PROPOSAL FOR CROSS-CUTTING CLAIMS GUIDANCE

Submitted via GHG Protocol's online folder

Respondent information

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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.**

General / cross-cutting

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

To ensure that organizations, their stakeholders, and complementary initiatives (SBTi, CDP, etc.) all frame the role of corporate GHG inventories properly, it is critical that GHG Protocol establish specific and limiting guidance regarding credible, appropriate emission claims that can be made based on a standards-compliant inventory.

3Degrees recommends that GHGP introduce a new chapter within the Corporate Standard alongside complementary revisions to the scope 2 and scope 3 standards, to establish this new claims guidance.

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

Current state/background: *Inventory* GHG accounting approaches are valuable tools to assign responsibility for emissions and measure progress over time. An inventory approach defines boundaries and then gathers data on emission sources within that boundary.

A corporate GHG inventory (or "carbon footprint") provides decision-useful information to an organization and its stakeholders, on the emissions caused by the organization both directly and indirectly. The GHG Protocol provides clear direction on defining inventory boundaries, assigns responsibility of those emissions to the organization, and encourages organizations to set goals and track their emissions over time.

National and state policies to regulate emissions also rely on inventory GHG accounting. The boundaries of the emissions reported are established according to the geographic border of the jurisdiction (i.e. that which the relevant government controls or can influence) and the specific sector(s) covered by the policy. These inventories allow governments to assess the primary sources of emissions within a certain jurisdiction and take steps to reduce the emissions within the inventory.

Limitations and challenges: Inventory GHG approaches, however, are not an effective tool for understanding or communicating the state of atmospheric emissions. When a company deploys a lower-emissions process or purchases a lower-carbon product or fuel, there is no assurance that this activity results in a change in atmospheric emissions even though the emissions in its inventory will change.

As a consequence, an organization can take actions that reduce its *carbon footprint* from one time period to the next, and then sensibly claim that it has "reduced its emissions." However, this inside-the-company-boundary reduction may not create a reduction in *atmospheric emissions*, or even a net reduction in emissions within the sector, geography, or system within which the organization's action took place. National and state-level policies to reduce emissions similarly do not address whether emissions have decreased or increased elsewhere.

To address this inherent limitation of inventory accounting approaches, policy makers may deploy supplemental decision-making frameworks or policy tools; for example, to prevent "carbon leakage" (the phenomenon whereby there is an increase in GHG emissions in a location outside of the inventory boundary as a result of steps taken to meet the emission reduction target within the inventory boundary), border taxes may be imposed.

It is **not** customary to address limitations of inventory accounting by modifying the inventory method itself, for example by requiring that any reported reduction in inventory values must be accompanied by a demonstration that the reduction resulted in an equal atmospheric reduction - or that any increase resulted from an equal atmospheric increase. Such a practice would diminish the value of the inventory as a tool to assign responsibility for emissions, to compare companies' emission profiles, and measure change over time.

Critical need: In order for the GHG Protocol to serve the needs of all stakeholders, including as a decision-making tool for the reporting organization itself, there must be a clear and common understanding of the nature and limits of a GHG inventory produced according to the Corporate Standard.

Today, there is a damaging dynamic in which companies make bold claims associated with reductions in their inventories. These claims are consistent with the GHG Protocol and true in that context, but they are commonly and sensibly interpreted by stakeholders as broader reductions in emissions. The drivers of goal-setting and disclosure initiatives reinforce the company claims and make similar pronouncements of the effects of their own work.

As such, even as they act in line with the Corporate Standard, both companies and the drivers of corporate initiatives make claims about GHG inventories and the environmental impact of their actions that imply a causal relationship between achieving a company GHG target on the one hand, and reducing global emissions on the other. These conclusions are unsupported by inventories and reports when prepared according to the GHG Protocol.

In short, it is misleading for a company (or an initiative) to state broadly that it has reduced emissions, or caused a reduction in emissions, when no steps have been taken to validate–even informally–that this is true.

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

Recommendation: Organizations, their stakeholders, and the complementary initiatives that direct organizations to use the Corporate Standard (SBTi, CDP, etc.) must leverage and frame the role of corporate GHG inventories *appropriately* in informing meaningful climate action. To that end, we propose that GHG Protocol put forward specific and limiting guidance regarding emission claims associated with calculated inventories.

We propose that the GHG Protocol Corporate Standard be modified to:

- provide additional clarity on the nature and purpose of a GHG inventory; and
- provide guidance on claims that are appropriate (and inappropriate) for reporting entities to make when emissions within an inventory change over time.

We believe this approach is preferable in all respects to fundamental changes in inventory approaches that (for example) attempt to encompass emission-reduction reporting frameworks within a GHG inventory or inventory report.

Details: In developing claims guidance, GHG Protocol should focus on plain interpretations of claims by the average stakeholder, not only on what is "technically" accurate.

We recommend adopting general principles in line with the approach used by agencies that regulate truth in advertising. The U.S. Federal Trade Commission (FTC), for example, determines whether a claim is deceptive based on the "net impression" of consumers. Marketers are directed to use plain language, avoid inconsistent statements that could confuse consumers, and not make unqualified claims regarding environmental benefits. The FTC Green Guides also state that it is deceptive to misrepresent environmental benefits even if disclosures are provided and even where the environmental benefits are implied rather than explicitly stated.

For example, GHG Protocol should place clear boundaries on claims that are based exclusively on a reported reduction in an organization's inventory of emissions. For example, within the scope 2 guidance, it might be appropriate to state "We have reduced the emissions associated with our purchased electricity" or "We have purchased lower-carbon electricity." GHG Protocol should consider prohibiting general claims of "we have reduced emissions" and introduce guidance on what additional criteria must be true in order to make claims that represent an atmospheric emission reduction impact.

Clear claims guidance can also be leveraged to explain under what circumstances a company can make claims of system-wide change, and encourage more companies to leverage intervention accounting frameworks (even when implemented more informally) to complement their decision-making and ensure activities contribute to atmospheric emissions reductions. Claims guidance can also be one way to acknowledge differentiated pathways (see 3Degrees' supplemental proposal on "Differentiated Accounting Pathways"), and to enable an organization to take actions that reduce emissions even when robust baseline inventory data is unavailable.

Adopting this approach will better align corporate climate action with climate science because it will make clear the role of a GHG inventory and the information it conveys. It will also make clear those circumstances where supplemental frameworks for decision-making must be incorporated if companies want their actions to lead to system-wide change.

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

Adopting the proposal to develop claims guidance will strengthen the Corporate Standard's alignment with the GHG Protocol accounting and reporting principles.

- **Accuracy**- A core component of the “accuracy” principle is that the information is “sufficient” to enable decision-making. Requiring clear and accurate claims be made regarding an organization’s GHG inventory and the impact of the actions companies have taken to reduce their inventory emissions will ensure that stakeholders have a common understanding of the inventory and are empowered to make informed decisions. It ensures that claims do not obscure or misrepresent the environmental benefit of a reported reduction in a GHG inventory.

- **Completeness**- Requiring clear and accurate claims does not impact the completeness of the inventory. However, it could support the component of this principle that organizations “disclose and justify any specific exclusions” by requiring that the disclosure and justification be provided in clear and common-sense language.

- **Consistency**- Similar to the principle of completeness, accurate claims can support consistency by requiring that any changes to data, inventory boundary, etc. be documented in clear and common-sense language that is consistent among reporters and users of published inventory reports.

- **Relevance**- A GHG inventory is one tool to inform corporate climate action, but it is not the only tool that should be used. Clarity on how an inventory is compiled, what the inventory represents, and what it means for a company to have “reduced” the emissions included in its inventory, will ensure that stakeholders understand the relevance of the GHG inventory to their decision-making needs and also what supplemental information might be needed in order to make an informed decision or measure progress towards certain climate outcomes.

- **Transparency**- Adoption of this proposal will increase transparency in reported inventories by requiring that verbiage surrounding inventory reports is clear, is conveyed in common-sense language, and avoids known pitfalls of misinterpretation by important stakeholders.

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.

This proposal is strongly supportive of aligning with climate science in that its objective is to appropriately contextualize the information provided in a corporate GHG inventory, with clearer explanations of what an inventory is and is not. This clarity will allow stakeholders to use the inventories well, and to decide whether they provide sufficient information for their decision purposes.

By contrast, corporate GHG inventories and the actions companies take to reduce emissions within their inventories are currently being presented in a way that misleads stakeholders as to the progress being made towards global climate goals.

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)?

The proposal would enable organizations to pursue more effective GHG mitigation and decarbonization efforts because it will make more clear that a declining corporate emissions inventory is consistent with certain kinds of goals and ambitions, and not with others. Additional decision-making tools and resources may be required, depending on the organization's intent..

The proposal would also better inform decision-making by reporting organizations and their stakeholders. As noted under Question A, the proposal would ensure that decision-making entities are accurately interpreting the information conveyed in the GHG inventory and its relevance to their needs. This proposal also keeps the GHG Protocol accounting framework in line with the needs of climate-related financial risk reporting. Financial risk is a highly organization-specific assessment, for which an inventory approach is most useful because it allocates and assigns responsibility of emissions to the organization.

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?

No new data or calculation methods are required for this proposal.

The proposal would enhance the accessibility of the GHG Protocol to all organizations globally as it would enable the Corporate Standard to continue to abide by the principles of an "inventory GHG accounting approach" while also addressing the legitimate criticisms that a corporate inventory is not the appropriate tool to verify atmospheric emissions reductions.

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

We do not perceive there to be any drawbacks or challenges to adopting this proposal. This proposal would appropriately situate GHG Protocol's reporting framework within the broader corporate GHG accounting and reporting ecosystem, and empower reporting entities, target-setting initiatives, and internal and external stakeholders to identify supplemental criteria or tools that might be needed to fully meet their decision-making or programmatic needs.

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

This proposal would improve alignment with other climate disclosure rules, programs, and initiatives. These initiatives would have a commonly held understanding of a GHG inventory and how to appropriately leverage it towards their programmatic needs. Specifically, this proposal enhances the objective that the Corporate Standard is "designed as a comprehensive GHG accounting and reporting framework to provide the information building blocks capable of serving most business goals."

There is value to organizations and their array of stakeholders having a single GHG inventory that can be leveraged to serve a variety of purposes–including identifying the largest areas of emissions risks within one's supply chain, assessing climate-related financial risks, and measuring progress towards an emission reduction strategy. For each of these activities, GHG Protocol's Standard is the initial building block to measure emissions.

From there, organizations use other standards and decision-making criteria which are managed by other entities. For example, what is important from a climate-related financial risk perspective is governed by government agencies and finance specialists, such as the US SEC and CDP. What is important from a target-setting standpoint is governed by initiatives such as SBTi. There are some steps GHG Protocol can take to remedy the inherent shortcomings of an inventory approach–such as requiring that certain supplemental information on the emissions impact of actions be reported accurately–but it would not be wise for GHG Protocol to depart from the fundamental structure of the inventory as the Corporate Standard would cease to be relevant to some of its current end uses.

GHG Protocol must recognize the critical role the Corporate Standard plays across the ecosystem of corporate climate action, while also leaving room for other organizations, such as target-setting initiatives and financial risk assessment bodies, to decide how to leverage the Standard.

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.**

N/A

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

N/A

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

N/A