



Securing Sustainability Throughout the Pharmaceutical Supply Chain

Engagement is the key to addressing Scope 3.

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Companies throughout the pharmaceutical industry are developing strategies and implementing concrete actions to address sustainability. These efforts are critical to address the environmental, social, and governance (ESG) aspects of sustainability, such as greenhouse gas emissions, waste production, and water use (environmental); fair labor practices, employee health and safety, and diversity (social); as well as ethical business practices and anti-bribery and anti-corruption measures (governance).

It's important to remember, however, that sustainability is not about ticking boxes to meet external expectations or guidelines. Rather, it is a way to build an organization that stands the test of time by taking care of all its stakeholders—people and the earth we live on.

This work is essential, particularly for the future of the planet, because the impact of the pharmaceutical industry is significant. Emissions from pharma are estimated to be 13% greater than those from the automotive industry.¹

As firms across industries embark on their journey to sustainability, they generally find that the biggest challenge in achieving their goals lies in the areas beyond their direct control, in the work carried out by their suppliers. In the context of reducing emissions, this is the area that falls under "Scope 3," but the same concept can be applied to social and governance concerns.

Tackling Scope 3 and achieving meaningful sustainability improvements throughout the supply chain is fundamentally a matter of engagement. That engagement should be centered around working collaboratively with suppliers—working with them as partners in a project with a common goal. It requires not only sharing best practices with suppliers but also listening to them to set targets that are both meaningful and realistic, and to find the best ways to achieve them. Ultimately, this is a collaborative effort that can, and should, extend beyond individual organizations to involve collective action across the industry. Governments also have an important role to play in regulating policies for sustainability and promoting sustainability by offering tax incentives to encourage sustainable business practices. With the right engagement, significant progress can be achieved.

THE IMPERATIVE AND CHALLENGE OF SCOPE 3

The United States Environmental Protection Agency (U.S. EPA) created a framework for companies to measure their greenhouse gas emissions, grouping emission sources into three scopes²:

- **Scope 1:** direct emissions from a company's own production and buildings

- **Scope 2:** indirect emissions from energy supplied to the company
- **Scope 3:** emissions from third-party partners in the organization's upstream and downstream activities.

The EPA notes that Scope 3 emissions, which come from the supply chain, normally comprise the majority of an organization's emissions.² The CDP, a nonprofit that runs a global disclosure system for organizations to manage their environmental impacts, estimates that Scope 3 emissions form as much as 75% of an average company's emissions.³ The CDP also notes that corporations' Scope 3 emissions are 26 times higher than their direct emissions.^{4,5}

Despite the outsized role of Scope 3, however, companies continue to overlook it. Only 15% of the 23,000 corporations that disclose through the CDP have even set a supply chain emissions target.⁶ The failure to properly address Scope 3 likely results from the challenge of influencing activities over which companies do not have direct control. Even obtaining accurate data about Scope 3 can be difficult. A report from the consulting firm Oliver Wyman noted that both measuring and reducing scope 3 emissions up and down the supply chain is one of the biggest barriers to improving corporate sustainability.⁷ The same challenge of lacking direct control applies to the social and governance aspects of sustainability.

ENGAGING WITH SUPPLIERS

Since companies have limited direct control over Scope 3 emissions, the best way to address this issue is through active engagement with suppliers. This process begins with audits, then moves on to both influencing suppliers and educating them. A deeper level of engagement can be achieved by working with partners that thoroughly vet their own providers.

1. Conducting supplier sustainability audits

Engaging with suppliers begins with gathering data, through audits. Pharmaceutical companies know how to audit suppliers for quality. Auditing for sustainability is not very different.

Most supplier audits for ESG are carried out in writing, by asking suppliers to fill out a form and provide supporting documentation. The specific questions to be asked will generally reflect the requesting company's own sustainability goals.

Alternately, rather than creating custom questionnaires, companies can make use of a third-party organization that measures sustainability. In the long run, such a standardized approach is more efficient for all involved; the only downside is that it requires relinquishing some control over what is measured.

In-person audits would enable greater certainty, but for most organizations, which generally work with hundreds of suppliers, in-person audits are simply not feasible. A potential opportunity for doing so, however, would be to add some level of ESG

auditing to in-person quality audits. This would likely need to be limited to critical suppliers.

2. Influencing supplier behavior

Auditing suppliers does not simply create a pass/fail scenario where some suppliers meet the criteria and continue working with the company, while others are rejected for further business. What auditing does, instead, is make it possible to establish a baseline and set appropriate goals for improvement. This will likely be an iterative process, involving open dialogue with suppliers to set the right targets and identify the best path to reach them. Indeed, many organizations find that once they begin to engage with suppliers, they revise their goals, to make them more realistic.⁸ As progress is made and documented through regular updates of suppliers' efforts and gains, more ambitious targets can be set.

Through this engagement process, companies can influence their suppliers by leveraging their purchasing power; for example, by giving more business to partners that improve their sustainability metrics, such as through a preferred partner status.

3. Providing sustainability education—and listening

Another important aspect of engagement is through collaborative education. Through online training sessions, companies can clearly communicate their own sustainability goals and strategies while sharing best practices. This helps suppliers set their own targets, take action, and track progress effectively. The full shape of educational programming, however, should be determined in a partnership between the purchasing company and its suppliers, based on localized needs.

Education can be taken a step further by hosting a supplier conference. This is a practice that Neuland Laboratories has successfully adopted.

When held in person, such events offer an excellent way to build relationships with suppliers and develop the trust that will improve future interactions. They are also an opportunity not just for the hosting company to share its own strategies and provide education, but also for the suppliers to network and share information and experiences among themselves—and with their host.

Indeed, whether sessions are held online or in person, it's important that the convening company uses the opportunity to listen. In doing so, it may find it has things to learn, in terms of best practices as well as the specific challenges suppliers are facing. The process of listening further builds trust, and the information gained can help shape future efforts.

4. Working with partners who audit their own providers

An effective method to reach further back into the supply chain is to seek out suppliers who vet their own supply networks. Companies can ask what processes and procedures a supplier follows for assessing the ESG practices of its own providers,

and what data they can share. In addition to extending a company's reach, this process has an added benefit: If a supplier can demonstrate that it is addressing sustainability with its own partners, that provides another indicator of the supplier's own commitment to these concerns.

THIRD-PARTY ASSESSMENTS AND RESOURCES

Given the challenges of trying to conduct thorough auditing all the way through the supply chain, assessments and certifications from respected third-party organizations can be very useful. A few well-known and respected auditing and accreditation bodies include the International Organization for Standardization (ISO), the Science Based Targets Initiative (SBTi), S&P Global, and Ecovadis. Many of these also offer valuable free resources.

ISO

The International Organization for Standardization (ISO), whose certifications are widely recognized around the world, is a good place to start. Particularly relevant for ESG concerns are certifications for ISO 14001 (Environmental Management)⁸ and ISO 45001 (Occupational Health and Safety Management).⁹

The Science Based Targets Initiative (SBTi)

The Science Based Targets initiative (SBTi) is another important framework. SBTi develops standards, tools, and guidance to help companies reduce greenhouse gas emissions. Its validation services arm assesses and validates companies' targets. More than 4,000 companies have SBTi-validated emissions reductions targets.

SBTi also offers many resources to support companies in their sustainability journey. Particularly useful is its guidance document for Scope 3, which explains how to evaluate, develop, and set supplier engagement targets, how to implement engagement programs, and what it takes to achieve these goals.¹⁰

S&P Global

S&P Global offers several tools that evaluate performance on various classes of sustainability goals. The S&P Global ESG Score measures a company's ESG performance through the S&P Global Corporate Sustainability Assessment. That assessment is available in 62 industry-specific versions,¹¹ including one for the pharmaceutical industry.¹² The site also has a free tool to look up the ESG score of any participating organization.¹³

Ecovadis

Ecovadis is another useful resource, particularly for addressing sustainability in the supply chain. In addition to evaluating companies and issuing ratings, Ecovadis provides performance improvement tools to help organizations in their own sustainability efforts, and assessment tools that companies can use

to measure their suppliers. The organization has a network of more than 130,000 rated companies.¹⁴

THE NEED FOR COLLABORATION ACROSS THE PHARMACEUTICAL INDUSTRY

Ultimately, efforts to improve all sustainability must go beyond engagement between individual companies and their suppliers. Collective efforts across the pharmaceutical industry are needed.

In the 2024 Global Biopharma Sustainability Review, a survey among leaders from 800 pharma and biopharma companies across 18 countries revealed that 69% of respondents identified weak collaboration across the value chain as a barrier to achieving sustainability.¹⁵

This idea is echoed in a recent IQVIA report that suggested that some 500 companies will need to work together to drive significant change in the pharmaceutical supply chain. And that collaboration will need to be both regional and global: Of those 500 companies, 40% of are headquartered in India or China, 30% are in Europe, and 20% are in the United States.¹⁶

There are a few ways that collective pharmaceutical industry efforts could help improve supply chain sustainability. By forming coalitions, companies could leverage their group buying power to collectively put pressure on suppliers to improve. By setting up finance programs, the industry could provide capital to enable smaller companies to implement sustainability measures, on a scale that far exceeds the funding that any one company could offer. The industry could also pool efforts to provide sustainability education.

A few such collaborative efforts have already begun. One is the Activate program, launched in May 2023 by six Big Pharma companies in collaboration with Manufacture 2023. This initiative focuses on reducing the environmental impact of producing active pharmaceutical ingredients (APIs), which are often resource-intensive to manufacture.¹⁷ The initiative was designed to bring together API suppliers and their customers, to align sustainability targets, and identify opportunities for operational and resource efficiency. It was initially rolled out across more than 20 countries, with a plan to expand.

The Energize program is another cross-industry effort.¹⁸ This program aims to increase access to renewable electricity in the pharmaceutical industry by creating buyer cohorts, whose greater purchasing power can lower the costs of renewable energy for smaller companies. Although this program is currently only available in North America and Europe, the concept could be expanded to other parts of the world.

THE NEED FOR GOVERNMENT ACTION

The actions of industry alone will not be enough to create change on the scale that is necessary to ensure sustainability for people and the planet. Governments in all countries play an essential role. A primary way that governments can support

sustainability is by incentivizing sustainable investments in research, development, and manufacturing, through mechanisms such as tax breaks.

Government policies and fiscal incentives must be aligned with industry needs in a way that enables industry to match the short- and long-term financial viability of their organizations with protection for people and the environment.

SUMMARY

Companies working to improve their sustainability face the toughest challenge in trying to reduce the impact of the work carried out by third-party partners—the area referred to as Scope 3 in the context of emissions, which is also relevant to social and governance concerns. This area outside a company's direct control is normally the biggest contributor, by far, to a firm's environmental footprint.

The only path to advance sustainability goals in Scope 3 is through committed engagement with suppliers. By engaging with suppliers as partners, companies can establish baselines, agree on realistic targets for improvement, provide positive incentives, and measure progress. As part of that process, they should share best practices and also listen to supplier concerns and needs. To achieve more significant improvements, companies across the industry will also need to collaborate, and government must support these efforts by providing the right incentives.

Through engagement, companies, along with the industry as a whole supported by governments, will be able to create meaningful progress toward the achievement of sustainability goals. This is because sustainability is not a superficial exercise of checking boxes on forms and seeking certifications to improve a company's image. It's about truly building a solid path forward that ensures the wellbeing of organizations, people, and the planet we all live on. **CP**

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