ABAC-APFF-OCBC-SBF Hybrid Roundtable

Promoting Sustainable Supply Chains in the Asia Pacific Region

11 June 2024

Singapore Business Federation Building

ROUNDTABLE REPORT

Background

Supply chains generate close to 60% of all emissions globally[1] and are critical for decarbonization of different sectors and in building resilience for businesses and MSMEs. Developing a sustainable supply chain is important due to its extensive impacts across organisations, including;

1) Impacts on organisations' overall Net Zero Goals

According to Carbon Disclosure Project, supply chain emissions can account for 11.4 times more emissions than that of a company's in-house operations. SMEs account for more than 90% of businesses globally and, in the OECD region, are responsible for 60% of industrial emissions[2]. However, the majority of these business don't have the right knowledge or resources to reduce their emissions.

2) Impacts on businesses' ability to comply with reporting requirements

79% of large companies (buyers) are reporting on ESG today, compared to just 18% in 2022[3]. Many include supply chains in their reports and are passing along these requirements to their suppliers. In addition, suppliers have to comply with stringent and complex ESG standards and disclosures across sectors (e.g. RSPO for Sustainable Palm Oil) and regions (e.g. EU CSRD) to continue their contracts, therefore increasing their cost of compliance and cost of doing business.

3) Impacts on business operations and difficulties in execution

While more companies across Asia Pacific are disclosing their Scope 1 and 2 emissions, reporting of Scope 3 emissions is lagging. Emissions data collection, beginning with value chain mapping, assessments and benchmarking is difficult to implement especially for SME suppliers given the lack of data, standardized methodologies and resources.

Today, businesses are navigating a complex landscape due to increased regulations and reporting requirements, resource limitations, and ethical considerations. As a result, companies need to manage their scope 3 supply chain emissions, procurement strategies and supplier relationships carefully. Sustainability in supply chains involve the integration of environmental, social and

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[1] Net Zero Challenge: The Supply Chain Opportunity, Jan 2021, World Economic Forum and Boston Consulting Group

[2] Why big businesses must support SMEs to achieve economic growth and get to net zero, Jan 2023, World Economic Forum

[3] PwC 2021 Global Investor ESG Survey

governance (ESG) factors into all areas of the supply chain. Sustainable supply chains are efficient, resilient, equitable, circular, transparent and climate positive.

This Roundtable aims to identify the key elements required to enable businesses / companies to better measure and reduce emissions across their supply chains. It also aims to raise greater awareness of the role of trade data/tech solutions and financing programs can play to support such activities, and for APEC to provide a collaborative platform to support member economies in this process and identify concrete regional initiatives to promote more sustainable supply chains.

Companies have to comply with a multitude of ESG regulations across different sectors and geographies, which is impacting the way they are managing their supply chains.

The complex regulatory environment is characterized by the continuous evolution of sustainability regulations and growth in reporting obligations. These requirements have a profound influence on how companies conduct their business and operations as it necessitates the implementation of robust supply chain management practices to mitigate the costs of compliance.

Given the interconnected nature of global supply chains, companies need to comply with global mandates and regulations. There are three major sustainability reporting standards that companies may follow, depending on their jurisdictions. These standards ensure transparency and consistency in sustainability reporting practices across different companies and geographies.

i. IFRS standard by the International Sustainability Standards Board (ISSB) provides guidelines for sustainability reporting globally.
ii. US SEC Climate-Related Disclosures focuses specifically on disclosing climate-related information in the United States.
iii. European Sustainability Reporting Standards provides a framework for reporting sustainability information across Europe.

The implementation of sustainability regulations and standards also vary across economies.

The translation of global regulations to the local context also matters to companies, depending on the economies in which they operate in.

For example, Singapore is implementing reporting requirements aligned with ISSB framework by mandating that all listed companies report on scope 1 and 2 emissions by 2025, and scope 3 emissions by 2026. In Indonesia, companies are obligated to disclose their commitment to equal opportunity in the workplace, ensuring there is no forced labour or child labour and demonstrate contributions made to the local community. In Malaysia, it is recommended that companies disclose their community investments, diversity initiatives, and efforts to uphold human rights.

Supply chain decarbonisation is key for businesses to remain viable.

Given the increasing regulatory pressure and the need to build supply chain resiliency to withstand and recover from disruptions, businesses should develop a sustainable supply chain strategy to achieve holistic decarbonisation of their supply chains while also promoting responsible business practices. Specifically, businesses can start with the following:

1) **Engage Suppliers**: Work with suppliers to address their emissions
2) **Optimise CO2 measurement:** Prioritise data measurement and flexible approaches to effectively reduce carbon footprint where it is the most critical and significant

3) **Build internal capabilities**: Tap on ecosystem enablers to boost development of resources and knowledge, improve sustainability performance and adopt best practices to advance sustainable supply chains

<u>Recommendation 1</u>: Large companies or anchor buyers need to take the lead in supplier engagement and collaboration throughout their global supply chains.

Engaging suppliers to measure and monitor their emissions is a crucial first step in addressing scope 3 carbon emissions across supply chains. Businesses today operate across complex supply chains with multiple tiers of suppliers and distribution networks, resulting in coordination challenges in getting diverse suppliers to align with common decarbonisation goals. It is acknowledged that a lack of accountability, awareness and access to data and resources is hindering the ability of smaller suppliers to start their decarbonisation journeys.

Anchor buyers, who are often large companies, can take the lead in equipping their suppliers with decarbonisation knowledge and tools via supplier engagement programs and make this a key part of their organisation-wide Net Zero agenda. The most successful programs are inclusive, prioritise ongoing engagement with their suppliers to keep them up to date with changing regulations, and provide dedicated support to bridge suppliers' knowledge and resource gaps. They also include GHG emissions in the procurement screening process and supplier code of conduct, requiring suppliers to track and reduce emissions.

<u>Case study 1</u>: A leading Southeast Asian Telco company joined the CDP Supply Chain programme which aims to support its 5,000 suppliers. Recognising the limitations of its suppliers, the program was implemented in a phased manner, starting with identifying suppliers and determining the necessary tools to facilitate decarbonisation. Building on existing experience with its mobile equipment and hardware suppliers to enable health and safety accreditation, the company then introduced sustainability measurement and reporting to advance its engagement with its suppliers. The company also plans to improve the robustness of their supplier assessments by incorporating external risk assessment and third party validation and build a sustainable product database for procurement.

<u>Case study 2:</u> A leading Asian food and agriculture conglomerate achieved a significant milestone in its supply chain efforts by training 43,000 smallholders across its supplier network. To keep up with ongoing impact and regulatory reporting requirements e.g. EU deforestation regulations, it deployed its own resources to support smaller suppliers in their measurement efforts, thus delivering win-win outcomes by ensuring regulatory compliance and continued inclusion of smaller suppliers in its supply chain.

Supplier engagement initiatives are also key to transforming supply chains in carbon-intensive sectors, such as real estate, which contributes to nearly 40% of all greenhouse gas emissions globally[4]. Beyond the large real-estate developers, contractors which supply building materials and services can also benefit from these programmes to help them conduct carbon footprint exercises and measurement effectively.

[4] Climate risk and the opportunity for real estate. Feb 2022. McKinsey & Company.

<u>Recommendation 2</u>: Buyers and suppliers need to get started on data measurement and adopt flexible approaches to effectively reduce their carbon footprint where it is the most critical and significant.

MSMEs often struggle with emissions data measurement given the limited data infrastructure, access to data, manpower resources and knowledge to be able to collect data. These challenges are often exacerbated by issues unique to each sector, such as the tracking of land use impacts in the palm oil sector, and availability of reliable data to address emissions related to methane and food waste in the food and agriculture sector.

To quickly tackle these challenges, it is advisable for suppliers to outsource and leverage existing data and technology solutions and prioritise flexibility over absolute accuracy when it comes to measurement.

The growth of carbon management tools is driven by regulatory compliance and businesses' increasing focus on monitoring and mitigating supply chain emissions. The carbon footprint management market is valued at US$9.3 billion in 2021 and is projected to reach $18.2 billion by 2031[5], reflecting the rising demand for such services.

i. Today, suppliers can readily access carbon measurement offerings including emissions data monitoring and analytics platforms, carbon calculators and sustainability intelligence and rating services to achieve decarbonisation objectives instead of building their own. By utilizing these solutions and automating emissions data collection, they can save time and resources on measuring their carbon emissions, allowing them to focus more on identifying and implementing decarbonisation strategies.
ii. Suppliers could also benefit by taking a more flexible approach and early action to get started on the measurement journey. Instead of pursuing accuracy, suppliers should test and iterate initial estimations with the view of improving emissions calculation methodologies and accuracy over time. This can include adopting readily available data from existing CRM systems and data sources such as spend /purchasing data, electricity consumption and bills, transportation mileage to estimate emissions.

For buyers, start with supplier segmentation to further supplier engagement and differentiate the level of support and approach required for different supplier segments.

i. One effective approach is to use existing tools and platforms to categorize suppliers based on their emission profiles and prioritise allocating resources and efforts to suppliers with the greatest impact in reducing overall supply chain emissions. Another way is to collaborate with suppliers where buyers have a greater level of influence to drive quicker implementation of emissions monitoring and mitigation strategies and reduction of overall scope 3 emissions.
ii. The approach should also differentiate between larger suppliers with the means to obtain accurate emissions data versus smaller suppliers who require a more flexible or alternative bottoms-up approach, via product item or SKU-level estimation to quantify their emissions.

[5] Carbon Footprint Management Market Statistics: 2031, May 2022, Allied Research

Recommendation 3: Businesses should tap on ecosystem enablers to build internal capabilities via ongoing development of resources and knowledge, pilot programmes and proliferation of best practices.

To truly embed sustainability across supply chains, businesses need to continuously invest in new capabilities and upskill their workforce to be future-ready. Ecosystem enablers, including governments, NGOs, financial institutions and industry associations play crucial roles in supporting businesses by providing resources, funding, and expertise and creating a multiplier effect through:

i. Accelerating capability building with dedicated carbon management training programmes targeted at MSMEs and provisioning of targeted financial support
ii. Improving decarbonisation performance via implementation of supply chain related pilot programmes
iii. Sustaining decarbonisation efforts and call to action by fostering cross-border collaborations and best practices

Accelerate capability building with dedicated training programmes targeted at MSMEs

Industry associations can work together with knowledge partners such as academic institutions, thinktanks and NGOs to equip MSMEs with the necessary skills to measure and manage emissions. This can be done via targeted industry-specific training with hands-on-training and salary support funding schemes for employers to defray the cost of re-skilling or upskilling their employees. Such programmes and funding schemes go hand-in-hand and encourage adoption by MSMEs who would not have sufficient funding or appetite to embrace capability building.

Case study: The Singapore Logistics Association (SLA) partnered an academic institution to launch a carbon management programme targeted at SMEs in the logistics sector to understand carbon emissions produced by their operations and facilitate their progressive transition towards net-zero emissions. SMEs will undergo the five-day project-based program, including on-site facilitation with site visits, scoping, verification, and carbon emissions calculations, in addition to training on essential carbon measurement techniques and strategies for carbon reduction.

Implement supply chain pilot programmes across industry ecosystems

As the greening of supply chains demands substantial investments and planning, businesses may encounter resistance from suppliers unwilling to change traditional practices or bear extra expenses. Additionally, the transition also necessitates a learning curve for businesses to navigate new technologies and processes. Utilizing a pilot approach, industry-led initiatives and programmes can help close the knowledge gap and overcome initial resistance.

Case study: The Singapore Business Federation (SBF) piloted a green supply chain programme involving an anchor buyer or 'queen bee' working with its top 20 suppliers to identify their carbon footprints, address their gaps, and implement greener procurement systems. The queen bees can help catalyse transformation through their supplier networks while tapping on the support of sustainability advisors provided by SBF. The outcomes of the pilot(s) will also be used to develop decarbonisation roadmaps specific to each sector. This pilot approach can be a blueprint for economies to scale and replicate sustainable supply chains for multiple large companies or 'queen bees' in different sectors.

Foster cross-border collaboration and proliferation of best practices to green the supply chain

Financial institutions can play a key role in augmenting supplier engagement efforts with the use of sustainability-linked loans, green supply chain financing programmes to incentivise and reward suppliers in reducing their carbon footprint. The development of sustainable financial solutions could also be industry-led with support from governments. For example, Fin.City Tokyo, an organization backed by the government and leading Financial Institutions in Japan, is taking the lead in fostering collaborations between financial centers to explore comprehensive financial solutions and programmes that can be made available to global supply chain players to effectively incentivise them to manage their emissions.

Trade related emissions, specifically international freight emissions account for more than 30% of all transport related emissions and more than 7% of global emissions[6]. Reducing transport and distribution related emissions could significantly contribute to decarbonization of supply chains.

Greater government involvement to establish green shipping corridors/networks and green transport policies could also spur greater uptake of such green transport options. Global MNCs with significant cross-border operations such as Apple and Sanofi are taking the lead in exploring less carbon-intensive transport options such as adopting sea freight for the bulk of their shipments. Leading airlines and logistics players such as Singapore Airlines and DHL have also rolled out green transport options with lesser emissions by using sustainable fuels, or optimized shipping routes. Such best practices should be shared and amplified through the ecosystem using common forums and platforms to exchange views and cross-pollination of ideas.

In summary, ecosystem enablers can alleviate the financial and knowledge barriers, making it easier for businesses to reduce emissions and contribute to more sustainable supply chains.

i. Governments can create policies and regulations that incentivise and encourage sustainable practices, such as tax incentives, grants, and subsidies. They can also establish frameworks and standards that guide companies towards sustainability.
ii. Financial institutions, on the other hand, can offer specialized funding options, such as green loans, trade financing, supply chain financing or venture capital, specifically designed to support sustainable initiatives. They can also provide expertise in assessing the financial viability and risks associated with green projects.
iii. Associations, industry groups, NGOs and MNCs can facilitate knowledge sharing, collaboration, and best practices among companies, helping them navigate the complexities of sustainable supply chains.

[6] The Carbon footprint of global trade, International Transport Forum: Global dialogue for better transport

AGENDA

(*Times displayed are Singapore Time*)

Master of Ceremonies: Angela Tien, Partnership & Innovation, Global Corporate Banking, OCBC

09:15 - 09:20	**OPENING SESSION** **Opening Remarks** Ms. Elaine Lam, Head of Global Corporate Banking, OCBC
09:20 - 10:20	**SESSION 1** **CURRENT STATE OF PLAY AND CHALLENGES FOR BUSINESSES WHEN IT COMES TO SCOPE 3 EMISSIONS** *Businesses are navigating a complex landscape due to increased regulations and reporting requirements (e.g. CBAM, ISSB), resource limitations, and ethical considerations. As a result, companies need to manage their scope 3 supply chain emissions, procurement strategies and supplier relationships carefully. Hear from our leaders and experts as they share what is shaping supply chains today, the challenges and practical solutions to embed sustainability across their supply chains.*
09:20-09:40 *(20 min)*	**Opening Presentation: Impact of regulatory changes for businesses in managing supply chains** Mr. Lee Bing Yi, Partner, Sustainability and Climate Change, PwC Singapore
09:40-10:20 *(40 min)*	**Panel 1 Discussion**: **Perspectives from the ground – Promoting sustainable supply chains** Dr. Hui Mien Lee, Senior Director, Group Environmental Sustainability, SingTel Mr. Lee Bing Yi, Partner, Sustainability and Climate Change, PWC Singapore Ms. Vivi Anita Husin, General Manager for Sustainability, Musim Mas Moderator: Ms. Lucy Xia, Sustainability Office, Global Wholesale Banking, OCBC
10:20 – 10:30 *(10 min)*	**Break**
	SESSION 2 **FOSTERING AN ECOSYSTEM THAT PROMOTES SUSTAINABLE SUPPLY CHAINS – THE ROLE OF ENABLING SOLUTIONS IN TECHNOLOGY, DATA AND RATINGS** *To cope with the impact of evolving standards on their supply chains, businesses will have to change their current mode of supplier engagement and leverage on digital, data and technology solutions. In this session, the speakers will delve into various aspects of sustainable supply chains, discussing solutions, technologies and best practices that businesses can adopt.*
10:30 – 11:20 *(40 min)*	**Panel 2 Discussion: Leveraging on enablers to tackle scope 3 emissions and green supply chain systems** *Format: 5 min presentation per speaker, followed by a moderated group discussion* Mr. Felipe Daguila, Chief Commercial Officer, Terrascope

	Mr. Marc Allen, Co-founder, Unravel Carbon Ms. Maria Gigante, Regional Customer Success Lead for APJ, EcoVadis Moderator: Mr. Leslie Koh, Sustainability Office, Global Wholesale Banking, OCBC
	SESSION 3 **FOSTERING AN ECOSYSTEM THAT PROMOTES SUSTAINABLE SUPPLY CHAINS – CAPABILITY BUILDING PROGRAMMES** *To truly embed sustainability across supply chains, businesses need to invest in new capabilities and upskill their workforce to be future-ready. In this session, our speakers will shed light on the interconnectedness of the different enablers across the broader ecosystem and touch on programmes and initiatives to support businesses, their suppliers and local communities.*
11:20 – 11:55 *(35 min)*	**Panel 3 Discussion: Capability building for the industry and helping businesses to upskill and prepare their workforce to support sustainable supply chains** *Format: 5 min presentation per speaker, followed by a moderated group discussion* Mr. Jesse Oeni, Director, Logistics Division, Enterprise Singapore Mr. Tham Kok Wing, Head of ESG Coordination Office, Singapore Business Federation Mr. Keiichi Aritomo, Executive Director of FinCity.Tokyo, Chair of World Alliance of International Financial Centers Moderator: Ms. Kavitha Menon, Director, Singapore Sustainable Finance Association
11:55 – 12:00 *(5 min)*	**CLOSING SESSION** **Closing Remarks** Dr. Julius Caesar Parrenas, Coordinator, Asia-Pacific Financial Forum