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CDP Reports Limited Progress on Scope 3 Nature-Related Disclosure

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According to a **recent report** published by global non-profit environmental disclosure platform CDP, approximately 41% of responding companies are reporting on one or more categories of supply chain emissions, even though such emissions on average are 11.4 times higher than operational emissions. The reasons for this disparity vary, but include “limited data transparency and traceability across the value chain;” low quality data; limited influence over Scope 3 categories; and evolving regulatory regimes. The Report also observes that relatively few companies have adopted Scope 3 targets (15% of new or in-progress targets) and only 5% have targets based on the Science Based Targets initiative, while over 60% do not engage their supply chain on climate-related issues.

The Report also focused specifically on biodiversity supply chain issues, with a particular focus on water consumption and deforestation. Almost 70% of companies reported that they currently do not assess the impact of their value chain on biodiversity generally. With respect to water, CDP states that “not many companies currently quantify the water footprint of their supply chain,” perhaps in part because “unlike climate change, there is no accounting methodology to work out the pure metrics required for supply chain water consumption.” Of responding companies, 23% reported engaging suppliers on water-related issues. As for deforestation, about half of the responding companies have a “system to control, monitor or verify compliance with forest-related commitments and policies,” while about a third have a monitoring system for direct and supply chain deforestation. Almost 70% of companies surveyed reported engaging with direct suppliers on forest-related issues. And, overall, CDP **concludes** that senior management teams currently are not sufficiently incentivized to “address key issues such as water security and deforestation in the supply chain.”

The Report follows the adoption at COP15 of a **global biodiversity framework**. The framework established a number of 'short-term' targets to be reached by 2030, which includes target 15: to "[t]ake legal, administrative or policy measures to encourage and enable business, and in particular to ensure that large and transnational companies and financial institutions: (a) [r]egularly monitor, assess, and transparently disclose their risks, dependencies and impacts on biodiversity, including with requirements for all large as well as transnational companies and financial institutions along their operations, supply and value chains and portfolios."

Sonya Bhonsle, Global Head of Value Chains & Regional Director Corporations at CDP, stated that "COP15 couldn't have been clearer in the call to action on corporate reporting on nature. If a company is not preparing for incoming regulations and stakeholder interest on addressing nature in the supply chain, they are open to a wide range of risks and could also be missing out on the opportunities that safeguarding nature will bring. Quite simply, if a company wants to be in business in the future, they need to start embedding nature into the way that they buy and collaborating with suppliers to drive action in the supply chain."

Taking The Temperature: As recently reported, the investigation carried out by the International Consortium of Investigative Journalists into deforestation shows the increased scrutiny being paid to biodiversity impacts, including from regulators. Companies should take steps to ensure their processes are robust and will stand up to external review. CDP's report on tracking nature across the supply chain, however, shows that Scope 3 emission reporting continues to split opinions. Engaging with the full value chain is a burdensome and time consuming process, especially for large international organizations that source and supply products globally. Outside the U.S., the trend is to require disclosure of Scope 3 emissions, including in the European Union, based on established standard setters such as the International Sustainability Standard Board. The picture in the U.S. is less clear. For instance, California's Senate is currently reviewing a proposed bill that, if passed, would require all large companies operating in California to report on their full range of emissions, including indirect emissions from value chains. On the other hand, there has been speculation that the SEC may remove or slim down the Scope 3 emission reporting requirements in its proposed climate-related disclosure rule. Ultimately, it is not surprising that supply chain emissions measurement and disclosure remain a challenge. Because these are value-chain emissions, by definition third parties, not the issuer itself, have the relevant greenhouse gas information. It is not clear that issuers will be able to obtain all such information in order to provide complete and accurate reporting, not to mention the potentially significant costs involved in doing so and the potential for double-counting given that one issuer's Scope 3 emissions are another company's direct emissions.