reducing spend is not a robust or supportive solution to catalyze meaningful action.

To achieve sustainable procurement, eco-design and truly deliver on Scope 3 commitments, companies need to identify suppliers and customers over-performing compared to the industry average and get primary data at the product level. This data granularity is key to enhancing the complexity with which we can discuss both emissions impacts and identify levers for change, and meaningfully collaborate throughout our value chains.

When surveyed, 66% of responding CDP Supply Chain members said that lifecycle analysis (LCA) is one of the key future trends for driving sustainable supply chains. However, suppliers are rarely able to provide the desired product-level sustainability data, eg, only 2% (247) of suppliers reported any product-level life cycle footprints to CDP in 2021[2].

Product level data is what gets us from reporting data to business-oriented data and it is key to enable it.



2 CDP Supply Chain Report 2022

The combined revenue of Product Ecosystem users is around

$1.8 trillion.

2 To help companies address this challenge, CDP and CO2 AI developed Product Ecosystem, the platform enabling companies to calculate, exchange, measure and manage product-level data to collaboratively achieve meaningful impact reductions

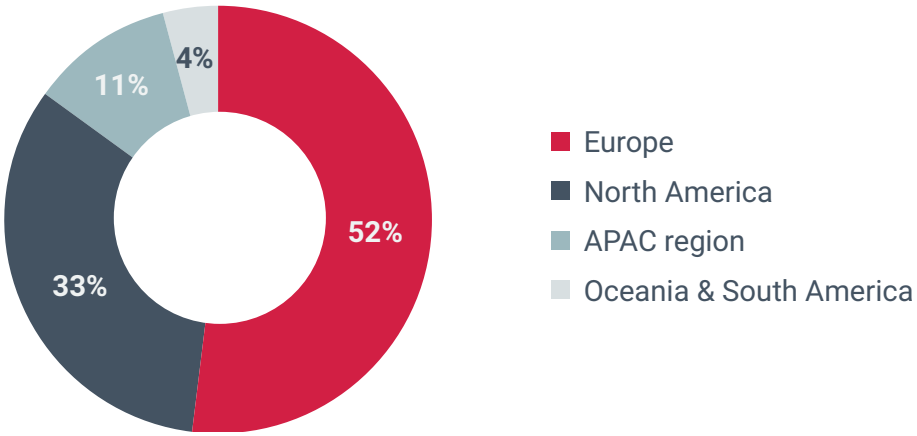
Product Ecosystem accelerates emissions reduction journeys across entire value chains

To help large corporations address the issue of gathering primary data, CDP and CO2 AI joined forces to build the leading product-level data sharing platform: **Product Ecosystem**.

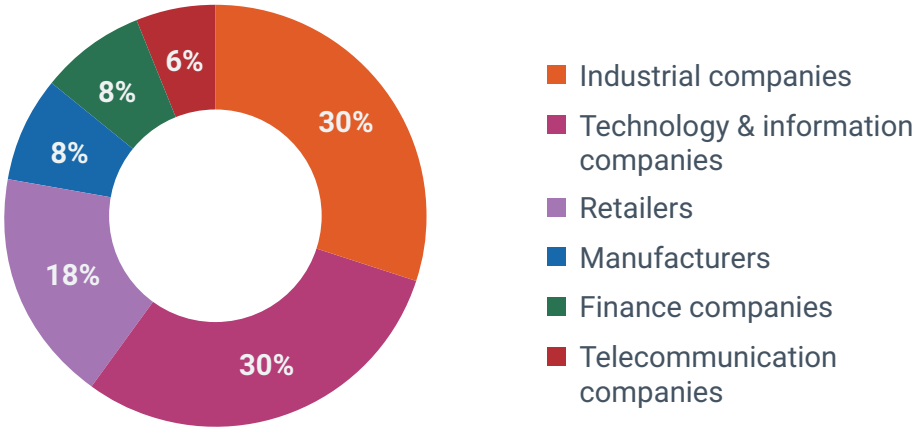
Product Ecosystem leverages CDP's network, with over 66% of the world's market capitalization reporting through CDP in 2023, and CO2 AI carbon accounting computation expertise, whose carbon management platform is deployed at almost 90 corporations. It enables any CDP Supply Chain program member or CO2 AI customer to request, or provide, product-level data from stakeholders (mainly suppliers and customers) in their value chain.

Product Ecosystem was launched in April 2023 and has already become the reference primary data sharing platform: the combined revenue of users is around $1.8 trillion.

Product Ecosystem users by geography



Product Ecosystem users' revenues by industry



Through Product Ecosystem, companies can access a wide range of services:

- A secured infrastructure to request and share product-level data, with associated certificates (when relevant) and detailed computations (in the case of Life Cycle Assessments).
- A self-service product emission calculator, helping to quickly estimate high-level product footprint leveraging CO2 AI capabilities (and associated databases of emission factors), in line with international standards.

The great advantage of Product Ecosystem is to meet your suppliers where they are in their journeys, from the least advanced, making a product-level assessment online for the first time, to the most mature, having detailed life cycle assessments, by stage and emission types.

Product Ecosystem enables seamless data exchange of auditable product-level emissions data, while fostering collaboration towards emissions reductions.

The Economist Group has committed to reduce their Scope 3 emissions by

42%

by 2030.

3 Product Ecosystem pioneers already benefit from embarking their value chains on their sustainability journeys

The Economist Group

The Economist Group, a global media company, has been reporting through CDP since 2022, and started its partnership with CO2 AI prior to the launch of Product Ecosystem. The Group was looking for a partner that could help it improve the data accuracy of its company carbon footprint, and actively support key supplier engagement.

CO2 AI supported The Economist Group with the successful submission and validation of a SBTi 1.5°C aligned near-term target to 2030, including the calculation and rebaselining of its greenhouse gas (GHG) inventory. The Economist Group has committed to reduce Scope 1 and 2 emissions by 68%, source 100% renewable electricity, and reduce Scope 3 GHG emissions by 42% by FY2030 from a FY2020 base year.

As part of its ambitious Scope 3 reduction target, The Economist Group has started onboarding its top 50 suppliers on Product Ecosystem, aiming to improve the accuracy of its carbon footprint using primary data, as well as actively engaging in decarbonization initiatives with key supply chain partners. Notably, The Economist Group is working closely with its key paper and print supply chain partners to access primary emissions data for paper manufacturing and production processes by paper mill and print site.

The Economist Group is now leveraging this data to assess the environmental impact per copy at a regional and country level. Using these insights, triangulated with financial and product trend data, the sustainability team is able to support the business with strategic decision making to drive more sustainable outcomes.

Product Ecosystem user commits to eliminate at least

90%

of its Scope 3 emissions by 2050.

American home improvement retailer

Another user of Product Ecosystem is a large American home improvement company, with over $97 billion in sales. While the company has already met its 2025 Scope 1 and Scope 2 reduction target (-40% from 2016), it started to address the Scope 3 challenge, working closely with stakeholders (both suppliers and customers) and committing to eliminate at least 90% of its emissions by 2050.

Product Ecosystem enables them to embark their whole supply chain in their sustainability journey:

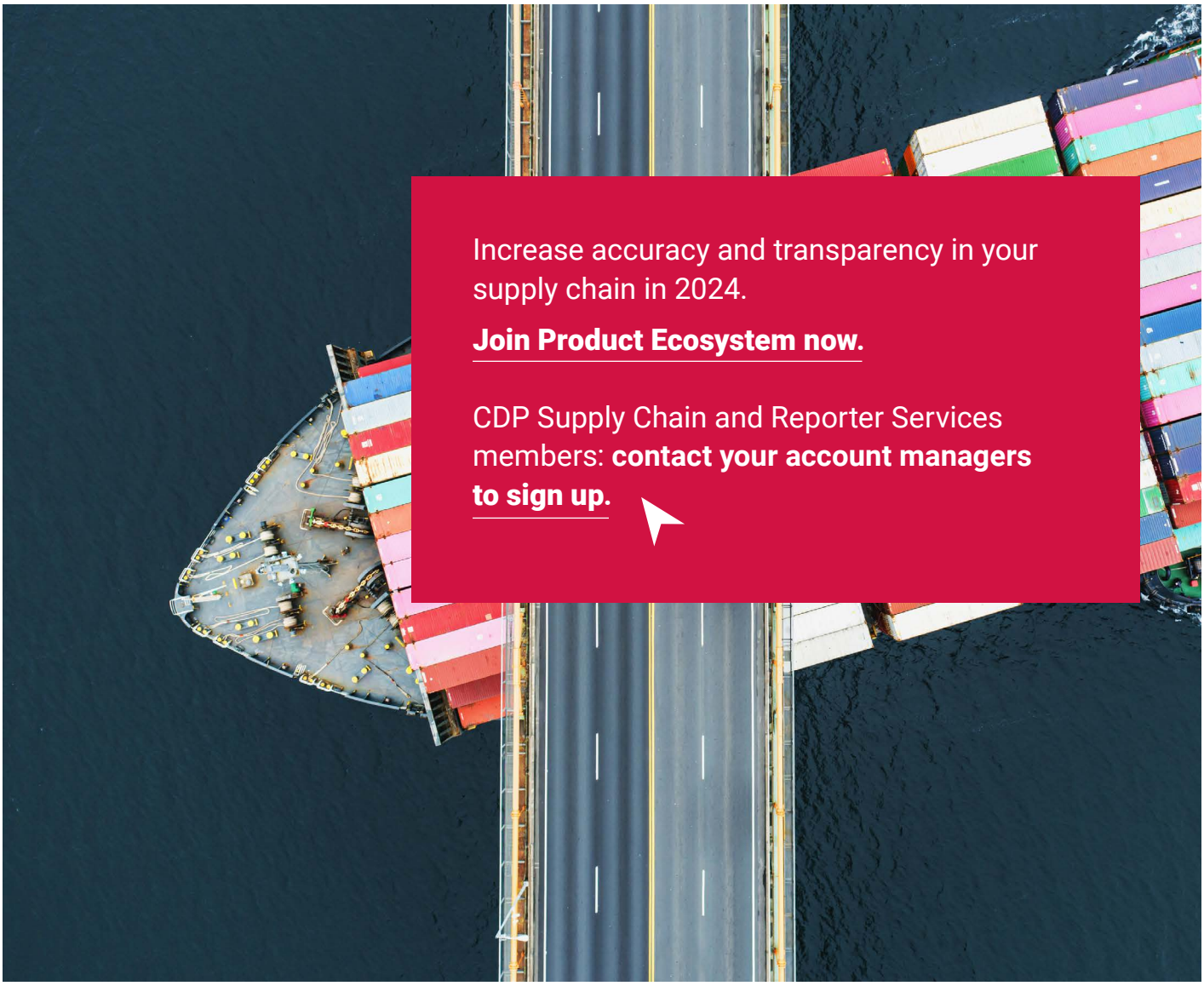
With most sustainability-mature suppliers, it helps them have much more advanced discussions, gathering detailed LCAs and associated certificates, allowing to clarify concrete initiatives to lower emissions on identified hotspots.

For less mature suppliers, it is an amazing first step to familiarize with LCA computations and identify the main areas they have to assess more precisely as they become more and more knowledgeable about sustainability.

4 CDP and CO2 AI congratulate the 2023 Product Ecosystem trailblazers

Corporations like BT Group, Senior PLC, Signify, Lowe's Companies, Inc., United Group B.V and almost 90 corporations have used Product Ecosystem. We congratulate these Product Ecosystem trailblazers.

To all major suppliers and retailers: there is no time to lose. Join Product Ecosystem for the future of our planet and to future-proof your business. It is **the** reference platform for product-level climate and environmental data, providing increased accuracy and transparency to companies' supply chains.



Increase accuracy and transparency in your supply chain in 2024.

Join Product Ecosystem now.

CDP Supply Chain and Reporter Services members: **contact your account managers to sign up.**

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