Template for submitting proposals related to GHG Protocol's *Corporate Standard, Scope 2 Guidance, Scope 3 Standard, Scope 3 Calculation Guidance* and market-based accounting approaches

(Optional)

Proposal instructions

GHG Protocol is conducting four related surveys in reference to the following GHG Protocol standards, guidance and topics:

1. Corporate Accounting and Reporting Standard (Revised Edition, 2004) ("Corporate Standard")
2. Scope 2 Guidance (2015)
3. Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) ("Scope 3 Standard"), and Technical Guidance for Calculating Scope 3 Emissions, version 1.0, 2013 ("Scope 3 Calculation Guidance")
4. Market-based accounting approaches

The survey is open until February 28, 2023. To fill out the survey, click here.

As part of the survey process, respondents may provide proposals for potential updates, amendments, or additional guidance to the *Corporate Standard, Scope 2 Guidance, Scope 3 Standard, or Scope 3 Calculation Guidance*, by providing the information requested in this template. You may also use this template to provide justification for maintaining a current approach on a given topic.

Submitting proposals is optional. Respondents may submit multiple proposals related to different topics.

Proposals should be as concise as possible while providing the requested information. Submissions that are outside of the template may not be considered. Proposals may be made publicly available.

To submit the proposal, please save this file and fill out the fields below. When you've completed your proposal, please upload the file via this online folder. Please name your file STANDARD_Proposal_AFFILIATION, e.g., *Scope 2_Proposal_WRI*.

Proposal and supporting information

1. **Which standard or guidance does the proposal relate to (Corporate Standard, Scope 2 Guidance, Scope 3 Standard, Scope 3 Calculation Guidance, general/cross-cutting, market-based accounting approaches, or other)? If other, please specify.**

Corporate Standard and Scope 3 Standard

2. **What is the GHG accounting and reporting topic the proposal seeks to address?**

Chapter 8 Corporate Standard in relation to Scope 3 Standard/ Scope 3 emission reductions, upstream category 3.1:

Special case:
Accounting of reduced GHG emissions in a production process of an emission intensive product (steel/ tinplate). These reductions are being transferred to the buying company (Pano Verschluss GmbH) via certificates. These certificates state, that the reductions can be counted as reduced emissions in Scope 3.1. in Pano's GHG inventory and do not fall under one of the three definitions of CO_{2e} reductions (allowances, offsets, credits) which are stated in chapter 8 "Accounting for GHG reductions" (p. 58 ff.).

Background information:

Real emission reductions are realized in some production sites in the production process of these "green" tinplates by using gas injection instead of coal. These emission reductions are not taken into account as reductions in Scope 1 and 2 emissions of the steel company. The steel producer rather sells the saved emissions as "green steel certificates" which can be purchased additionally when buying a certain amount of steel. We believe these certificates fall under the category of "book-and-claim certificates" according to the types of market instruments described in the GHG Protocol Market-based Accounting Approaches Survey Memo.
(Note: The calculation of the emission savings in the steel production process is done according to the Project Accounting Standard as it is an internal project of the steel company and the product constitutes a "group-level mass balance". The calculation of the CO_{2e} savings for the certificates is as follows: amount of CO_{2e}-savings at a specific production site divided by a specific factor provided by Eurofer dataset = volume of certificates.)

The certificates are only issued for the amount of steel produced under greener conditions. The certificates state that the emission reductions can be used for as reductions in Pano's GHG inventory

under scope 3 (category 3.1.). The money gained through the sold certificates is used to finance investment in greener steel production technology in sites of the steel producer. It is also stated that these certificates represent a kind of concept like RECs which can be used as reductions of CO_{2e} emissions under Scope 2.

- ➔ Are the certificates merely an example for offset/compensation in the meaning of Scope 3 Standard, p. 102, and the emission savings should be reported separately (as stated in Chapter 11)?
- ➔ How can these real CO_{2e} emission savings be used by Pano in their inventory?

3. What is the potential problem(s) or limitation(s) of the current standard or guidance which necessitates this proposal?

- ➔ As far as we assess the case there is a "grey zone" which is not yet covered by the Corporate Standard nor the Scope 3 Standard. According to definitions in Chapter 8 of the Corporate Standard the above mentioned certificates are neither allowances nor offsets nor credits.
- ➔ It is not clear to us, if these certificates represent a sort of offsetting/ compensation which cannot be calculated as emission reductions in the inventory under the GHG protocol, but can be reported separately and therefore be used in communications to proof that Pano is willing to buy "green" / emission reduced steel and that a certain amount of CO_{2e} emissions were saved by using a more climate-friendly technology. Which in turn will be intensified/ improved with the money gained by the selling of the certificates.

4. Describe the proposed change(s) or additional guidance.

- ➔ Please check if those certificates can be used as a real emission reduction under Scope 3 categories, specifically category Scope 3.1.
- ➔ Please describe clearly under which circumstances emission reductions in the production process of pre-products can be calculated as real savings and therefore reduce Scope 3 emissions of the buying company
- ➔ As companies are seeking to reduce their CO2e emissions in their own processes and boundaries as well as in their value chain there might arise more and more creative market instruments. It is important that the GHG Standards checks those newly invented methods and states clearly what is in line with the Standard guidelines and what is not.

5. Please explain how the proposal aligns with the GHG Protocol decision-making criteria and hierarchy (A, B, C, D below), while providing justification/evidence where possible.

A. GHG Protocol accounting and reporting approaches shall meet the GHG Protocol accounting and reporting principles (see Annex for definitions):

- Accuracy, Completeness, Consistency, Relevance, Transparency
- Additional principles for land sector activities and CO_2 removals: Conservativeness, Permanence, and Comparability if relevant

Accuracy: With a clear definition of how emission savings in the above described case can be a) calculated and b) if/ how these savings can be taken into account for the carbon inventory of the buying company (Scope 3 emissions)

Completeness:
The emission savings described above are real and should have an impact on the carbon inventory of the supplier company and the buying company

Consistency:
With a clear specification on how those above described emission savings can be calculated (method) and if this is stated as applicable for all companies reporting under the GHG protocol this will be a consistent way for all to apply for the calculation (e.g. in the specific case: if it is allowed to take the emission savings and divide them by a general factor given from a branch association in order to get a number of certificates which can be sold/distributed)

Relevance:
As companies are seeking to reduce their CO2e emissions in their own processes and boundaries as well as in their value chain there might arise more and more creative ideas. It is important that the GHG Standards checks those newly invented methods and states clearly what is in line with the Standard guidelines and what is not.

Transparency:

With a clear statement and detailed description on how emission savings onsite/ in a production process can be transferred into emission savings for clients in their scope 3 inventory without a specific emission factor/PCF for the product delivered it would be settled for all companies. If there is a clear statement on how to calculate/ proceed if it is allowed it would be transparent for all market participants how real emission savings have been accomplished and why they can be used in the Scope 3 inventory.

Comparability:

As already stated above, a clear definition and description on the process for both sides (supplier and client) would support that all market participants use the same method if applicable in their case and it is guaranteed that emission savings/ data are comparable, accurate, complete and consistent.

B. GHG Protocol accounting and reporting approaches shall align with the latest climate science and global climate goals (i.e., keeping global warming below 1.5°C). To support this objective (non-exhaustive list):

- Direct emissions reported in a company's inventory should correspond to emissions to the atmosphere. Reductions in direct emissions reported in a company's inventory should correspond to reductions in emissions to the atmosphere.
- Indirect emissions reported in a company's inventory should in the aggregate correspond to emissions to the atmosphere. Reductions in indirect emissions reported

in a company's inventory should in the aggregate correspond to reductions in emissions to the atmosphere.

As described above there are real emission reductions achieved in the production process of steel.

It is only the question how these savings which would ordinarily be reported under scope 1 and 2 of the steel producer can be transferred into lower emissions for scope 3 of the client who buys the "greener" steel products if there is no PCF/ specific emission factor available.

C. GHG Protocol accounting frameworks should support ambitious climate goals and actions in the private and public sector.

- Would this proposal enable organizations to pursue more effective GHG mitigation/decarbonization efforts as compared to the existing standards and guidance? If so, how?
- Would this proposal better inform decision making by reporting organizations and their stakeholders (e.g. related to climate-related financial risks and other relevant information associated with GHG emissions reporting)?

Yes, as the above mentioned case describes a case which is not yet covered in the Standard ("grey zone") the proposal would maybe encourage other companies/ branches to think more out of the box and become creative in order to a) find new ways of emission reductions and b) transfer these savings as advantage/incentive to their clients for lower emissions in their scope 3 inventory.

D. GHG Protocol accounting frameworks which meet the above criteria should be feasible. (For aspects of accounting frameworks that meet the above criteria but are difficult to implement, GHG Protocol should provide additional guidance and tools to support implementation.)

- What specific information, data or calculation methods are required to implement this proposal (e.g., in the case of scope 2, data granularity, grid data, consumption data, emission information, etc.)? Would new data/methods be needed? Are current data/methods available? How would this be implemented in practice?
- Would this proposal accommodate and be accessible to all organizations globally who seek to account for and report their GHG emissions? Are there potential challenges which would need to be further addressed to implement this proposal globally? What would be the potential solutions?

There is specific information needed on how the described certificates can be calculated and issued and how emission savings in the production process of pre-products can be transferred into real emission reductions under Scope 3 (see detailed descriptions above).

Yes, if the above described case is accepted as proposal and if the necessary information on calculation, methods and reporting guidelines are clarified this concept of certificates could offer a new way of emission reductions without a specific emission factor/PCF.

6. Consistent with the hierarchy provided above, are there potential drawbacks or challenges to adopting this proposal? If so, what are they?

Challenge to be reviewed and discussed by the GHG Protocol experts:

If the certificates are considered as a kind of an offset method because they are sold but not traded or if they can accounted for in a company's Scope 3 inventory in the same way that renewable energy certificates can be account for in a Scope 2 inventory followed the market-based allocation method → if the case is not clearly defined as a guideline there might be drawbacks in the form of that some companies use the interpretation in favor of their certificates and other companies are more conservative and would not accept it.

7. Would the proposal improve alignment with other climate disclosure rules, programs and initiatives or lead to lack of alignment? Please describe.

We assume that there will be more alignment with other climate disclosure rules as it gives more detailed information on how to use emission savings under Scope 3.

8. Please attach or reference supporting evidence, research, analysis, or other information to support the proposal, including any active research or ongoing evaluations. If relevant, please also explain how the effectiveness of the proposal can be evaluated and tracked over time.

➔ See "2022 Q2 Asturias DNV Assurance Statement_XCarb ArcelorMittal_Asturias_Q2 2022.pdf"

9. If applicable, describe the process or stakeholders/groups consulted as part of developing this proposal.

Working group: Pano Verschluss GmbH, Consulting Agency specialized in sustainability and climate management, steel producer

10. If applicable, provide any additional information not covered in the questions above.

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Proposal Annex

GHG Protocol Decision-Making Criteria and Hierarchy

A. First, GHG Protocol accounting and reporting approaches shall meet the GHG Protocol accounting and reporting principles:

- Accuracy, Completeness, Consistency, Relevance, Transparency
- Additional principles for land sector activities and CO_2 removals: Conservativeness, Permanence, and Comparability if relevant
- (See table below for definitions)

B. Second, GHG Protocol accounting and reporting approaches shall align with the latest climate science and global climate goals (i.e., keeping global warming below 1.5°C). To support this objective (non-exhaustive list):

- Direct emissions reported in a company's inventory should correspond to emissions to the atmosphere. Reductions in direct emissions reported in a company's inventory should correspond to reductions in emissions to the atmosphere.
- Indirect emissions reported in a company's inventory should in the aggregate correspond to emissions to the atmosphere. Reductions in indirect emissions reported in a company's inventory should in the aggregate correspond to reductions in emissions to the atmosphere.

C. Third, GHG Protocol accounting frameworks should support ambitious climate goals and actions in the private and public sector:

- Accounting framework/s would enable organizations to pursue more effective GHG mitigation/decarbonization efforts as compared to the existing standards and guidance
- Accounting framework/s would better inform decision making by reporting organizations and their stakeholders (e.g. related to climate-related financial risks and other relevant information associated with GHG emissions reporting)

D. Fourth, GHG Protocol accounting frameworks which meet the above criteria should be feasible to implement for the users of the frameworks.

- For aspects of accounting frameworks that meet the above criteria but are difficult to implement, GHG Protocol should provide additional guidance and tools to support implementation.

GHG Protocol Accounting and Reporting Principles

Principle	Definition
Accuracy	Ensure that the quantification of GHG emissions (and removals, if applicable) is systematically neither over nor under actual emissions (and removals, if applicable), and that uncertainties are reduced as far as practicable. Achieve sufficient accuracy to enable users to make decisions with reasonable assurance as to the integrity of the reported information.
Completeness	Account for and report on all GHG emissions (and removals, if applicable) from sources, sinks, and activities within the inventory boundary. Disclose and justify any specific exclusions.

Consistency	Use consistent methodologies to allow for meaningful performance tracking of emissions (and removals, if applicable) over time and between companies. Transparently document any changes to the data, inventory boundary, methods, or any other relevant factors in the time series.
Relevance	Ensure the GHG inventory appropriately reflects the GHG emissions (and removals, if applicable) of the company and serves the decision-making needs of users – both internal and external to the company.
Transparency	Address all relevant issues in a factual and coherent manner, based on a clear audit trail. Disclose any relevant assumptions and make appropriate references to the accounting and calculation methodologies and data sources used.
Conservativeness (Land Sector and Removals Guidance)	Use conservative assumptions, values, and procedures when uncertainty is high. Conservative values and assumptions are those that are more likely to overestimate GHG emissions and underestimate removals, rather than underestimate emissions and overestimate removals.
Permanence (Land Sector and Removals Guidance)	Ensure mechanisms are in place to monitor the continued storage of reported removals, account for reversals, and report emissions from associated carbon pools.
Comparability (optional) (Land Sector and Removals Guidance)	Apply common methodologies, data sources, assumptions, and reporting formats such that the reported GHG inventories from multiple companies can be compared.