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 March 14, 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*.

Respondent information

Name

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Organization

California Dairies, Inc.

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If proposals are made publicly available, would you like your proposal to be made publicly available? Please write either “Yes” (make publicly available) or “No” (do not make publicly available).

YES

If your proposal is made publicly available, would you like it to be made publicly available with attribution (with your name and organization provided) or anonymous (without any name or organization provided)? Please write either “With attribution” or “Anonymous”.

YES

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?

Identify the uniqueness of dairy and agriculture by demonstrating and highlighting their unique value as a carbon solution:

1. Creating transparency and accuracy regarding insets and offsets,
2. Promoting accuracy in supply chain accounting,
3. Give appropriate value to sectors like dairy farms, that can destroy/sink carbon,
    a. Allow the supply chain to recognize the reductions
4. Simplifying the accounting and reporting process by providing clear supporting resources and guidance for reporting companies,
5. Allowing the dairy and agriculture industry direct input into the new and revised protocols (or a "seat at the table" during decision-making opportunities).

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

Current accounting standards produce a series of challenges and limitations for the dairy industry because the industry creates and can sink/destroy GHG emissions. Dairy and most of agriculture is uniquely positioned to combat global warming by offering a source of GHG reductions for the many other sectors unable to reduce their own footprints internally, meanwhile it lacks the capital to invest. Current rules highlight obstacles that exist that hinder progress towards faster and increased climate action.

Carbon offset credits and market-based programs play an essential role in providing financial incentives and benefits for farmers to invest in adopting sustainable practices and technologies. Ultimately, the sale of carbon credits provides a crucial opportunity to accelerate and scale dairy's progress towards its goal of achieving GHG neutrality by 2050. Additionally, dairy companies and the supply chain have created aggressive targets with goals in the near term in 2025 and 2030. However, GHG accounting and target-setting standards organizations, such as the GHG Protocol and the Science Based Targets Initiative, do not currently permit carbon offset credits that are sold to entities outside of the supply chain to be counted towards a GHG reduction goal by the generating entity and all other entities within the value chain. Dairy farm margins don't often allow for implementing projects that support sustainability and thus alternative income sources, like the sale of credits, are desperately needed. Financing from outside of the dairy value chain can be critical to making projects possible. Financing that, in turn, leads to further re-investment in on-farm sustainability; however, accepting financing from outside of the value chain means that the dairy farmer and their customers cannot count those reductions toward meeting their climate goals. Ultimately, current standards do not provide a flexible accounting mechanism to convey actions being implemented at the farm level in a consistent, transparent, and credible way. Additionally, farmers may be uncertain of selling offset credits outside the value chain if it does not benefit their cooperative and/or customers. This uncertainty causes a delay in action, which in turn slows progress and clouds real opportunity for

change for the environment. This creates a situation where there is a debate over what to do because of current accounting rules or setting aggressive goals. Accounting should not dictate action. In California, the offset market yields a far greater return (300% to 1000%) for a credit over an inset. Higher returns yield greater financial viability for projects which encourage lending institutions to support and finance projects.

Carbon insets: In the rare occurrences when farmers and dairy companies who take action to reduce emissions and inset credits within their supply chain then may be required to allocate reductions by individual customer based on that supply chain companies' relevance or size, resulting in significant administrative burden that can distract time and resources from making the impact itself.

2. There are many audiences looking to GHG reporting for various purposes, but the inconsistency in how offset credits are accounted for within the current standards limits their value. Companies may, but are not required to, disclose offset credits sold outside of the value chain. This makes it difficult to account for offset credits consistently across the value chain. Companies with limited options to sink carbon but have high margins (i.e., Petroleum and technology) can attract large amounts of offset credits from food supply chains, due to their limited or compressed margins. Consumers looking to purchase more sustainable goods and services may be confused about where actual reduction is taking place and what is truly sustainable, leading them to make misinformed decisions. For example, this could lead to shifts in diets away from accessible and affordable sources of high-quality nutrition, based on misperceptions of climate performance. In general, companies are increasingly ranked based on ESG performance, and misperception of where impact is taking place can result in misinformed investments and risk ratings. The current array of GHG Protocol standards and associated guidance are complex and confusing to follow. Complexity creates a barrier to entry and participation, which inhibits action and progress. For example, the new Land Sector and Removals Guidance is supposed to build upon the Scope 3 (Value Chain) Standard yet reads like a different and new standard altogether. Further, it is technically advanced and contains a significant number of accounting requirements that make it difficult to comprehend and apply in practice. To our knowledge, agriculture was not involved in the development process of many of the standards when they were created. As a result, current standards are less applicable to agricultural sectors. The Agricultural Guidance and Land Sector and Removals Guidance attempts to address agriculture's context, but there are still accounting discrepancies that stand in the way of progress toward climate action. Additionally, the annual accounting requirement in the current standards may not be as applicable to agriculture compared to other sectors and present challenges for implementation. Year-to-year variability in natural systems (i.e., weather events, feed supplies, supply and demand, natural disasters, supply chain disruptions) means that agricultural emissions can naturally fluctuate every year. The impact of beneficial practices and technologies is seen as trends over years.

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

Complex challenges require complex solutions. We welcome the opportunity to collaborate with the GHG Protocol and other relevant organizations to find solutions. To contribute to the dialogue, we offer a set of key principles that can guide the evolution of standards to better meet the needs of

farmers and the food value chain, as a critical player in climate action, to enable them to continue their important work of feeding a growing population.

GHG accounting and reporting standards should enable accelerated reductions and adoption of best practices that support climate action. Farmers want to drive progress, but change requires funding; therefore, we need to create a reporting structure that does not impede farmers from being able to claim the reductions they are making and get a return on their investment and action. Agricultural and forestry producers should have the opportunity to maximize their benefits from the important services provided by responsible livestock, farm, soil and ecosystem management to reinvest in other GHG reduction opportunities, whether those benefits result from investments inside (insets) or outside (offsets) their value chain. When industries outside the dairy value chain purchase offset credits from dairy farmers, it provides an important source of funding and revenue diversification, which enables dairy farmers to reinvest and adopt sustainable innovations and technologies — further advancing the positive cycle of GHG reduction while providing safe and quality nutrition to families around the globe.

Transparent reporting should always be a priority and provide recognition of those taking the action leading to emission reductions. Reporting standards should encourage a consistent level of detail, and all parties should get recognition for the work they do. Due to multi-faceted demands for reporting, any framework should work for multiple audiences and purposes. What is needed is not a complete overhaul of accounting rules; rather, a consideration of how to acknowledge actual reductions and recognition of those making them, while still ensuring full transparency. This enables an entity (like a dairy company) to demonstrate its actions and impact, while still ensuring the accounting can be reconciled.

Standards should be clear, and easily applied in practice to ensure compliance can be achieved. GHG Protocol users could benefit from clear guidance (i.e., a “roadmap”) on how to navigate the suite of standards, understand their application, and alleviate the burden of compliance with a clear understanding of the complexities of the agriculture supply chain. Updates to standards should respect and leverage existing mechanisms for measurement, where possible. U.S. dairy has demonstrated alignment with existing GHG Protocol standards and guidance and seeks to ensure that the measurement mechanisms in place will continue to encourage measurement, management, and continuous improvement. For example: The Farmers Assuring Responsible Management (FARM) Environmental Stewardship (ES) module, an on-farm GHG and energy use calculator, is recognized by the GHG Protocol as an on-farm tool to measure and report scope 3 emissions. FARM ES’s Random Sampling Protocol is consistent with the GHG Protocol’s Technical Guidance for Calculating Scope 3 Emissions. The option to conduct a random sample of suppliers for the purpose of scope 3 emissions accounting is essential for overcoming resource and cost constraints; conducting on-farm GHG evaluations is time-consuming and resource intensive. Random sampling overcomes that barrier while still getting an accurate estimate of GHG emissions intensity for the entire milk supply. Key stakeholders that are impacted directly by these standards should be consulted in the update process, including representatives from diverse geographies with differing practices and technologies, such as U.S. dairy and other agricultural sectors. California Dairies, Inc. and the U.S. dairy industry has demonstrated progress in emissions reduction and brings knowledge, experience and expertise that can support the evolution of these guidelines and more effectively incentivize the intended outcome

of accelerated climate action. This survey is an important first step; we view this as an opportunity to open a longer-term conversation and achieve better alignment and simplicity across frameworks going forward.

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

The proposal mentions prioritizing full transparency in reporting, something we value tremendously, which could be a potential solution to encourage recognition of both those that fund interventions as well as those that implement the intervention projects. Therefore, this proposal not only aligns with, but enhances the principles of completeness and transparency through robust disclosure of additional information. The proposal also identifies the uniqueness and complexity of agriculture and the role it plays in sinking carbon as a global solution.

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.

Updating the accounting and reporting standards to encourage and enable action to reduce emissions will directly align with the latest climate science and global climate goals to limit global warming below 1.5 degrees C. Dairy is uniquely positioned to help other businesses and industries immediately reduce their GHG emissions and, in turn, gain investment that can fund additional climate action. For example, companies in the energy sector can invest in dairy farms to develop technologies such as anaerobic digesters to limit manure-based methane and nitrous oxide emissions, and source renewable biogas for their products, while simultaneously offsetting their GHG footprint. This is a capital-intensive solution that is not well-suited to food companies in the supply chain looking for insetting opportunities due to limited margin and an inability to pass on true costs to consumers.

Insetting projects are equally important. Examples seen thus far in the dairy supply chain include support for practices like cover cropping that encourage carbon sequestration and enteric methane mitigation through feed additives. All these practices and technologies are important for making progress against climate change. Both insetting and offsetting are important tools in the toolbox.

However, dairy farmers and companies cannot accurately demonstrate progress toward their own GHG reduction goals if they do not acknowledge the credits generated and sold to other sectors. This can disincentivize participating in carbon markets and selling carbon offsets, and in turn, limit continued investment in other practices and technologies that reduce emissions. Therefore, updated accounting and reporting standards that encourage continued climate action would directly drive progress toward this 1.5 degree C ambition. **The supply chain needs to be recognized for implementing an environmental solution, regardless of where the credit is sold.**

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)?

Updating the accounting and reporting standards to enable accelerated reductions and adoption of best practices that support climate action directly enables organizations to pursue more effective GHG mitigation and decarbonization efforts. As mentioned above, dairy is uniquely positioned as a significant source of GHG reduction and mitigation and is equipped to enable rapid progress toward climate goals in the public and private sector should accounting and reporting principles encourage maximum investment into the needed practices and technologies. However, climate friendly technologies and practices within the dairy supply chain, such as anaerobic digesters, cover cropping, and feed additives cannot be implemented and scaled at the rapid pace necessary to support ambitious climate goals without the needed investment from other industries. Current accounting standards ultimately limit dairy's, and broader agriculture's potential to drive maximum impact. Enhancing transparency in GHG accounting – for example, through reporting gross emissions including purchased and sold offsets in addition to net emissions – yields better decision-making capabilities across stakeholder audiences. For example, the investor community can attribute GHG reductions generated in agriculture to inform its investment portfolios, enabling it to confidently invest in organizations that are driving climate impact and mitigating climate related financial risk through climate smart actions – acknowledging both the organizations financially supporting on-the-ground action as well as the farmers implementing those climate-smart practices and technologies.

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?

This proposal calls attention to the challenges that current accounting rules create for entities that are both sources and sinks of GHG emissions, such as dairy and the agriculture sector, and core principles that are necessary to maximize investment and continued action to mitigate climate change. Additionally, the food sector should not be held to the same strict guidelines as industries like fossil fuels, due to the nature of the business. The supply chain in the food sector does not retain the same ability as other industries to pass along the cost of investment to consumers. The supply chain desperately needs public and outside private investments in solutions for projects to be viable in dairy and agriculture. A proposal that establishes transparent rules that allow carbon reductions to take place and the supply chain to derive value, regardless of the sale of the credit, would suffice needs in agriculture globally.

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

The U.S. dairy industry and specific companies within the industry like, California Dairies, Inc., have national and global perspective. As this proposal could raise complex questions, we ask to be included and consulted in standard/guidance development and amendment processes going forward. As previously stated, agriculture creates unique challenges for the entire supply chain related to accounting, reporting, and managing targets. We are presenting this proposal because, as they stand currently, standards create risks to consistency, accuracy, completeness of reporting, which will continue if we do not make modifications and have a voice in the solution. U.S. dairy is working on an approach that could contribute to resolution of the challenges outlined in this proposal, while maintaining and enhancing the GHG Protocol decision making criteria and hierarchy.

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

The proposal increases the level of transparency associated with GHG reporting that includes a full picture of where emissions reductions are occurring, and who is financing those reductions would improve alignment with narrative climate disclosures focused on climate related risks through initiatives such as CDP, and the Task Force on Climate Related Financial Disclosures.

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.**

In California, incentive-based carbon markets provide a critical mechanism to drive adoption of climate-smart practices and technologies. A clear example of this is illustrated through California's voluntary incentive-based approach. In combination with state and private investment, creation of revenue streams from the sale of GHG offset credits through marketbased compliance programs such the Low Carbon Fuel Standard (LCFS) has put California on track to achieve its target of reducing methane emissions by 40% below 2013 levels by 2030. Thus far, it is estimated that methane reductions from programs and projects in place today, coupled with implementation of a moderate feed additive strategy, are on track to reduce between 7.6 – 10.6 MMTCO2e by 2030 from the dairy sector alone. Additionally, Alternative Manure Management Program benefits are substantial in California. These benefits would not be possible without government funding, at times 100% of the project cost. Further emphasizing the benefits of investment dollars from outside of the supply chain and any program criteria that prevents, public or private funding, due to the rules of where a credit is sold could halt all investment into the future and place current projects in jeopardy of failure.

REFERENCE: https://clear.ucdavis.edu/sites/g/files/dgvnsk7876/files/inline-files/Meeting-the-Call-California-Pathway-to-Methane-Reduction.pdf

Additional supporting research: Benefits of renewable natural gas:

https://www.epa.gov/sites/default/files/2021-02/documents/lmop_rng_document.pdf

Practices to Reduce Methane Emissions from Livestock Manure Management:

https://www.epa.gov/agstar/practices-reduce-methane-emissions-livestock-manure-management#one

California Department of Agriculture – Alternative manure Management Program Benefits:

https://www.cdfa.ca.gov/oefi/AMMP/docs/AMMP_Program_Level_Data.pdf

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

California Dairies, Inc. consulted in multiple stakeholders throughout our supply chain from farm to consumer. Including, globally recognized companies that engage directly with the consumer, companies that utilize our products as ingredients, farmers, the government and industrywide associations like the Innovation Center for US Dairy and the Global Dairy Platform. The Innovation Center for U.S. Dairy® was established in 2008 by farmers through the dairy checkoff to foster collaboration that progresses the industry's goal of building a healthy and sustainable future for the

dairy community, the people it serves, and the planet we all share. The Innovation Center convenes diverse stakeholders and leaders to advance the U.S. dairy community's positive impact on shared social responsibility and sustainability priorities that include nutrition and health, food security, the environment, animal care, workforce and food safety.

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

California Dairies Inc. and the U.S. dairy industry have demonstrated progress in emissions reduction and brings knowledge, experience and expertise that can support the evolution of these guidelines and more effectively incentivize the intended outcome of accelerated climate action. A 2017 Journal of Animal Science study found the environmental impact of producing a gallon of milk shrunk significantly, requiring 30% less water, 21% less land and producing a 19% smaller carbon footprint than it did in 2007 (Capper et al., 2019).

A key part of U.S. dairy's 2050 Environmental Stewardship Goals is its commitment to achieve GHG neutrality. As part of this journey, the industry has committed to reporting its progress toward the 2050 goals every five years, with the first report in 2025. The industry stands ready to support actions that can be accelerated with investment. Further, U.S. dairy seeks to align with GHG reporting best practices and standards. In 2019, the Innovation Center for U.S. Dairy worked with WRI to develop scope 1 – 3 accounting and reporting guidance for U.S. dairy cooperatives and processors that was formally endorsed with the "Built on GHG Protocol" mark, making it the first agricultural sector guidance to earn GHG Protocol recognition.

As the dairy industry and global stakeholders become more aware, educated, and focused on insets, offsets, global warming and the climate, we must be willing to prioritize opportunities and challenges for a better future. Without changes to the current standards we are in jeopardy of losing out on significant potential to help the environment.

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.