

GUIDELINE ON

Climate Action in the Supply Chain



Together with its partners,
REWE Group endeavours to
make an active contribution
to climate protection and
to continuously reduce
greenhouse gas emissions
along its supply chains.



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I. UNDERSTANDING, SCOPE AND COMMUNICATION

REWE Group's customers expect and should be able to trust that REWE Group, as a trade company, is aware of its responsibility in the supply chains of its private labels and addresses the social and ecological effects. In its ["Guideline for Sustainable Business Practices"](#), REWE Group acknowledges this responsibility. The values described therein form the foundation for the responsible actions of the company. REWE Group has specified this foundation in the ["Approach for more responsible supply chains"](#) in order to identify, evaluate and process the social and ecological effects. In addition, REWE Group obliges all suppliers of its private label products to comply with its [Supplier Code of Conduct](#), which also includes climate protection.

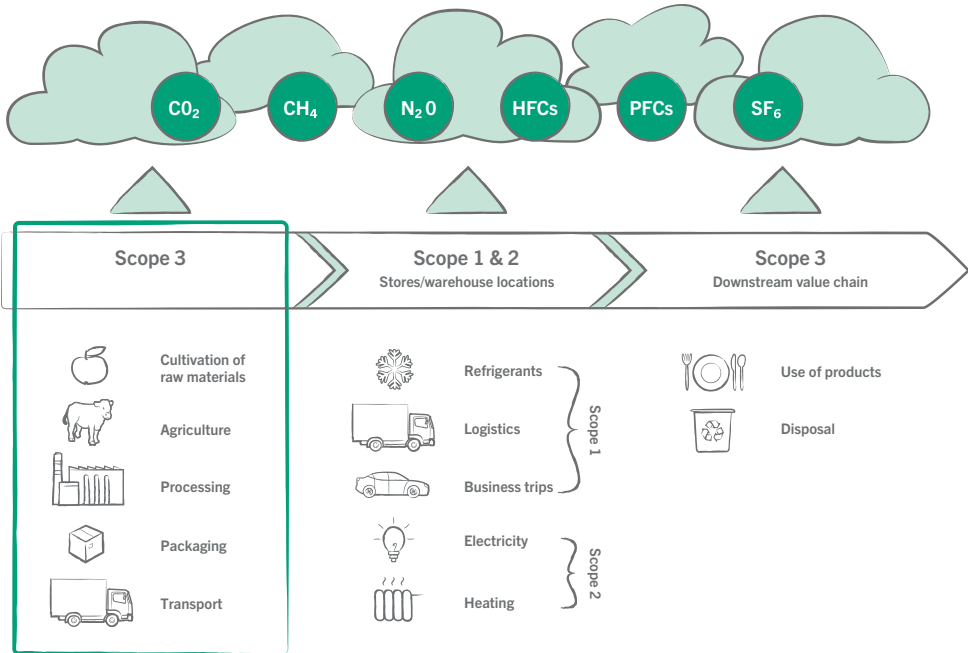
For REWE Group, climate protection is an essential part of its sustainability strategy. The trade company published its first corporate climate target as early as 2009 and has updated it ever since. Now, REWE Group aims at forging ahead with the reduction of climate-relevant emissions in its supply chains.

Goal and scope of the guideline

REWE Group has defined a climate strategy for the upstream supply chain. Its goal: To continuously reduce greenhouse gas emissions and thus to contribute to limiting global warming.

REWE Group is aware that greenhouse gas emissions occur along the entire value chain of products. In this guideline, the Group focuses on Scope 3 emissions caused by direct and indirect suppliers along the entire upstream value chain as this is where a significant proportion of product-related greenhouse gas emissions is generated. Approach, goals and measures relating to Scope 1 and 2 emissions in stores and administrative locations can be found in the "Climate protection at corporate level" chapter of the [REWE Group's Sustainability Report](#) or on the [Group's website](#).

The scope of this guideline comprises REWE Group's supply chains of private label products sold at REWE and PENNY Germany.



Scope of the “Guideline on Climate Action in the Supply Chain”

This guideline provides suppliers, employees, and other stakeholders with information on REWE Group's climate protection commitment for the upstream supply chain. In addition, it serves contractual partners as a guide for developing and implementing their own climate action policies and management systems along their supply chains.

The principles, goals and measures mentioned in this guideline are pursued and implemented by REWE Group in partnership with its suppliers. Regularly reviewed binding requirements can arise from this dialogue. In addition, the guideline is updated on the basis of future trends and developments.

Communication

REWE Group is continuously developing formats that are suitable to effectively communicate the contents of this guideline, e.g. via intranet, the Group's website or the supplier platform, to suppliers, employees and other stakeholders and to raise their awareness for climate action in the supply chain.



II. CHALLENGES

The effects of climate change are already noticeable today. Heat records, storms, droughts and floods threaten ecosystems, biological diversity and the livelihoods of millions of people. The world is facing major challenges – and the topic is on the political agenda. The Paris Agreement aims at limiting global warming to 1.5 degrees Celsius – a target to which the international community once again committed to at the UN Glasgow Climate Change Conference in November 2021. Among other things, it was agreed that in order to achieve this goal, global emissions of climate-damaging greenhouse gases must be reduced by 45 per cent in this decade. Germany has also signed the climate agreement and derived the necessary regulatory framework. According to the Climate Change Bill amended in 2021, greenhouse gases must be reduced by 88 per cent by 2040 compared to 1990 and greenhouse gas neutrality must be achieved by 2045 (German Federal Government, 2021). Society is also increasingly demanding climate protection measures, as movements such as Fridays for Future show.

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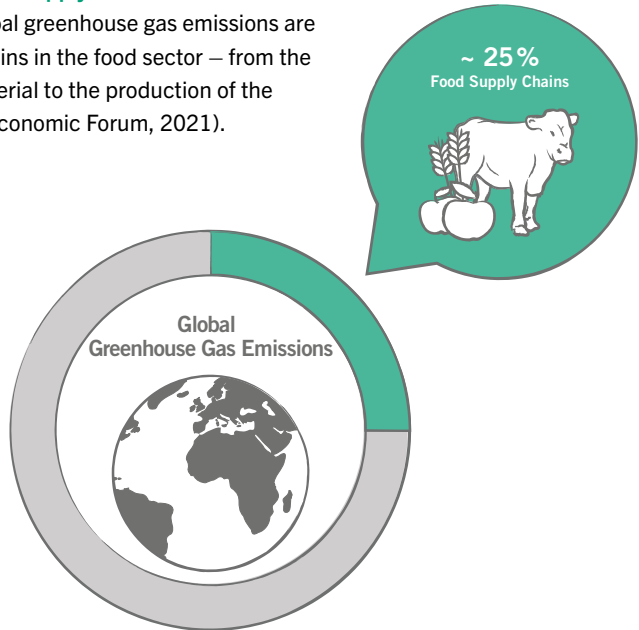
Climate change impacts on companies in the food sector

In the food sector as well as in the extraction of raw materials, climate change also has economic consequences. Agriculture alone bears 63 per cent of the damage and losses caused by extreme weather events (FAO, 2021). Temperature fluctuations, heavy rainfall and the frequency of extreme weather events reduce agricultural yields. This may also lead to decreased supply reliability. Global warming of two degrees Celsius could increase raw material costs in the food and beverage sector by ten per cent by 2030 (PwC, 2020).

Political measures to reduce greenhouse gas emissions, such as CO₂ pricing, have a tangible impact on businesses, as have societal demands: 64 per cent of European corporations in the consumer goods sector perceive pressure from customers to take action in relation to climate protection (Deloitte, 2019).

Relevance of upstream supply chains

25 per cent of all global greenhouse gas emissions are caused by supply chains in the food sector – from the extraction of raw material to the production of the end product (World Economic Forum, 2021).



In the European food retail sector, emissions from the upstream supply chain represent the largest share of the total emissions at 90 per cent. The upstream supply chains are therefore of fundamental importance for companies in terms of climate protection (McKinsey&Company, 2021).

Data collection and calculation of emissions in the upstream supply chains are particularly challenging. On the one hand, the exchange of environmental data is often still in its infancy and the data may be insufficient. On the other hand, the supplier landscape is often very complex, multilayered and international (World Economic Forum, 2021). As a result, the upstream supply chains right down to the extraction of raw materials are often beyond the direct sphere of influence of companies like REWE Group.

III. PRINCIPLES AND OBJECTIVES

At REWE Group, the three principles “Avoid before reduce before compensate” form the framework for the climate strategy for the supply chain.



1. Avoid

Avoid: For REWE Group, avoiding the emission of climate-damaging greenhouse gases along the upstream supply chains of its products wherever possible is the top priority. Especially for goods with a high impact on our climate, this goal is to be achieved for example by substituting products or raw materials, avoiding the clearing of forest areas or by omitting packaging or packaging components. An example are alternative plant-based products that cause less emissions due to the omission of greenhouse gases from animal husbandry.



2. Reduce

Reduce: Wherever emissions cannot be completely avoided, REWE Group aims at reducing them by using more climate-friendly raw materials and productions methods, more eco-friendly packaging or shorter transport routes. Examples include the use of deforestation-free animal feed or recycled paper instead of virgin fibre.



3. Compensate

Compensate: Residual emissions that are unavoidable during the extraction of raw materials, their processing or the transport of goods are planned to be compensated by REWE Group through the promotion and support of climate protection projects. These projects shall be verified or certified in accordance with a recognised standard.

Objectives

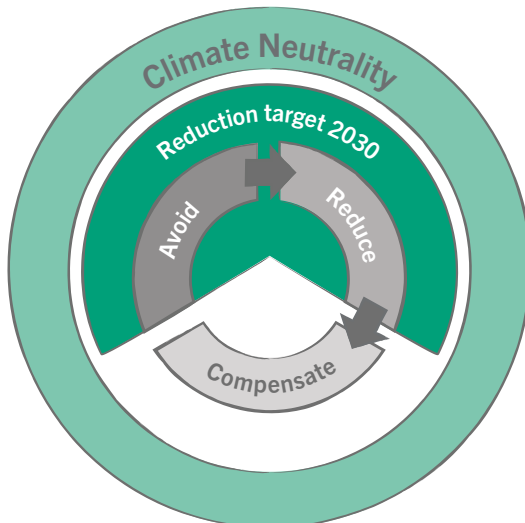
With regard to climate protection in the supply chain, REWE Group has set itself strategic goals that will give the Group's commitment a clear direction in order to make product ranges more climate-friendly. In developing these targets, the Group has been guided by the requirements of the [Science Based Targets Initiative](#) – an alliance of the UN Global Compact, World Resources Institute and WWF. This internationally recognised standard supports companies in developing science-based climate targets in line with the Paris Agreement.

Goal 1: Strategic reduction target for the supply chain

By the end of 2030, an absolute reduction of greenhouse gas emissions of 15 per cent compared to 2019 should be achieved.

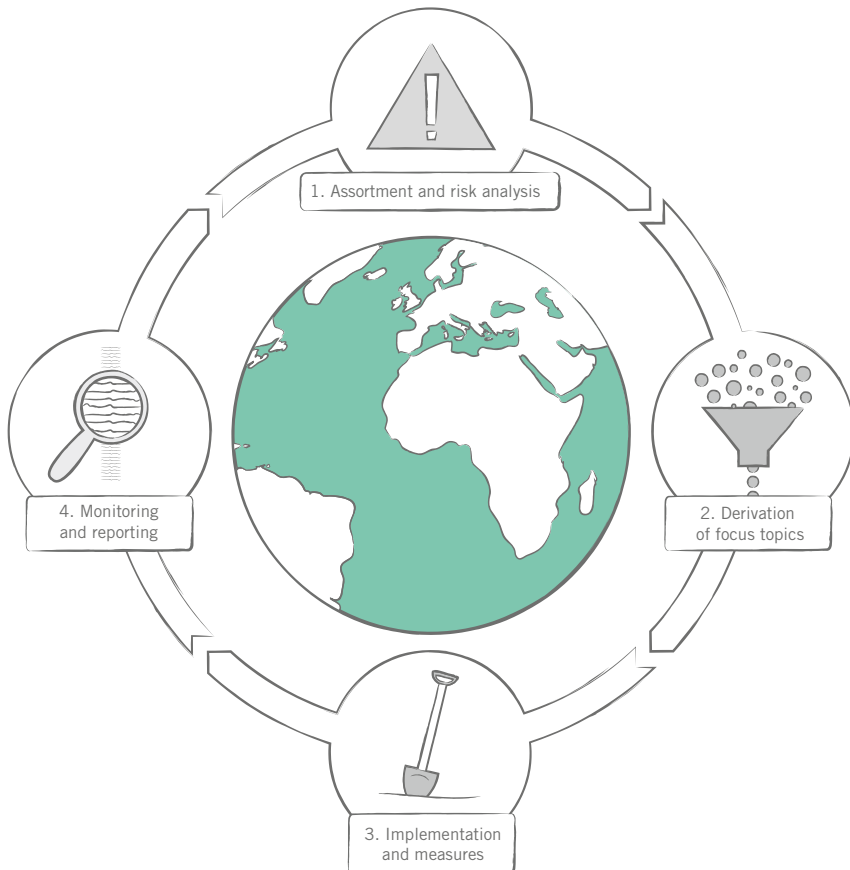
Goal 2: Strategic supplier commitment target

By the end of 2024, climate targets in line with the Science Based Targets Initiative are to be agreed with 100 per cent of the strategic suppliers, who are responsible for a total of 75 per cent of the product-related emissions.



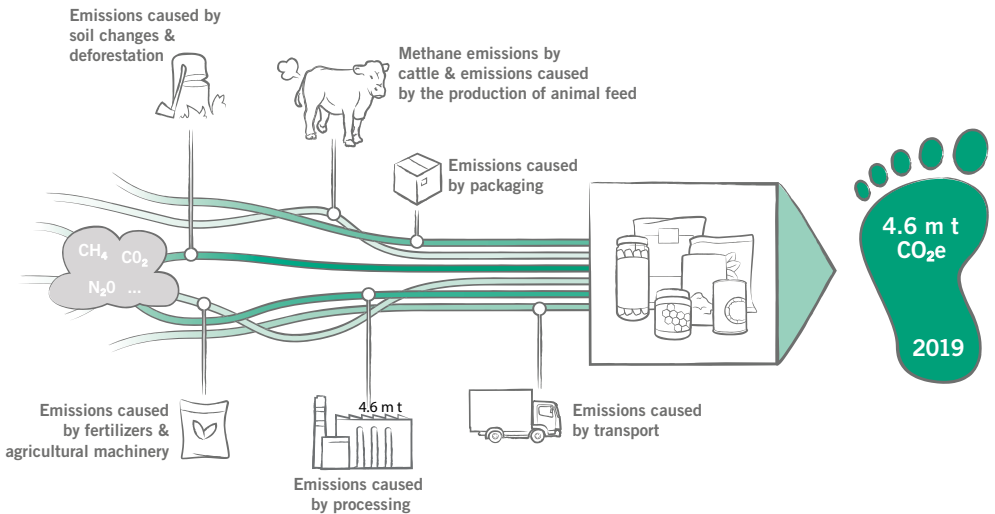
IV. STRATEGIC APPROACH AND IMPLEMENTATION

In order to achieve its goals, REWE Group follows a four-stage process in its climate strategy analogous to the Group's [“Approach for more responsible supply chains”](#): assortment and risk analysis, derivation of focus topics, implementation of measures, monitoring and reporting.



Assortment and risk analysis

The strategy on climate action in the upstream supply chain comprises all product groups. For 2019, REWE Group has calculated a CO₂e footprint for its supply chains with more than 11,000 private label products by REWE and PENNY in Germany of approximately 4.6 million tonnes of CO₂e.



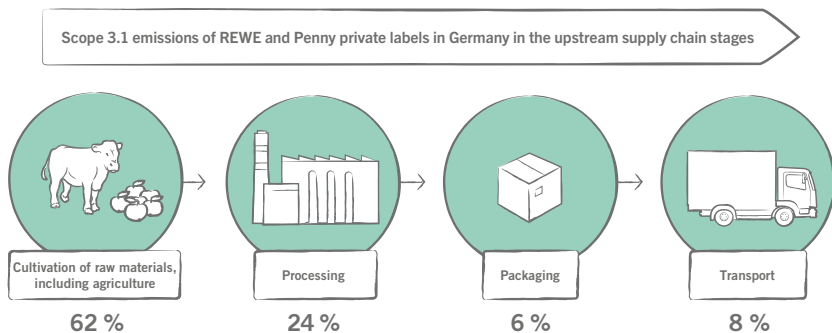
The calculation of Scope 3 emissions complies with the requirements of the Greenhouse Gas Protocol, a standard for the accounting of greenhouse gas emissions. Due to the complexity of purchasing and the large number of suppliers and purchased products, the CO₂e footprint was calculated using an established expenditure-based method derived from the so-called "Environmentally Extended Input-Output Model". This model maps global flows of goods and the climate impacts (in a specific sector and in a specific region) that correspond to REWE Group's purchasing volume. The emission factors taken into account in the calculation of the CO₂e-footprint include the climate impacts along the upstream value chain from the cultivation phase to the factory gate. For example, the climate impacts of rearing, slaughtering and processing a pig, including feed production (plant cultivation, harvesting and further processing), were taken into account. The emissions for packaging and transport were estimated separately.

The Scope 3 emissions were assessed based on the purchased goods data for the main product groups. Third-party brands and other purchased goods (e.g. operating materials) and services were not included.

Derivation of focus topics

Climate-relevant greenhouse gas emissions are generated in all REWE Group's upstream and downstream supply chains. The Scope 3 emissions of the upstream supply chains account for the largest share. 62 per cent is attributable to the stage of raw material production (including agriculture), 24 per cent to processing, six per cent to packaging and eight per cent to transport.

The evaluation of the assortment and risk analysis revealed a highly



fragmented footprint. REWE Group was able to identify nine product groups that initially will take centre stage when deriving measures to reduce the CO₂e footprint due to their high climate impact: Milk and dairy products, sausage, cheese, poultry, eggs, pork, beef, fruit and vegetables.

Animal products account for around 42 per cent of the footprint in REWE Group's range of products, plant products (i.e. fruit and vegetables) account for 12 per cent. Even though plant products generally have a significantly lower greenhouse gas intensity than animal products, they must also be considered for assessing the total greenhouse gas emissions due to the increasing demand by customers.



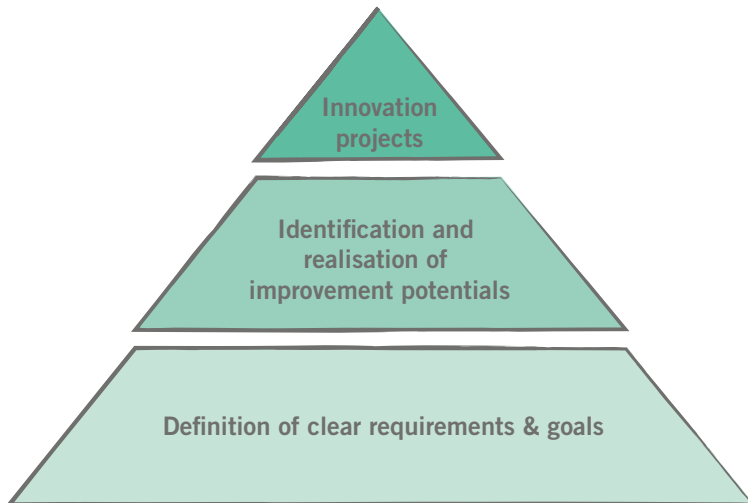
Implementation and measures

The strategic approach to climate protection in the supply chain is implemented on three levels:

Firstly, the Group promotes climate protection in the supply chain on a broad scale by defining concrete goals. Secondly, it provides its suppliers with clear recommendations for action, from which binding requirements are to emerge in the long term. These relate to categories such as energy, agriculture or waste and call for the use of more efficient technologies, more sustainable raw materials or the promotion of a circular economy.

Thirdly, the identification and realisation of improvement potentials across all range of products as well as for specific product lines form the basis for the implementation of greenhouse gas-reducing measures in the value chain.

Together with its partners along the supply chain, REWE Group also aims at actively shaping and promoting the transformation and climate protection in its supply chains in the form of innovation projects.



REWE Group is implementing the following measures among other things:

- In order to avoid climate-damaging greenhouse gases, the Group is making its range of private label products more climate-friendly and is positioning itself with innovative solutions as a driver and market leader within the industry. Examples are the purely plant-based products of REWE's private label bio + vegan or PENNY's private label Food for Future.

- In order to specifically promote climate protection in the supply chains of its private labels and to reduce emissions, in a first step the Group is developing “reduction roadmaps” for the nine product groups with a particularly high climate impact. These will continuously be expanded and adapted and are also planned for all other product groups.
- REWE Group encourages its suppliers of private label products to develop climate targets and measures in line with the requirements of the Science Based Targets initiative. The REWE Group Supplier Platform “Together for more climate protection” endeavours to enable suppliers to identify reduction potential, formulate their own climate targets and derive appropriate measures. In this way, REWE Group envisages to join forces for ambitious climate protection in dialogue with its suppliers. The online platform is to be continuously developed.



- REWE Group regularly exchanges ideas and information with suppliers, industry associations and NGOs on pioneering climate protection activities in the supply chain in order to identify and implement innovative approaches for more climate-friendly production methods. In addition, the Group strives to advance industry-wide solutions.

More concrete measures and projects on the topic of climate protection in the supply chain can be found, for example, in the [“Guideline on More Eco-Friendly Packaging”](#), the [“Guideline on Circular Economy”](#) or in the [“Guideline for Soy in Animal Feed”](#), aimed at ensuring deforestation-free supply chains. REWE Group is integrating its climate strategy and the associated measures for the prevention and reduction of greenhouse gas emissions in its supply chains consistently in all relevant divisions.



Monitoring and reporting

REWE Group is aware that a continuous extension of the measures is necessary to achieve the reduction targets. REWE Group monitors and evaluates the progress in implementing the measures and achieving the targets outlined. The findings of the monitoring are incorporated into the further development of the measures.

The Group regularly and appropriately reports publicly on the current status of all climate protection activities in the supply chain.

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The dialogue on climate protection in the supply chain is of great importance to us. Please contact us with suggestions and questions at:
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