DECARBONIZING SUPPLY CHAINS

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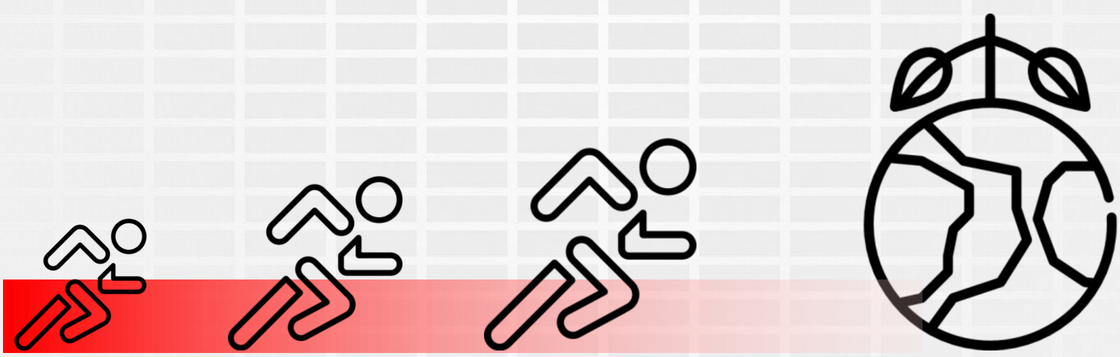
Companies will increasingly be required to track not only their own emissions but also those produced across its entire value chain.

EVERY year climate change stakeholders, activists, political leaders and regulators meet for a Conference of the Parties (COP) under the aegis of the United Nations, to realign goals and priorities to avoid cataclysmic risks brought about by a warming planet.

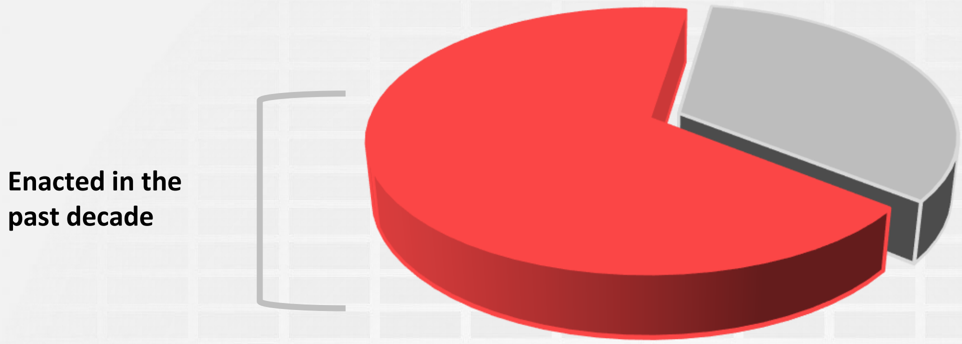
COP27 in Egypt in November once again highlighted how close we are to breaching the 1.5-degree Celsius planet boundary. Sadly, no real breakthrough materialized on the energy transition agenda. The responsibility to bring greenhouse gas (GHG)/carbon emissions to net zero by 2050 has fallen back once more on individual companies and their supply chains.

As a professional actively engaged with ESG (environmental, social and governance) issues, I am heartened to see the continuing ambition of many countries and companies to race to a carbon-neutral world.



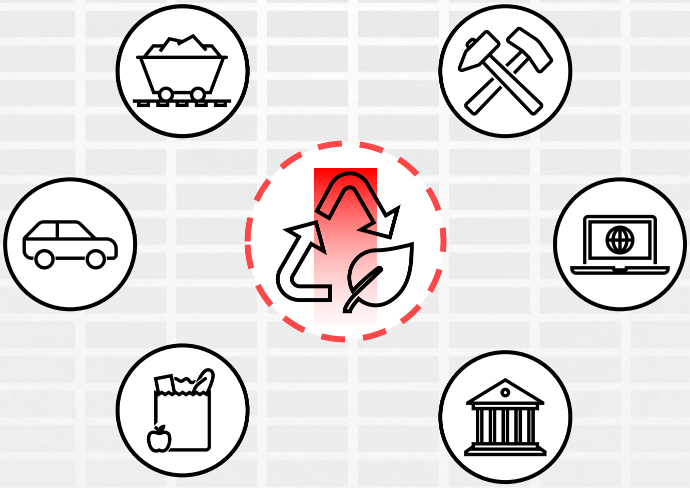
Their goals are loftier as political leaders, regulators, investors and activists of all stripes are introducing green regulations at an unprecedented pace.

Pieces of legislation on climate change



A recent Economist report notes that of the 1,900 pieces of legislation on climate change, almost two-thirds were enacted in the past decade. Seven years on from the 2015 Paris Accord that envisioned a net-zero world by 2050, **over 70 companies accounting for 75 per cent of global emissions and over 3,000 companies are participants in the "Race to Zero" UN campaign.**

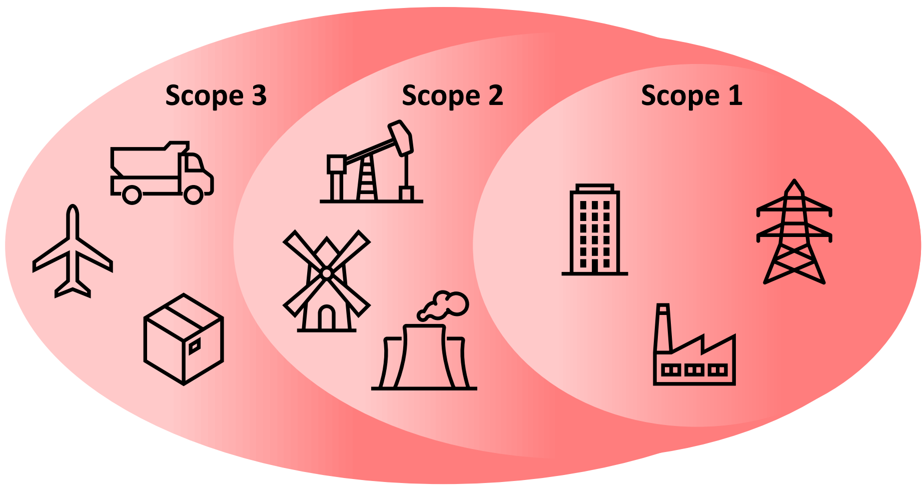
Capital markets are building emissions risks into asset prices. Venture capital in-vestments in renewable transition technologies are at an all-time high. Activism is more authentic. Companies in sectors from **software to banking, food to carmakers, besides the traditional most-polluting petroleum, coal and mining firms, are making public disclosures to cut their carbon footprints.**



So are countries, including Singapore with its Green Plan and an ambitious car-bon tax. The European Union is of course leading the pack, with the Biden administration in the US happily picking up pace towards a greener corporate world.

Tyranny of Scope 3 emissions

As regulations and related commitments to a net-zero world increase, companies will be forced to look beyond emissions from just company-owned assets (Scope 1 emissions) or discharges occurring from their energy purchases (Scope 2) to those relating to its extended supply chains (Scope 3). This entails companies reporting and measuring not just their own carbon foot-print but also those of their suppliers' and customers' product journey till the end of their life cycle.



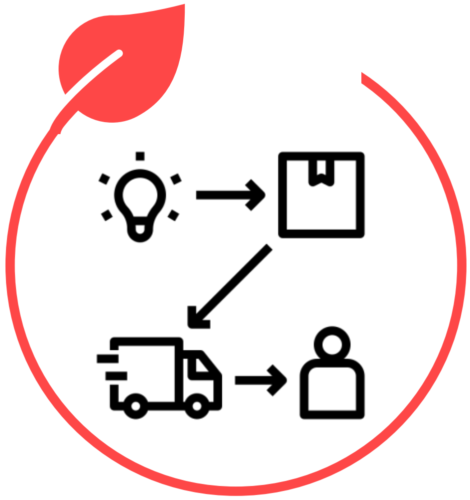
Consequently, the tyranny of measuring Scope 3 emissions is adding uncertainty and complexity to the process of decarbonization in their respective supply chains. More so because Scope 3 emissions tend to be many multiples of Scope 1 and 2 emissions in most companies.

Omitting or neglecting these could seriously undercount emissions. This is put-ting a lot of pressure on companies to critically focus on their suppliers and actively assist them in reducing their carbon foot-print as it would ultimately add to their "own" emissions.

Scrubbing suppliers clean

Pressure on companies to control Scope 3 emissions comes at a time when the procurement market is already in disarray as a result of post-Covid disruptions, shifting political alignments and the logistics challenges of a continuing Ukraine war.
The focus on greening suppliers is mired in an "alphabet soup" of conflicting and ever-changing measurement frame-works like GRI, ISSB, TCFD, SBTI and more.

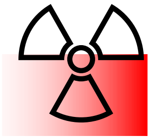
There is a clear need to accelerate implementation of ESG programs right from upstream supply chains to manufacturing to deliveries through a host of ESG-compliant checks. Often, reluctant suppliers may need to be replaced if their progress to net zero remains slow in tightening timelines.



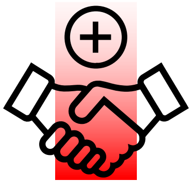
The only saving grace seems to be that GHG measurement is getting easier with knowledge and tools like artificial intelligence (AI) and data sciences. Even with sufficient data though, suppliers will need considerable assistance in crafting a well-documented transition-to-net zero plan.

Procurement units within companies (centralized for scale) have hitherto been focused primarily on cost, quality, and delivery. Now they face two new challenges:

a) In a post-Covid world, realigning geopolitics and the continuing war in Ukraine have shifted the structure of supply chains from 'just-in-time' to 'just in case'.

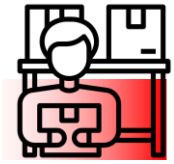


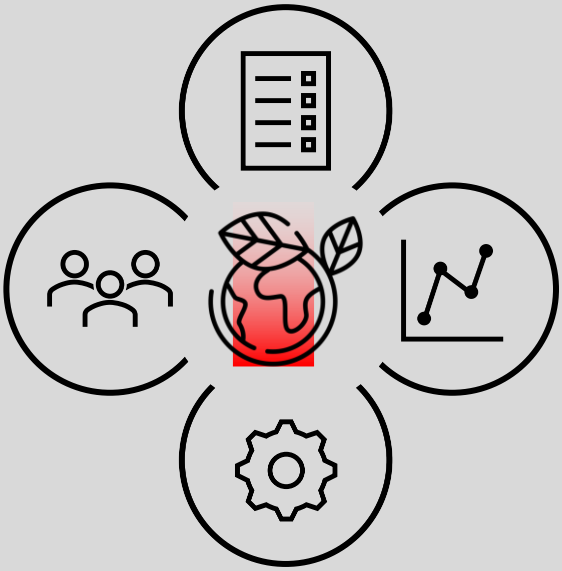
a) The need to monitor Scope 3 emissions has extended the risk to companies from their immediate suppliers and their suppliers in turn - the last mile being the most difficult to navigate for emissions.



Silver bullet

In the past two years, specialist buying/ procurement entities have extended their traditional buying roles beyond cost efficiencies through consortium buying to ad-vice on Scope 3 emissions.





Specialized buying entities have not only put in place a long checklist of ESG measurement and audit metrics but also provide advisory services to enable the transition to net zero for supply chains that include Tier 2 and Tier 3 suppliers in B2B arrangements. SME suppliers may often need a helping hand in accessing carbon trading markets for cutting their residual carbon footprint.

Going forward, the procurement marketplace will become more complex, more demanding and more time-consuming as regulators expect time-bound deliverables on ESG. Forward-looking companies are busy devising different strategies to man-age this oncoming tsunami. Clearly, the "last man standing" approach cannot and will not work. Companies may need to anchor their ESG strategy in partnership with specialist procurement companies to take incremental steps to reach net zero.

Article by Girija Pande

- Chairman of Chain IQ Asia-Pacific in Singapore
- Chairman of Chain IQ's ESG Board

Girija Pande is based in Singapore and is chairman of Apex Advisors Pte Ltd. He is also the chairman of Apex Avalon Consulting (Advisory Board) a company which he co-founded with Avalon Consulting. Mr. Pande is ex-President of Tata Consultancy Services (TCS) Asia Pacific which is part of India's largest business conglomerate.

Having over three decades of experience in senior positions in Banking and Financial Services and having served on multiple Boards of government bodies as well as non-profit organizations, Mr. Pande is currently the Chairman of Chain IQ's ESG (Environmental, Social and Governance) Advisory Board. He also serves on the Advisory Board of a Global ESG Fund and on High Level Advisory Board of Brussels based Digital Goes Green Foundation working on sustainability issues of digitalization.

Mr. Pande holds an engineering degree and an MBA. He has extensive experience throughout Asia, and has held senior postings in Korea, Hong Kong, Bahrain and India. He has co-authored a successful book on building business in China and India 'The Silk Road Rediscovered' published by John Wiley.

He was awarded Public Service Medal by the Government of Singapore on National Day in 2021 and received the best CEO Award from Singapore HR Institute and two Social Services Award by Ministry of Social & Family Development.

About Chain IQ

Chain IQ is a leading global independent indirect procurement service company. Chain IQ supports its corporate clients across a multitude of industries in more than 49 countries in strategic, tactical and operational procurement services. Chain IQ’s growing organization with procurement experts around the globe, both on and offshore, is known for generating significant value through volume bundling from its global clients, digitalization of procurement processes as well as achieving the latest ESG standards.

For more information about Chain IQ, please visit www.chainiq.com

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