



ESG Investing

Supply Chain Climate Exposure

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To manage climate risks, investors need reliable climate exposure metrics. This need is particularly acute for climate risks along the supply chain, where such risks are recognized as important, but difficult to measure.

We propose an intuitive metric that quantifies the exposure a company has to customers, or suppliers, who may in turn be exposed to climate risks. We show that such risks are not captured by traditional climate data. For example, a company may seem green on a standalone basis, but may still have meaningful, and potentially material, climate risk exposure if it has customers, or suppliers, whose activities could be impaired by transition or physical climate risks.

Our metric is related to scope 3 emissions and may help capture economic activities such as emissions offshoring. However, while scope 3 focuses on products sold to customers and supplies sourced from suppliers, our metric captures the strength of economic linkages and the overall climate exposure of a firm's customers and suppliers. Importantly, the data necessary to compute our measure is broadly accessible and is arguably of a higher quality than the currently available scope 3 data. As such, our metric's intuitive definition and transparency may be particularly appealing for investors.

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