


Meeting 2: aligning procurement with net-zero (part ii)

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*Where it is not feasible to address all identified impacts at once, an enterprise should **prioritise the order in which it takes action** based on the **severity** and **likelihood** of the adverse impact.*

OECD Guidelines for Multinational Enterprises on Responsible Business Conduct

Agenda

1. **Session intro and welcome**
2. Recap: what did we learn from the previous session
3. Discussion topics:
 - Prioritisation approach for supplier engagement
 - Metrics for aligned procurement
4. Next steps

Introduction | Our goal today is to build on our previous discussion on refining the approach to prioritising suppliers for alignment and exploring additional alignment metrics

Today's questions

... and outcomes

1. What did we learn from the previous session?

Share key takeaways and points to clarify in the draft standard

2. What criteria should be used to prioritize suppliers for alignment (thresholds and alignment over time)?

Develop criteria for determining which suppliers must align and by when

3. What metrics should be used to determine if a procured commodity or service is net-zero aligned?

Initial input on effective alignment metrics for further exploration

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For example, do not discuss company-specific information on:

- current or future prices, pricing strategies, or price related information;
- output, capacity, inventory levels, or costs;
- data related to market share;
- current or future business model transformation strategies.

Members are responsible for halting any activity that may violate this policy and reporting it immediately to SBTi.

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- As per the [EWG Terms of Reference](#) and the [SBTi COI policy](#), conflicts of interest must be declared
- At the start of each meeting the chair will ask members if a new Conflict of Interest has arisen
- A Conflict of Interest may be:
 - Actual: A true conflict exists between a Party's duties with the SBTi and their private interests.
 - Potential: Where a Party has personal or private interests that could conflict with their duties with the SBTi, or where it is foreseeable that a conflict may arise in future.
 - Perceived: Where an unbiased observer could reasonably form the view that a Party's private interests could influence their decisions or actions.

ARE THERE ANY COI THAT THE SBTi SHOULD BE AWARE OF?

VIDEO-CONFERENCE GUIDELINES

Participant guidelines



Mute during presentations



Use the chat box

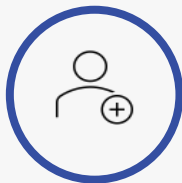


Use the raise hand function



If you can, please keep your camera on

Notes from us



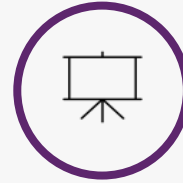
Treat info as confidential



Meeting is being recorded



We will follow up with minutes

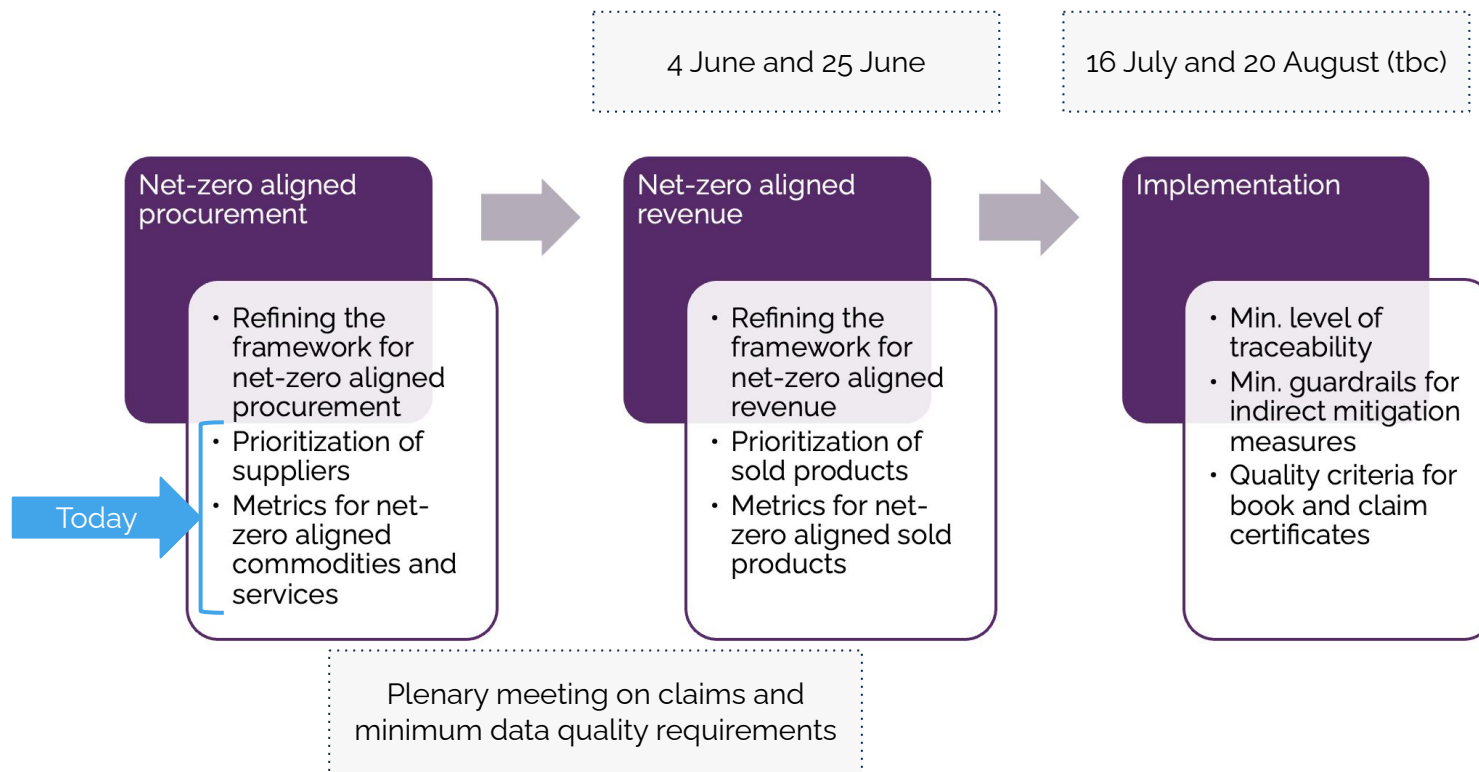


..And we will follow up with slides!

Finally, please have your devices ready to use...



Reminder of the EWG meeting schedule



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Review | Achieving our vision for the scope 3 EWG

EWG members highlighted the following key considerations in ensuring the success of the scope 3 EWG



Ensure **practicality and feasibility**: emphasize actionable, market-viable approaches; avoid being slowed by perfect solutions, and prioritize interventions where action is more needed.



Maintain **integrity**: adhere to the latest science, and clarify guardrails for the use of indirect mitigation measures that do not erode impact.



Embed **equity**: ensure fair expectations across the value chain, especially for low-resource suppliers, avoid undue burden.



Be **clear**: defining key terms, unpacking complex ideas and aligning with external standards, especially on terminology.



Allow room for **innovation**: embrace the unknowns in tech and mitigation pathways.

Takeaways | Question 1: should supplier engagement targets be mandatory or optional?

Limited consensus in keeping supplier engagement targets as a mandatory requirement with relevant pros and cons identified for consideration

	Mandatory	Optional
Pros	<ul style="list-style-type: none">• Scale of ambition through leveraging influence• Strong focus on emissions-intensive activities• Safeguard against EAC use in indirect mitigation• Many companies already use SE as an enabler	<ul style="list-style-type: none">• Flexible towards company circumstances• Prioritises efforts on methods that are best fit• Can still be used as supplement/enabler• Consistent with CNZS v1.2• Lower risk of unintended consequences
Cons	<ul style="list-style-type: none">• Higher risk of unintended equity/market distortion impacts through shifting vol to compliant suppliers• Less choice for companies• Inconsistency of optional S3 targets for cat B but mandatory cascade to EIA suppliers• Conservative industries (e.g. maritime) are more focussed on compliance, not voluntary initiatives	<ul style="list-style-type: none">• Lower scaling of ambition and use of influence• Less likely to engage companies not already subject to regulatory/public pressure• Removal of safeguard against IM

Next steps:

1. EWG to progress with discussion on prioritisation of suppliers for alignment before revisiting discussion on whether supplier alignment should be mandatory or optional
2. SBTi to clarify differentiated alignment requirements for emissions-intensive Cat B suppliers

Takeaways | Question 2: How feasible is the proposed approach for supplier engagement targets?

General support for the ambition of supplier engagement, but concerns were shared about the feasibility of requiring 100% coverage and 2030 alignment for all EIA suppliers



Coverage

- 100% alignment can function as a **north star** and symbolise the part that every supplier plays
- However 100% alignment targets may be infeasible due to:
 - **Volume** of suppliers
 - Supplier **churn**
 - Resourcing challenges among **small suppliers** - requirements may need to be more differentiated
- Suggestion to focus on a **subset** of high-impact suppliers to improve feasibility (e.g. based on emissions vol)
- Consider building in some **flexibility in coverage** (e.g. 95% alignment)

Discussion topic 1:
thresholds for
prioritisation



Timeline

- 2030 (for EIA suppliers) generally regarded as very **ambitious**
- Risk of distracting from **deployment of transition technologies**
- Consider **alternative ways to demonstrate alignment** where setting an SBT might not be feasible
- Current focus is limited to ambition. Consider how this **develops into progress**

Discussion topic 2:
defining alignment
over time

Next steps:

1. EWG discussion on which suppliers (coverage) should align and by when (timeline) - today
2. SBTi to provide clarification on what constitutes entity level alignment (i.e. SBT validated target or not)

Poll results | Which theme from the last meeting do you think we should discuss further as a priority



The highest number of responses related to discussing further whether **supplier engagement target should be mandatory or optional** and understand **feasibility** of the approach.

Other inputs regard scope 3 for category B companies and metrics to demonstrate supplier alignment

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Background | The current draft requires 100% supplier alignment by 2050 and 100% alignment of suppliers providing emissions-intensive activities by 2030



- C16.4. Companies shall set targets using any of the following methods and the benchmarks indicated in [Table E.1, Annex E: Indicators, Benchmarks and Methods](#):
- 16.4.1. Targets to reduce absolute emissions associated with the category or activity at a rate consistent with reaching net-zero emissions by 2050.
 - 16.4.2. Targets to reduce the average emissions intensity of the category or activity at a rate consistent with reaching net-zero emissions by 2050.
 - 16.4.3. Targets to increase the level of alignment of the category, activity or value chain counterparty at a rate consistent with achieving net-zero emissions by 2050.
- C16.7. Companies shall set supplier engagement targets to increase the percentage of all tier 1 suppliers by spend that are [transitioning](#), or have [transitioned](#), to a level of performance compatible with net-zero according to [Table E.3, Annex E: Indicators, Benchmarks and Methods](#). **(NOTE: The feasibility of this criterion will be further explored and refined through the consultation and pilot testing process.)**
- 16.7.1. Companies shall set targets to reach 100% spend on net-zero aligned (i.e. “transitioned”) suppliers within the timeframe specified in their net-zero commitment ([Table E.1, Indicator-CNZS.5](#)).
 - 16.7.2. Companies shall set targets to reach 100% spend on tier 1 suppliers providing emissions-intensive activities to be “transitioning” by 2030 ([Table E.1, Indicator-CNZS.6](#)).
 - 16.7.3. If emissions-intensive activities in a company’s value chain occur beyond their tier 1 suppliers, they shall require their tier 1 suppliers to extend these requirements to their own suppliers involved in providing these emissions-intensive activities.

Mandatory entity-level alignment for all T1 suppliers, with 2030 deadline for suppliers linked to emissions-intensive activities



Background | For supplier alignment targets, criteria is needed to define which suppliers need to align by when

An effective supplier alignment target framework needs to specify...

1 2 3
...**which** suppliers need to **align** by **when**.

- 1 What is the threshold for defining a priority tier 1 supplier for alignment?
- 2 What do these suppliers need to do to be considered “aligned” over time (ambition vs performance)?
- 3 At what point in time do they need to demonstrate a given level of alignment (ambition vs performance)?

Current proposal in draft CNZS v2.0

1	Priority level	Description	3	2030	2040	2050
			2	100% transitioning (set SBTs)	100% transitioning (demonstrating progress)	100% net-zero aligned (net-zero achieved)
	High	Supplier providing emissions-intensive activities				
	Low	All other suppliers		Linear increase (set SBTs)	Linear increase transitioning (demonstrating progress)	100% net-zero aligned (net-zero achieved)

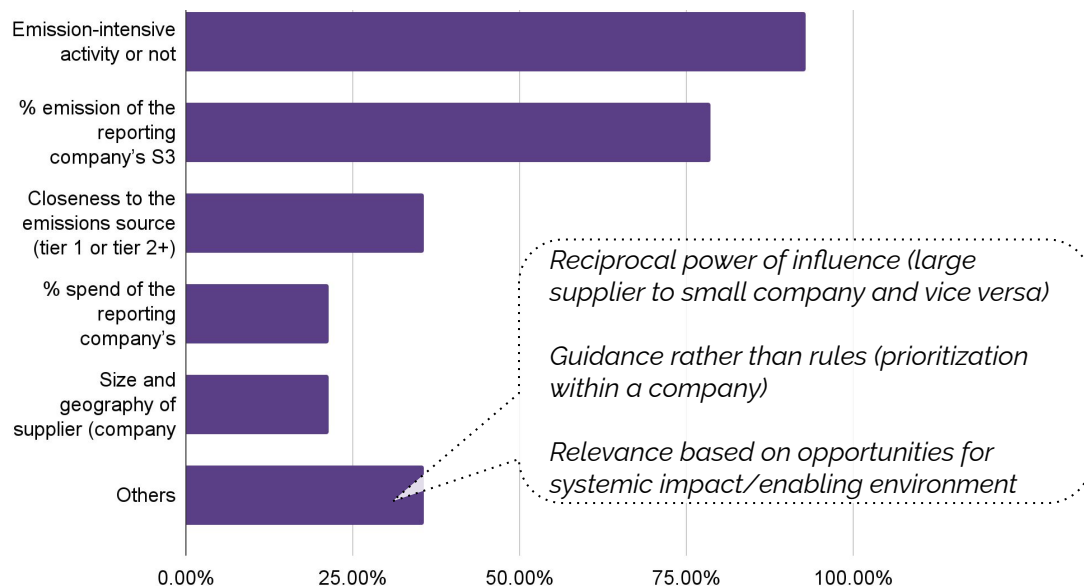
Poll results | To focus action in the near-term, the CNZS draft proposes prioritisation based on emissions-intensive activities. Survey data indicates vol of emissions should also be considered

1 What is the threshold for defining a priority tier 1 supplier for alignment?

Current proposal in draft CNZS v2.0:
prioritization of suppliers based on
emissions intensity

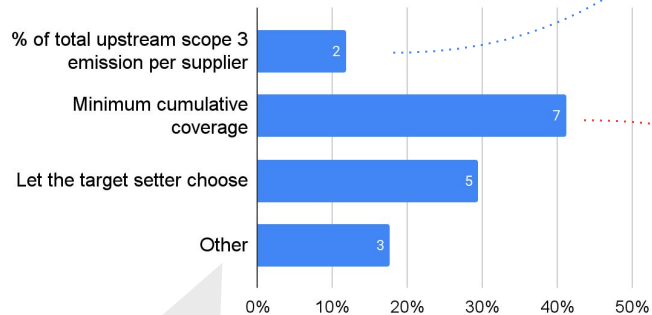
PRIORITIZATION	
EMISSIONS INTENSITY	
Emissions-intensive activities	1 (100 % by 2030)
Non emissions-intensive activities	2 (100 % by 2050)

EWG poll results: other possible prioritization indicators



Poll results | Refining the prioritisation approach for supplier alignment

If the SBTi were to set a threshold for prioritising suppliers for alignment (i.e. setting an SBT) in the near-term (i.e. target year in the next 5 years) based on volume of emissions, **how should the threshold be determined?**



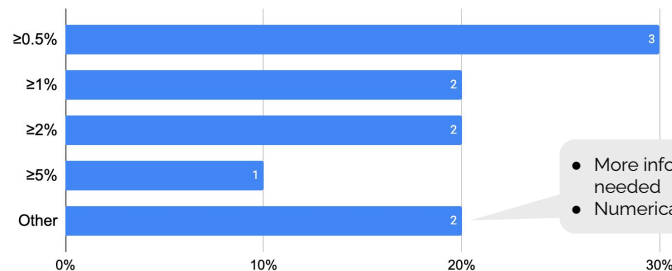
- Consider % spend as well
- Combination of the two

The results indicate **minimum cumulative coverage** (with a cut-off between 50% and 80%) as the preferred means to set the threshold. Suggestion to investigate average distribution of emissions shares across suppliers by sector to inform threshold

SBTi confidential

Supplier emission threshold

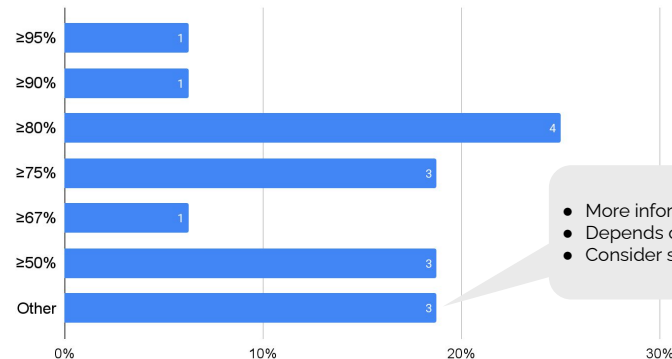
What individual supplier emissions threshold should be used in the near-term?
What % of upstream scope 3 emissions should the supplier represent?



- More information needed
- Numerical threshold

Minimum cumulative coverage

What cumulative emissions coverage threshold should be used for near-term targets?
Where the answer represents % of collective upstream scope 3 emissions covered.



- More information needed
- Depends on the baseline
- Consider spend

Discussion | What thresholds should be used to define a “priority supplier” and expectations for alignment over time? Let’s discuss in Miro!

1 What is the threshold for defining a priority tier 1 supplier for alignment?

Group exercise 1: thresholds

25 mins

Objective: Understand what thresholds members believe define a “priority” tier 1 supplier.

2 What do these suppliers need to do to be considered “aligned” over time?

3 At what point in time do they need to demonstrate a given level of alignment?

Group exercise 2: defining alignment

20 mins

Objective: Understand members' views on what alignment looks like over time (ambition vs performance).

Join us in Miro via
this link available in
the chat!



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...or via this QR code for
those accessing by phone



Background | The current draft proposes that the definition of “transitioning” evolves from initially focussing on setting targets (“ambition”) towards performance over time

2 What do these suppliers need to do to be considered “aligned” over time (ambition vs performance)?

Table E.3. Alignment at the entity levels (applicable to engagement targets for suppliers, franchisees, customers or third party processors).

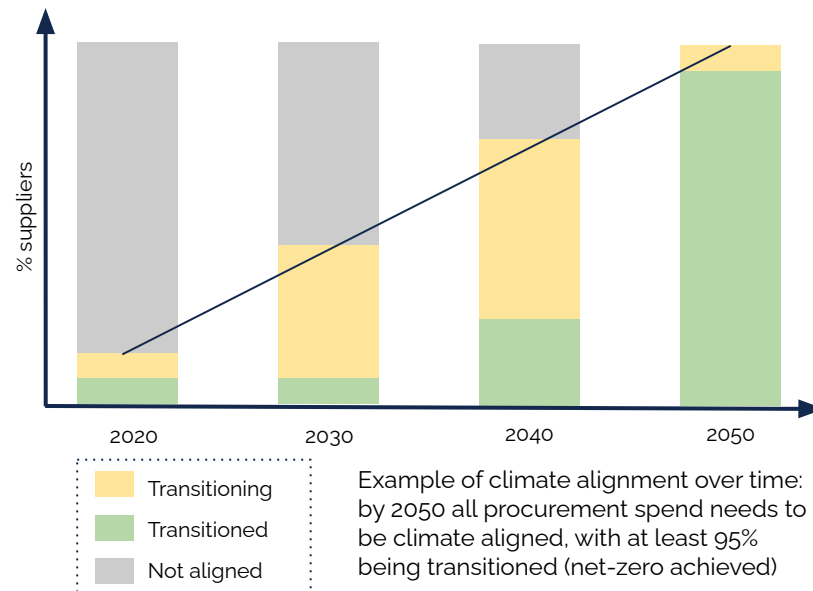
Counter-party type	What counts as alignment (transitioning towards net-zero)	
	Transitioning	Transitioned (net-zero achieved)
Supplier, franchisee, customer, third party-processor	<p>Entity has set science-based emissions reduction targets consistent with limiting warming to 1.5°C. Entities should set targets in conformance with SBTi standards. Validation of their science-based targets by the SBTi-designated Validation Body is recommended but not required.</p> <p>The “transitioning” classification is first focused on entities establishing a clear 1.5°C aligned ambition. Over time, entities will have to demonstrate progress against this ambition to keep their “transitioning” classification (the date for the introduction of this requirement is to be confirmed). The eligibility of methodologies that can be used to measure transition will therefore be updated to reflect this move from ambition to progress over time.</p>	<p>An entity is classified as transitioned, when:</p> <ul style="list-style-type: none"> Entity has reached zero or near zero emissions across all GHG emission scopes, and Entity has neutralized any residual emissions.



Background | Distinguishing more clearly between timeframes for ambition (target-setting) and performance may enable clearer targets for alignment

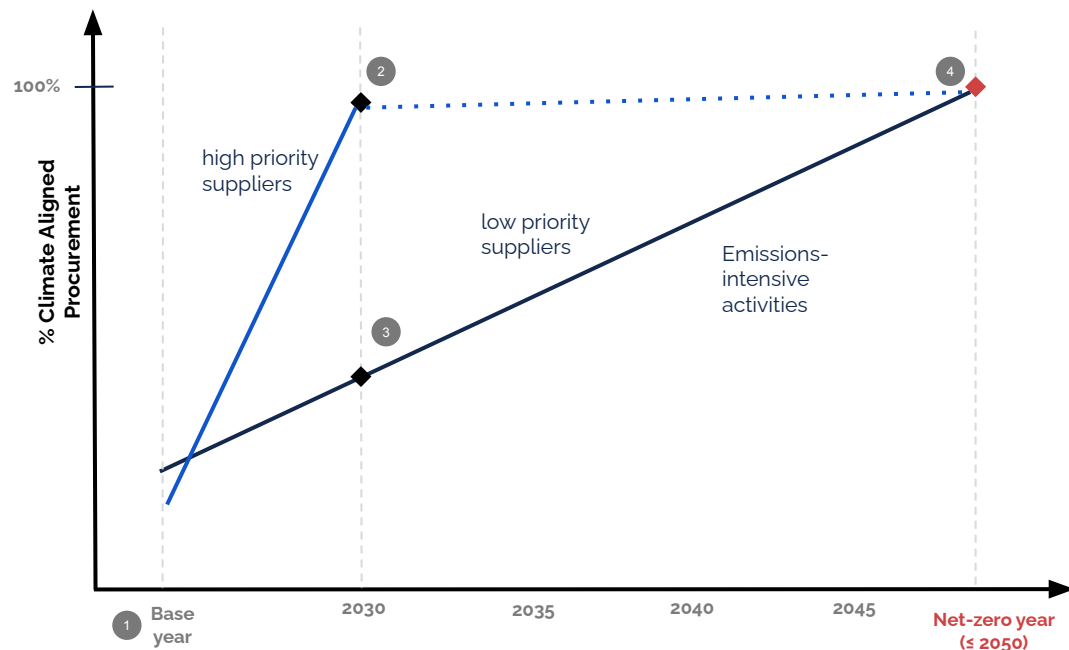
2 What do these suppliers need to do to be considered “aligned” over time (ambition vs performance)?

	Climate Aligned Procurement	
	Transitioning	Transitioned (net-zero achieved)
Entity (e.g. tier 1 supplier)	Companies with 1.5C ambition (near-term) Companies demonstrating decarbonisation in line with 1.5C (mid-term)	Companies that have reached residual emissions levels
Activity (e.g. commodity)	N/A <i>Note: alignment metrics for activities in transition are not currently specified in the draft standard</i>	Activities that are considered net-zero aligned via different approaches



Background | Companies align all suppliers by 2050, with a focus on those providing emissions-intensive activities in the near-term

3 At what point in time do they need to demonstrate a given level of alignment (ambition vs performance)?



1 **Base year alignment assessment**

- Assess alignment in the base year as the starting point for all suppliers and emissions intensive activities

2 **High Priority Suppliers**

- Target that all high priority suppliers (those providing emissions-intensive activities) are aligned by 2030 (ambition)

3 **Low Priority Suppliers**

- Linear increase in alignment from base year to 100% by 2050 (progression from ambition to performance to net-zero aligned)

4 **Net-zero aligned benchmark**

- 100% of suppliers (high and low priority) and emissions intensive activities reach net-zero aligned status by 2050 or sooner

Discussion | What thresholds should be used to define a “priority supplier” and expectations for alignment over time? Let’s discuss in Miro!

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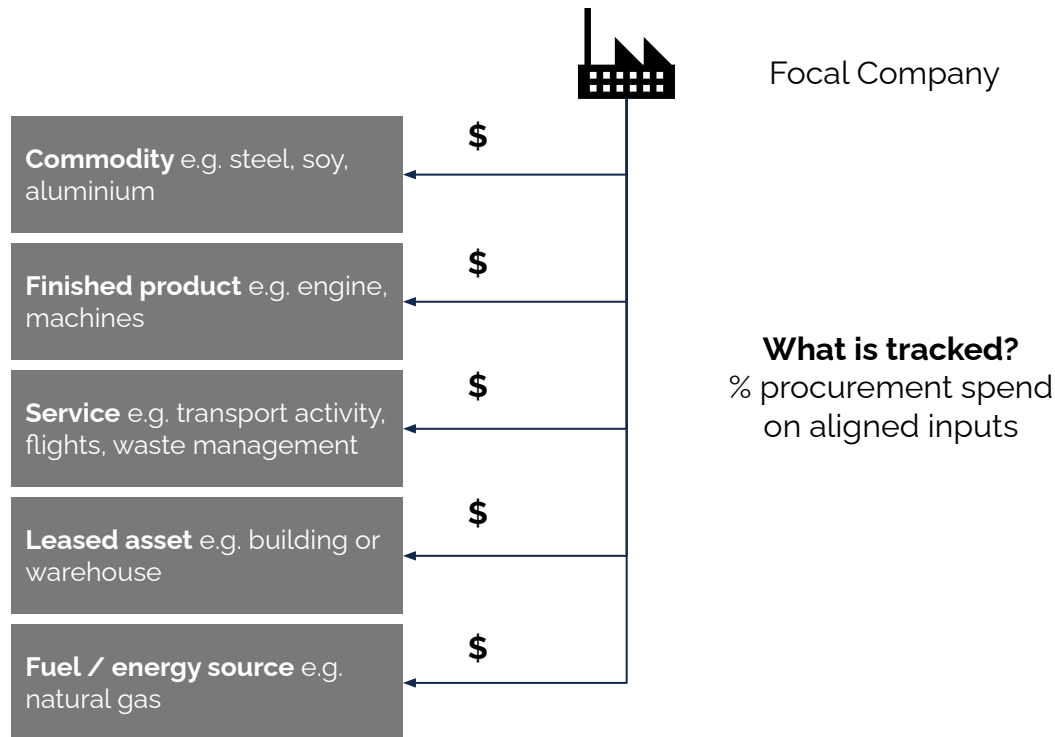
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2. Recap: what did we learn from the previous session
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 - **Metrics for aligned procurement**
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Background | Activity-level alignment targets track % procurement spend on aligned activities, requiring a way to assess alignment across varied value chain activities

How to calculate the alignment of value chain activities?

Alignment approaches must be defined for each value chain activity, so that all procurement spend can be categorised as aligned or not aligned



Background | The current draft CNZS v2.0 uses net-zero physical intensity benchmarks to assess alignment, but three other potential alignment approaches could be explored

		Alignment Approach	Value chain applicability	Description	Example alignment assessment
Activity emissions profile		Physical intensity	Commodity, service, activity 	The commodity, activity, or asset is operating at or was produced below a certain emissions intensity (e.g. tCO ₂ /unit of commodity purchased)	Cement production with an intensity of 0.77t CO ₂ /t Cement where the scenario intensity is 0.6 tCO ₂ /t cement in a specific year is misaligned
		Technology type	Commodities or specific activities such as transport 	Commodity was produced using a specific low carbon technology, or the service procured was delivered with a specific technology	A power company with 37% of its capacity in renewable energy (where the target value is 42%) is misaligned (by an absolute difference of 5% or relatively by 12%)
Activity classification		3rd party certification scheme	Commodities or specific activities such as transport 	Commodity or fuel purchased is certified by 3rd party (e.g. responsible steel), or building certification for assets	50% of steel purchased is certified as aligned (e.g. based on physical intensity assessment) by certification scheme [...] The asset is certified as a "green building" using a credible certification scheme
		Taxonomies	Specific commodities and finished products 	Commodity, fuel, or product purchased is listed in a credible climate taxonomy	Product procured is listed in taxonomy e.g. rechargeable batteries procured in accordance with the EU taxonomy are aligned

Draft CNZS v2.0 default for activities

Background | A range of metrics could be used to assess alignment across different upstream categories

Categories 1-6, 8

How to assess alignment:

Cat 1: Purchased goods and services

Cat 2: capital goods

Cat 4: upstream transport and distribution

Cat 6: business travel

Cat 3: fuel and energy

Cat 5: waste generated

Cat 8: upstream leased assets

Supplier and activity level alignment:

- Physical intensity benchmark divergence (purchased commodities)
- Activity classification (technology type or taxonomy for purchased activities)
- Entity assessment

Transportation metrics:

- Activity classification: technology type (% transportation with zero carbon vehicles)
- Entity assessment

Fuel / energy metrics: Fuel / energy certification via physical intensity benchmark divergence. Entity assessment may also be applicable

Waste metrics: Activity classification: % waste treated via responsible EoL options e.g. recycling. Entity assessment may also be applicable

Building metrics: Activity benchmark divergence or classification: % leased assets operating below specific emissions intensity or certified as a green building

Metric:
% of aligned spend

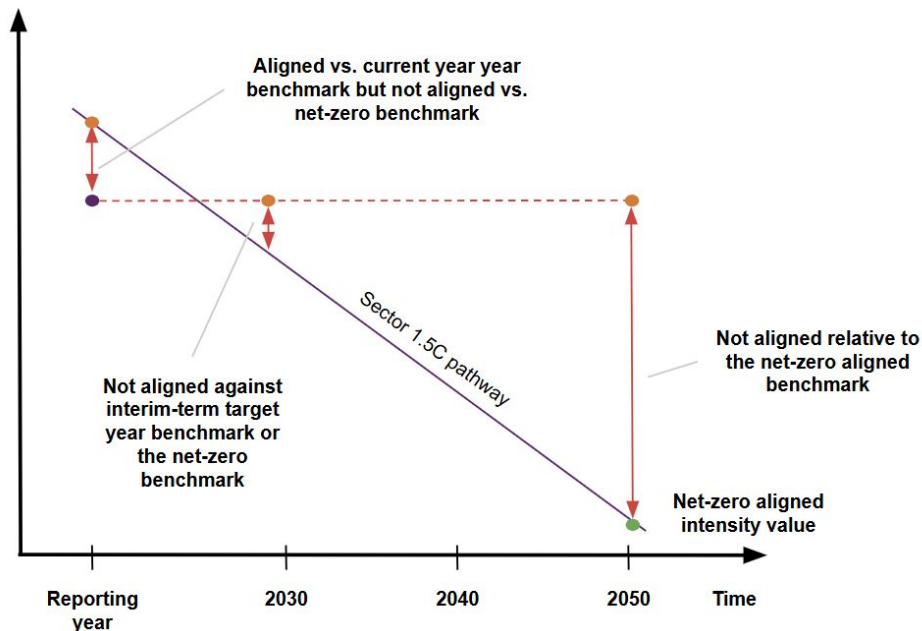
Background | CNZS v2.0 assesses alignment only in physical intensity terms against a net-zero aligned benchmark - but interim benchmarks could be considered

At what time period should alignment be benchmarked?

Three options

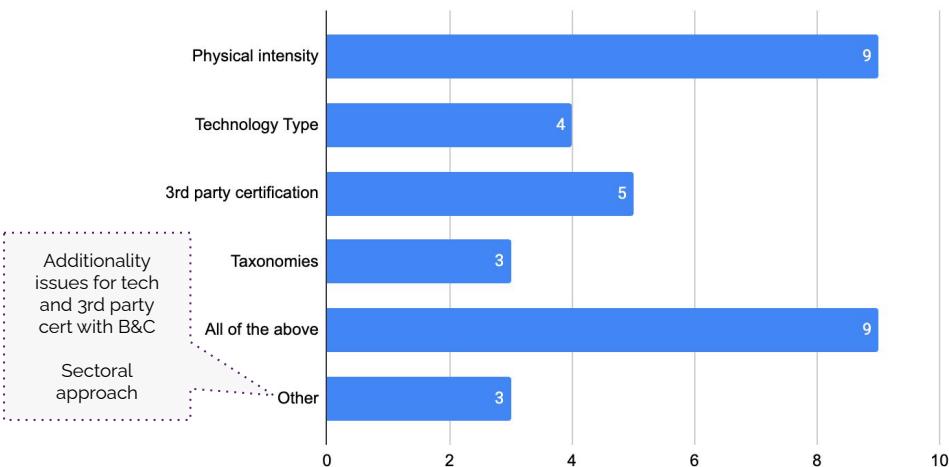
- **Current year:** compares performance vs. the current year benchmark value: e.g. commodity is aligned today
- **Interim target year:** compares if today's performance is better than the benchmark value in the target year
- **Net-zero year:** compares if today's performance is better than the benchmark value in the net-zero year

Unit: e.g. physical intensity
(tCO₂/output)

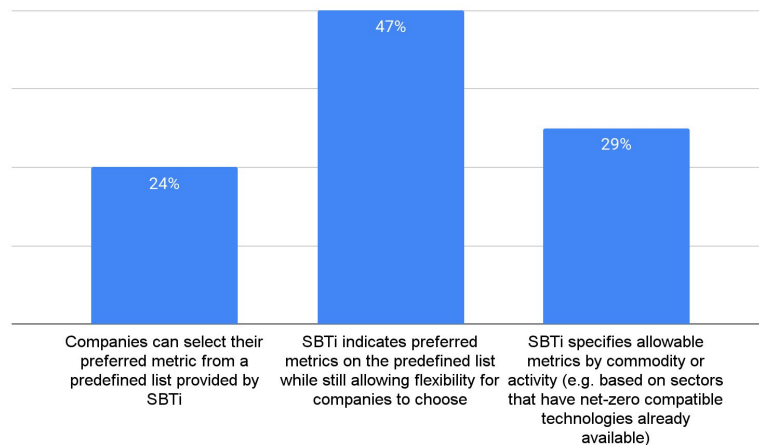


Poll results | Metrics for aligned procurement

Which alignment metric options should SBTi consider for assessing alignment of upstream value chain activities? Select all that apply. (see slide 26)



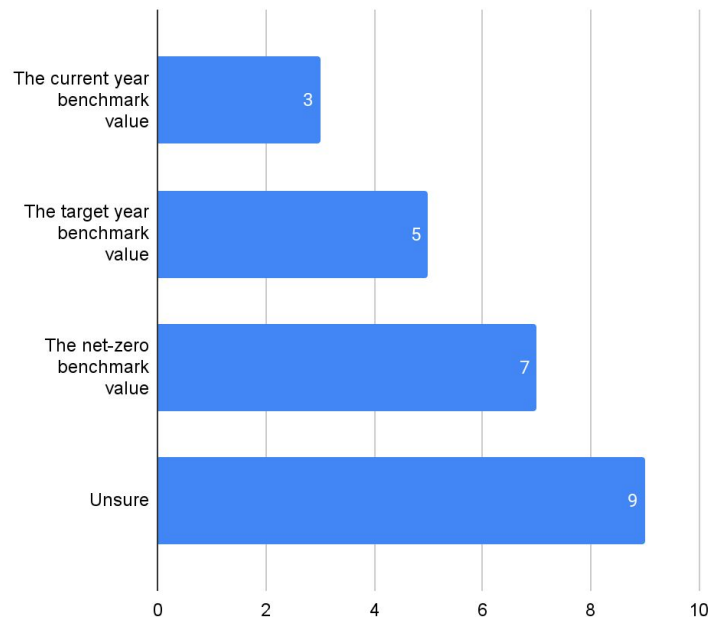
How specific should SBTi be in defining which metrics companies can use to demonstrate alignment at the activity level?



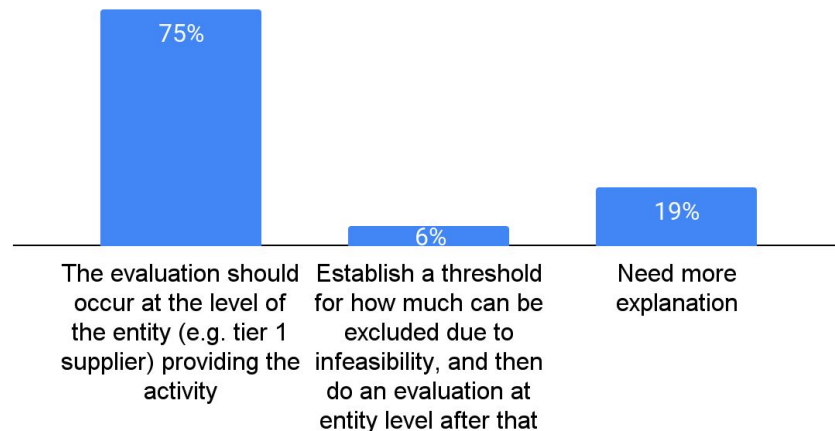
Main takeaways: while there is a preference for physical intensity as a metric for alignment, there is recognition also for the other metrics proposed, provided that they are backed by high quality indicators. Almost 75% of respondents recommend flexibility in the choice of the metric from a predefined list, with support for SBTi providing recommendations.

Poll results | Metrics for aligned procurement

For alignment based on physical intensity (see slide 30), what benchmark should the alignment status of the commodity be assessed against? Select all that



When alignment of the activity cannot be determined (e.g. at tier 1 supplier), how should the percentage aligned spend be evaluated?



Main takeaways: More context is needed to understand what the benchmark value should be for assessing activity-level alignment, though net-zero benchmarks are currently preferred. Where activity-level alignment cannot be assessed, there is general agreement to measure alignment at entity level.

Discussion | What metrics should be used to determine if a procured commodity or service is net-zero aligned? Let's discuss in Miro!

Group exercise 3: alignment metrics

25 mins

Objective: To explore and evaluate credible, practical metrics and benchmarks that could be used to determine whether a procured good or service is aligned with a net-zero pathway

Question: *What metrics should be used to determine if a procured commodity or service is net-zero aligned?*

Join us in Miro via this
link available in the chat!



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3. Discussion topics:
 - Refine prioritisation approach (timeline and coverage) for supplier engagement
 - Metrics for aligned procurement
4. **Next steps**

Next steps | We are meeting again soon!

Logistics



Date: Wed 4 June



Location: Online - Google Meet

Content



Starting the discussion on net-zero aligned revenue



In the meanwhile, please complete the **public consultation** and invite your network to do the same!

Preparation



Pre-reads are available in our [shared folder](#) (Session 1). Please arrive prepared to engage!



Take a look at the [EWG member profile cards](#) to get to know the rest of the members



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Thank you!