

Decarbonizing for a Sustainable Future

A Collaborative Effort to Reduce Emissions along the Supply Chain

Reducing greenhouse gas (GHG) emissions in the supply chain lies outside of a company's direct control, so collaboration with suppliers and partners in the supply chain is key. Yet, challenges to reduce such emissions are still abundant.

The good news is that the challenges are predominantly the same across companies and industries and collaborating with peers allows for a faster and more effective adoption of solutions. Most companies still face significant awareness and knowledge gaps within their own company. It is thus not surprising to encounter similar situations when talking to suppliers and partner companies. Required technical understanding, such as GHG accounting methodologies as well as insights into available effective measures to reduce emissions in the supply chain, is not thoroughly in place within companies across the supply chain.

Closing those expertise gaps requires organizations to invest time and resources in skilling-up. Clear guidance from the top management is a prerequisite to drive the necessary changes within each company. To effectively drive emission reduction, access to reliable emission data along the value chain is essential. Lacking standardized formats for GHG calculation and reporting, as well as the absence of automated tools for gathering and sharing emission data currently still prevents emission transparency across the supply chain. Resulting unharmonized data requests from multiple customers are often overwhelming for suppliers.

Driving Impact through Industry Collaborations

By playing an active role in several industry initiatives, such as Together for Sustainability (TfS), Pharmaceutical Supply Chain Initiative (PSCI), Sustainable Markets Initiative (SMI), or Sustainable Procurement Pledge (SPP) — just to mention a few — Merck aims to address the outlined common challenges by joining forces with our peers, creating impactful solutions and enablement for our suppliers, our customers and ourselves. Some examples:

Through PSCI and the TfS Academy our suppliers have access to a broad range of sustainability trainings and exchange with others free of charge. Specific and detailed training curricula on decarbonization for beginners up to mature companies have been added in the past years to the long-time existing training offering.



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Within SMI and PSCI, we aligned our sustainability requests towards suppliers and jointly provide access to renewable electricity opportunities via the Energize Program.

Within TfS, suppliers complete sustainability assessments only once and the outcome is shared with all TfS member companies, reducing significantly the efforts on both suppliers' and customers' sides. We played an active role in launching and promoting the TfS Guideline for Product Carbon Footprints (PCF) calculation. Lacking



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Global Supplier Decarbonization Program



Merck's ambitious commitments to sustainability include to meet a science-based climate target by 2030. To address the about 50% of the Darmstadt, Germany-based company's corporate emissions which arise from the supply chain, Merck launched the global supplier decarbonization program in 2021 to reduce greenhouse gas (GHG) emissions jointly with suppliers. In addition, Merck collaborates with peers in industry initiatives to shape common standards and provide tools and resources enabling suppliers to effectively reduce emissions.

harmonization before, PCF calculations are now possible to be performed in a standardized manner across the industry. We are piloting the PCF exchange solution SiGreen to automatize the currently manual data exchange with suppliers next year.

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Through SPP, good practices how to embed sustainability into procurement practices are made available to anyone interested without financial membership requirements. Peer group exchanges help learn from others, stay up to date with the manifold solutions in the context of decarbonization popping up every day and allow to build a network with like-minded partners to drive decarbonization together.

Supplier Decarbonization Program: Best Practices and Lessons Learned

Before launching the supplier decarbonization program, we first dedicated time to skill-up our own organization

and enable sourcing teams to embed decarbonization as a regular topic in sourcing discussions. It was also imperative to align the program with our company's sustainability strategy and business ambitions. We built an internal network across the different businesses and corporate departments to regularly align and exchange on strategy, measures and progress.

Our procurement department is responsible for calculating the emissions for purchased goods and services as well as capital goods. Creating transparency on the emission hotspots in our supply chain led to the identification of most relevant suppliers to include in the program. As a first step, we engaged with the selected suppliers directly, introducing our sustainability goals and the program and sought to understand each supplier's current maturity status in term of decarbonization in order to tailor and define future steps together.

Some suppliers were more advanced than we were at the time, and we were lucky they shared their experience and good practices with us. Others were eager to learn from us and appreciated the resources and solutions we offered via our membership in industry initiatives. To some suppliers the topic was rather new, and we focused on raising awareness and receiving commitment for a joint approach to reduce emissions. Later, we added more suppliers to our program. By using a simple automatized survey to understand the actions sup-

pliers take, we are able to monitor the progress and derive concrete next milestones.

Sourcing managers have sustainability progress as part of their individual objectives. One important element of the program is to continuously evolve our GHG accounting methodology towards more data quality and accuracy. By integrating more and more data provided directly by our suppliers, we can gradually replace the general estimates we had initially used by applying standardized data base information.

Integration of Sustainability Requirements as a Decisive Factor into Procurement Practices

While effective supplier engagement and enablement is at the core of our program to reduce emissions, the key to success is the integration of sustainability requirements as a relevant factor into procurement practices. Our sustainability requirements are reflected in our Supplier Code of Conduct. We include sustainability aspects in requests for proposals and agree specific commitments with suppliers as part of our contracts.

Sustainability topics and measures to reduce emissions are part of regular discussions with our suppliers. Progress towards our decarbonization goals is regularly monitored and shared with the Merck Sustainability Board. Despite the many challenges and high efforts needed to decarbonize, we are dedicated to improving our supply chain sustainability and reducing greenhouse gas emissions in our supply chain.

We are convinced that partnerships are key to success as it needs all stakeholders to contribute to the decarbonization of global supply chains. Through engagement with suppliers, implementation of innovative ideas, and utilization of standardized guidelines, we strive to do our part and make a positive impact on the environment while maintaining a sustainable and resilient supply chain.

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