



# Scope 3 Technical Working Group Meeting

**Group A  
Meeting 8  
Allocation**

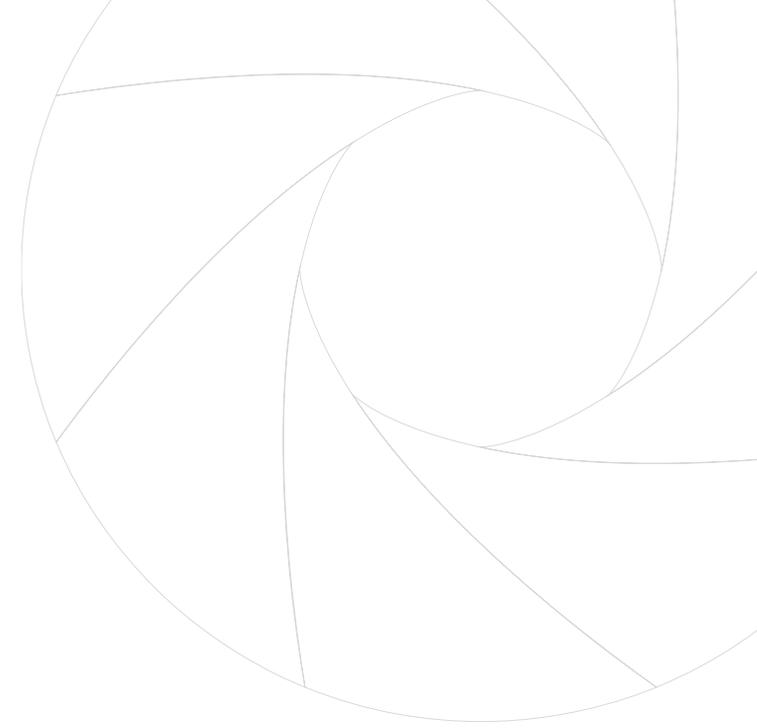
**April 3<sup>rd</sup>, 2025**



# Agenda

- Attendance and housekeeping (5 min)
- Recap of the previous discussions (10 min)
- Allocation: background (10 min)
- Corporate data allocation (60 min)
- Multifunctional process allocation (30 min)
- Next steps (5 min)

# Housekeeping



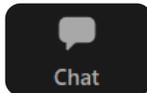
## Welcome and Meeting information



This meeting is recorded.



Please mute yourself by default and unmute when speaking  
Please use the Raise Hand function to speak during the call.



You can also use the chat function in the main control.



Recording, slides, and meeting minutes will be shared after the call.

## Housekeeping

- TWG members should **not disclose any confidential information** of their employers, related to products, contracts, strategy, financials, compliance, etc.
- In TWG meetings, **Chatham House Rule** applies:
  - “When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.”
- **Compliance and integrity** are key to maintaining the credibility of the GHG Protocol
  - Specifically, all participants need to follow the **conflict-of-interest policy**
  - **Anti-trust rules** have to be followed; please avoid any discussion of competitively sensitive topics\*

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\* Such as pricing, discounts, resale, price maintenance or costs; bid strategies including bid rigging; group boycotts; allocation of customers or markets; output decisions; and future capacity additions or reductions

## Decision-Making Criteria

- Evaluating options: Describe pros and cons of each option relative to each criterion. Qualitatively assess the degree to which an option is aligned with each criterion through a green (most aligned), yellow (mixed alignment), orange (least aligned) ranking system. Some criteria may be not applicable for a given topic; if so, mark N/A.
- Comparing options: The aim is to advance approaches that ideally meet all decision criteria (i.e. maximize pros and minimize cons against all criteria). If options present tradeoffs between criteria, the hierarchy should be generally followed, such that, for example, scientific integrity is not compromised at the expense of other criteria, while aiming to find solutions that meet all criteria.

<i>Illustrative example</i>	<b>Option A: Name</b>	<b>Option B: Name</b>	<b>Option C: Name</b>
<b>1A. Scientific integrity</b>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>
<b>1B. GHG accounting and reporting principles</b>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>
<b>2A. Support decision making that drives ambitious global climate action</b>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>
<b>2B. Support programs based on GHG Protocol and uses of GHG data</b>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>
<b>3. Feasibility to implement</b>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>	<ul style="list-style-type: none"> <li>• Pros</li> <li>• Cons</li> </ul>

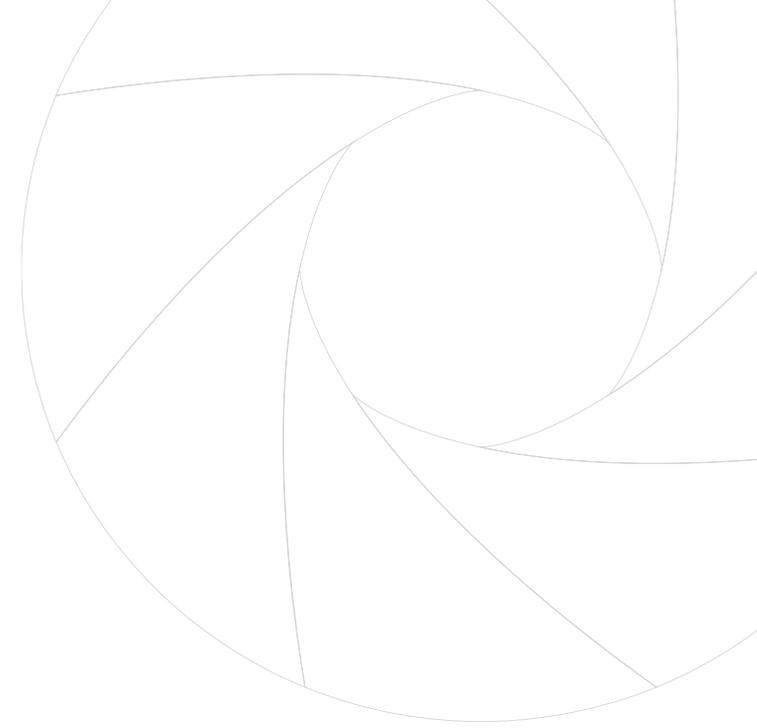
# Decision-making Guidance

To aid the group’s work, the decision-making criteria and key considerations marked by the group during the discussions, were summarized into a guidance. Full detailed version was distributed to the TWG members.

Decision-making criteria	Corresponding needs identified by the TWG
1A. Scientific integrity	Promote quality
1B. GHG accounting and reporting principles	Promote accuracy
2A. Support decision making that drives ambitious global climate action	Promote decarbonization
2B. Support programs based on GHG Protocol & uses of GHG data	Easy to understand
3. Feasibility to implement	Easy to implement

Additional characteristics identified by the TWG
Future proof
Encourage improvement over time
Promote value chain partner engagement
Applicable to all 15 scope 3 categories
Minimize/remove subjective choices by the preparer
Applicable to scope 1 & 2 (optional)

# Recap of the previous discussions



# Updates to the timeline

## Finished:

Meeting #	Date	Topic
F1	17 Oct 2024	Kick-off – Full Group
1	24 Oct 2024	Objectives
2	14 Nov 2024	Introduction to inventory quality reporting
3	5 Dec 2024	Disaggregated reporting
4	9 Jan 2025	TWG member proposals
5	30 Jan 2025	Option development
6	20 Feb 2025	Option development and add-ons
7	13 Mar 2025	Uncertainty and Allocation

## Upcoming:

Meeting #	Date	Topic
8	3 Apr 2025	Allocation
9	24 Apr 2025	Minimum requirements
10	15 May 2025	Requirement for improvement
F2	22 May 2025	Outcomes and recommendations – Full Group
F3	29 May 2025	Outcomes and recommendations – Full Group
F4	5 June 2025	Outcomes and recommendations – Full Group
June Break		
11	17 Jul 2025	Harmonizing emission factors
August Break		
1	28 Aug 2025	Start of Phase 2

- 3 Full Group Meetings in May
- Breaks in June and August
- No changes were made to the scope of work or the publicly communicated timelines

## Group A: Inventory quality – scope of work

1. Identifying what scope 3 inventories are used for
  - Clarifying the relationship between data quality and various inventory objectives
2. Define how to more effectively present / communicate the inventory's quality
  - Consider additional requirements to enhance the usability and transparency of scope 3 inventories
3. Address how to define the inventory quality based on the input data
  - Consider developing more prescriptive allocation rules
  - Consider developing a hierarchy of data and/or calculation methods
  - Consider additional guidance on the transfer of data across the value chain and integrating of product level data into scope 3 calculations
4. Consider whether and how to restrict inventory quality
  - Consider constrains or minimum requirements to inventory quality
  - Consider requirement to improve inventory data quality improvements over time
  - Consider requirement to perform hotspot analysis

## Main outcomes of meetings #2-7

1. Regarding the revision of inventory quality reporting requirements, the TWG prefers **Option 3: Disaggregated reporting of scope 3 emissions based on quality**
2. The proposals that include **principal disaggregation based on calculation methods received the most support**
3. The group expressed preference for implementation of option that focuses on **defining specificity of outputs based on specificity of inputs**, in which calculation methods and data inputs have differentiated classifications for downstream vs. upstream categories.  
Option of disaggregation by current calculation methods is a runner up (potentially, a fallback option)
4. **A verification add-on was supported**, with a preference for **marking verified data with a “+”**
5. **An uncertainty add-on was supported**, configuration to be developed

# Taskforces

## 1. Disaggregated reporting and terminology

*Julie, Alissa, Susanne, Wenjuan, Michael, Talita, Carl*

- Review and draft rules for the application of the approach (Option 4)
- Review the relevant nomenclature and terminology
- Stress-test the rules for each category
- Adjust the rules based on the tests, as needed
- Create a glossary of relevant terms
- Draft the proposed requirement language
- Draft the implementation guidance

## 2. Uncertainty

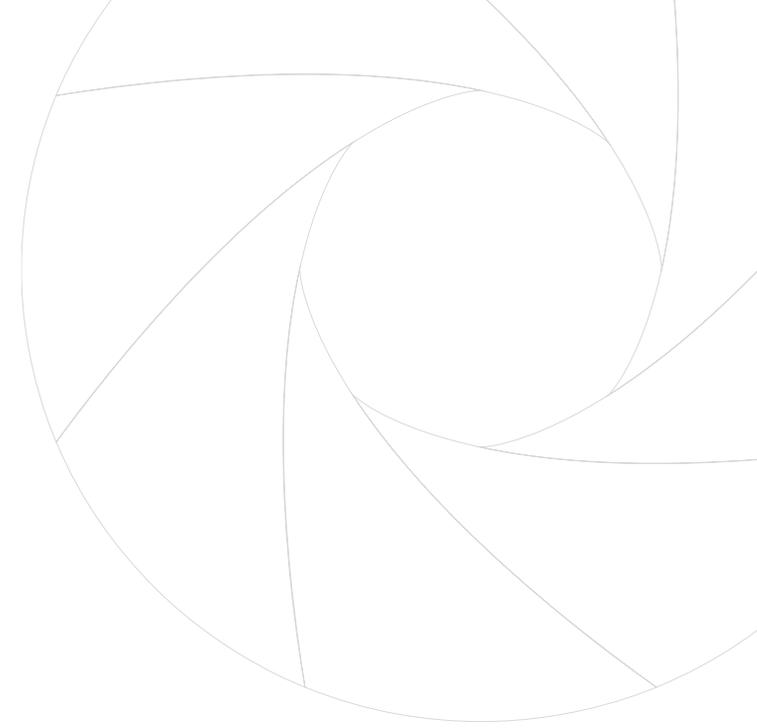
*Sangwon, Bin, Dario, Cecilia, Ulf*

- Review the GHGP's existing guidance on uncertainty assessment
- Decide on a methodology for performing uncertainty assessment and its optionality
- If relevant, define what organizations the requirement applies to
- Draft proposed language

## Uncertainty add-on

- Placeholder, pending results of the asynchronous survey

**Allocation: background**



## Current guidance in the Scope 3 Standard

- Chapter 7 provides requirements and guidance for data collection, including data types, emissions quantification, data quality, and data collection prioritization.
- While considering supplier data, Chapter 7 of the Standard defines 5 levels of specificity:

Table [7.7] Levels of data (ranked in order of specificity)

<i>Data type</i>	<i>Description</i>
<b>Product-level data</b>	Cradle-to-gate <sup>9</sup> GHG emissions for the product of interest
<b>Activity-, process- or production line-level data</b>	GHG emissions and/or activity data for the activities, processes, or production lines that produce the product of interest
<b>Facility-level data</b>	GHG emissions and/or activity data for the facilities or operations that produce the product of interest
<b>Business unit-level data</b>	GHG emissions and/or activity data for the business units that produce the product of interest
<b>Corporate-level data</b>	GHG emissions and/or activity data for the entire corporation

- Levels 2 to 5 (all but the product-level data) demonstrate the level of aggregation at which data is being collected, and later allocated to attribute emissions to a unit of production
- If product-level data is not available, suppliers should try to provide data at the activity-, process-, or production line-level. If activity-level data is not available, suppliers should try to provide data at the facility level, and so on.

# Approaches for collecting and allocating GHG emissions from suppliers

- Chapter 8 provides guidance on allocation procedures
- Box 8.2 in chapter 8 specifies that companies may use two basic approaches for collecting and allocating GHG emissions from suppliers

## Box [8.2] Two approaches to allocating GHG emissions from suppliers

Companies may use two basic approaches for collecting and allocating GHG emissions from suppliers:

- **Supplier allocation:** Individual suppliers report pre-allocated emissions data to the reporting company and disclose the allocation metric used
- **Reporting company allocation:** The reporting company allocates supplier emissions by obtaining two types of data from individual suppliers: 1) total supplier GHG emissions data (e.g., at the facility or business

unit level), and 2) the reporting company's share of the supplier's total production, based on either physical factors (e.g., units of production, mass, volume, or other metrics) or economic factors (e.g., revenue, spend)

Reporting company allocation is likely to ensure more consistency in methodologies for the reporting company, while the supplier allocation approach may be more practical by avoiding the need for suppliers to report confidential business information.

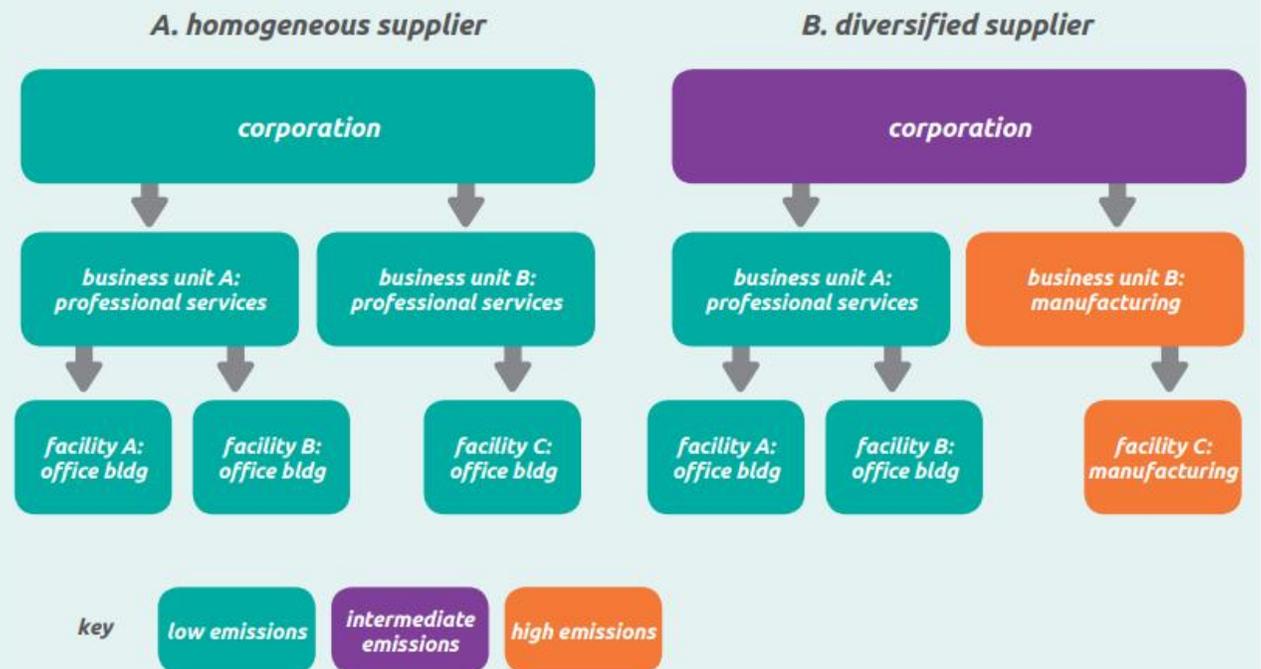
## Applicability of data levels

- Box 7.4 demonstrates importance of considerations of the type of activities for allocation of the data collected at the activity, production line, facility, business unit, or corporate level.
  - E.g. corporate level data might be sufficient for allocation when the activities of the company are homogenous
  - If the activities are diversified, allocation of data collected on corporate level might be misleading

### Box [7.4] Level of data and supplier type

The need to collect granular data from a supplier depends in part on the variety and diversity of products the supplier produces. Collecting data at the product, production line, or facility level is more important for diversified companies than for relatively homogeneous companies, for which business unit- or corporate-level data may yield

representative GHG estimates. Below are two examples: A) a homogeneous supplier with relatively uniform emissions throughout its operations and B) a diversified supplier where GHG intensity varies widely between business units and facilities.

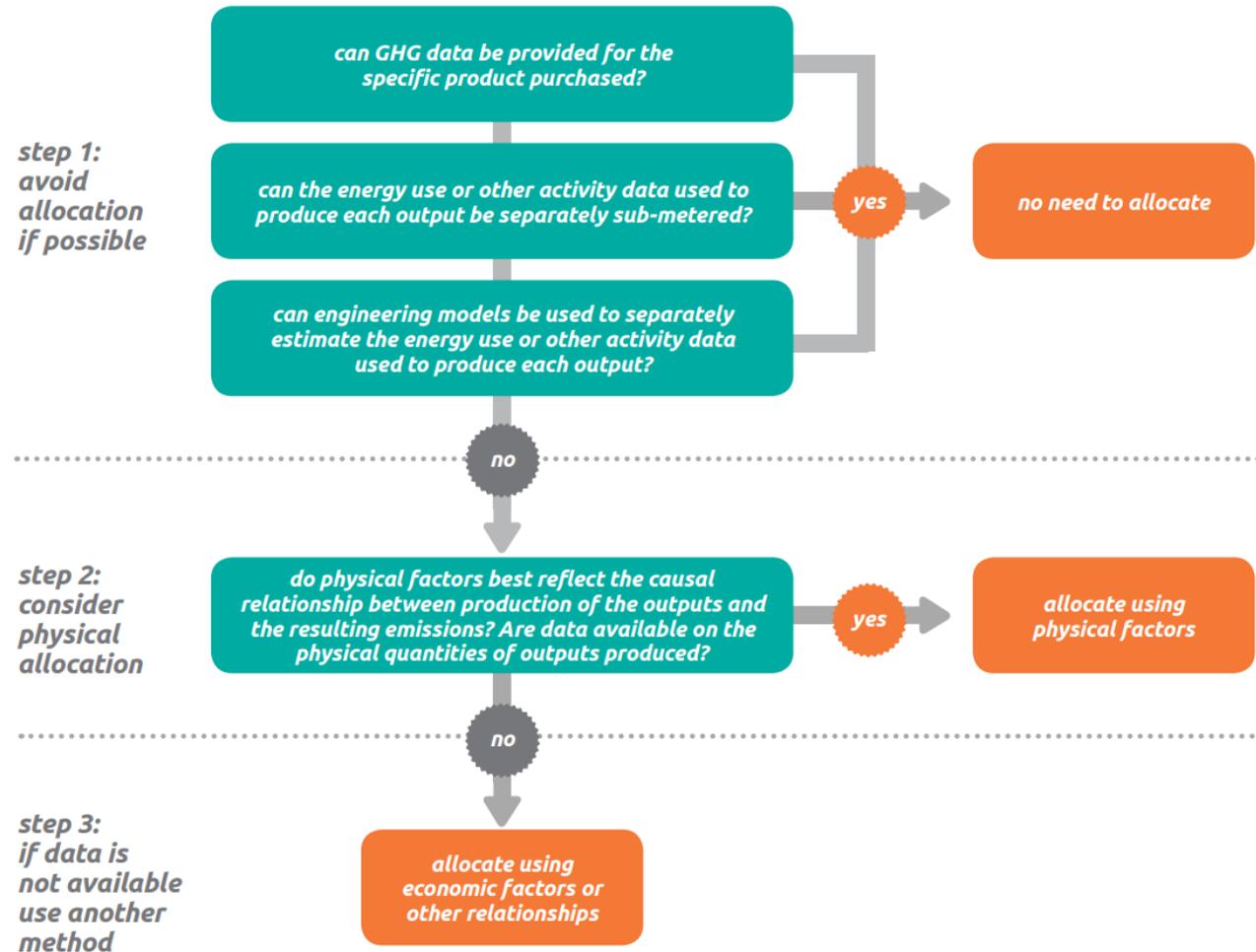


## Choice of allocation method (partitioning)

- No single mandatory allocation methodology is prescribed by the Scope 3 Standard
- “companies **should** avoid or minimize allocation if possible.” (section 8.2)
- “If avoiding allocation is not possible, companies **should** first determine total facility or system emissions, then determine the most appropriate method and factor for allocating emissions” (section 8.3)
- “Companies should select the allocation approach that:
  - best reflects the causal relationship between the production of the outputs and the resulting emissions;
  - results in the most accurate and credible emissions estimates;
  - best supports effective decision-making and GHG reduction activities;
  - otherwise adheres to the principles of relevance, accuracy, completeness, consistency and transparency” (section 8.3)
- “Companies that have a choice between multiple methods for a given activity **should** evaluate each method to determine the range of possible results before selecting a single method” (section 8.3)
- “Companies **may** use a combination of different allocation methods and factors to estimate emissions from the various activities in the scope 3 inventory. However, for each individual facility or system, a single, consistent allocation factor **should** be used to allocate emissions throughout the facility or system” (section 8.3)

## Decision tree

“As a general rule, companies should follow the decision tree when deciding if allocation is needed and selecting an allocation method. However, the most appropriate allocation method for a given activity depends on individual circumstances” (section 8.3)



## Physical vs Economic allocation

**Physical allocation** is expected to yield more representative emissions estimates in several situations:

- Manufacturing facilities may produce multiple products, each of which requires similar energy and material inputs to produce, but which differ significantly in market value
- Allocating emissions from the transportation of cargo (or freight) with one vehicle to one or more of the products shipped
- Allocating total facility emissions to one or more products located at the facility

**Economic allocation** is expected to yield more representative emissions estimates in several situations:

- When a physical relationship cannot be established
- When a co-product would not be produced without the market demand for the primary product and/or other valuable coproducts (e.g., by-catch from lobster harvesting);
- When a co-product was previously a waste output that acquires value in the marketplace as a replacement for another product (e.g., fly ash in cement production)
- Investments, where emissions should be allocated to the reporting company based on the reporting company's proportional share of equity or debt in the investee

## Additional guidance

- Table 8.1 provides formulae for allocations

**Physical allocation:** *Allocating the emissions of an activity based on an underlying physical relationship between the multiple inputs/outputs and the quantity of emissions generated*

Allocation factors	Examples of allocation factors and formulas
Mass	Mass of co-products $\text{Allocated Facility Emissions} = \frac{\text{Mass of Products Purchased}}{\text{Total Mass of Products Produced}} \times \text{Total Emissions}$
Volume	Volume of cargo transported $\text{Allocated Facility Emissions} = \frac{\text{Volume of Products Purchased}}{\text{Total Volume of Products Produced}} \times \text{Total Emissions}$

- Table 8.2 provides guidance on choosing an allocation method for each category

Table [8.2] Allocation guidance by scope 3 category

### Upstream scope 3 emissions

Category	Examples of primary data requiring allocation	Allocation guidance
1. Purchased goods and services	<ul style="list-style-type: none"> <li>Site-specific energy use or emissions data from suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Physical or economic allocation</li> </ul>
2. Capital goods	<ul style="list-style-type: none"> <li>Site-specific energy use or emissions data from capital goods suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Physical or economic allocation</li> </ul>
3. Fuel- and energy-related activities	<ul style="list-style-type: none"> <li>Company-specific data on upstream emissions (e.g. extraction of fuels)</li> </ul>	<ul style="list-style-type: none"> <li>Physical allocation (energy)</li> </ul>

- Multiple examples are given across the Scope 3 Standard and the Technical Guidance

## Stakeholder feedback

- **Need for value chain emissions allocation** due to the growing need for supplier-specific emissions accounting and demand for the emissions information from customers
- There is **practice of use of corporate level data of suppliers** to allocate a share of their emissions onto the products or services sourced from them
- **Confusion** regarding allocation procedures and methods to be applied. Stakeholders asked for more guidance and examples, more consistency, and detailed rules and easy to implement algorithms
- Need for **harmonization of allocation** rules with the GHG Protocol Product Standard
- Need for **more guidance** on choosing between allocation methods, and navigating accounting in situations when different allocation methods are blended in the value chain

## Questions in the scope of work

### Corporate level data allocation

Q1. Should the corporate level data allocation be maintained as is or revised?

Q2. If it stays allowed, should any restrictions be introduced on allocation?

### Multifunctional process allocation

Q3. Shall the GHG Protocol allocation hierarchy be made prescriptive?

Q4. Shall system expansion with substitution be added to the allocation choices?

## Questions in the scope of work

### Corporate level data allocation

Q1. Should the corporate level data allocation be maintained as is or revised?

Q2. If it stays allowed, should any restrictions be introduced on allocation?

Clearer implications for disaggregated reporting:  
Consider in the meeting

### Multifunctional process allocation

Q3. Shall the GHG Protocol allocation hierarchy be made prescriptive?

Q4. Shall system expansion with substitution be added to the allocation choices?

Resolving in an asynchronous survey

# Corporate level data allocation



## Options for consideration

### **Q1. Should corporate level data allocation be maintained as is or revised?**

Option 1A. Maintain current guidance

Option 1B. Prohibit and phase out

Option 1C. Maintain but restrict

If Option 1C is chosen, then:

### **Q2. If it stays allowed, what restrictions should be introduced on allocation?**

Option 2A. Categorize allocated emissions as lower quality (lower “tier” in the disaggregation)

Option 2B. Restrict methods (e.g. only physical allocation can be used)

Option 2C. Require adding a disclaimer

Option 2D. Restrict uses (e.g. can only be used in certain categories, or for certain activities)

## Q1. Should corporate level data allocation be maintained as is or revised?

	<b>Option A: Maintain current guidance</b>	<b>Option B: Prohibit and phase out</b>	<b>Option C: Maintain but restrict</b>
<b>Scientific integrity</b>	NA	NA	NA
<b>GHG accounting and reporting principles</b>	Potentially challenges completeness if leads to underreporting, relevance and accuracy if allocation is unfit, consistency if methods are mixed	Meets the principles	Potentially promotes transparency and relevance. Potentially challenges completeness if leads to underreporting, relevance and accuracy if allocation is unfit
<b>Support decision making that drives ambitious global climate action</b>	Supports development of supplier engagement for further action, and acceleration of scope 3 reporting adoption.  May disinform action	Increases accuracy and relevance for more actionable data. Encourages wider value chain engagement	Supports development of supplier engagement for further action, and acceleration of scope 3 reporting adoption.  May disinform action
<b>Support programs based on GHG Protocol and uses of GHG data</b>	Interoperable with reporting frameworks, not interoperable with LCA.	Interoperable with reporting frameworks, limited interoperability with LCA.	Interoperable with reporting frameworks, not interoperable with LCA.
<b>Feasibility to implement</b>	Feasible and accessible.  Allows for specific data without large costs	Requires additional analysis, resources and knowledge. Requires large scale recalculation of current base year inventories/	Feasible and accessible.

- For ~~the~~ detailed analysis, refer to the Discussion paper A2. Allocations

# Guidance

If the approach is maintained (Options 1 and 3), the guidance needs to be expanded. For example\*:

Category to calculate	Minimum boundaries	Scopes and categories of the value chain partner to include into allocation
<b>Category 1</b>	Cradle-to-gate of products	Scope 1, scope 2, scope 3 cat.1, cat 2*, cat. 3, cat.4, cat. 5, cat.6, cat. 7, cat. 8
<b>Category 2</b>	Cradle-to-gate of capital goods	Scope 1, scope 2, scope 3 cat.1, cat 2*, cat. 3, cat.4, cat. 5, cat.6, cat. 7, cat. 8
<b>Category 3</b>	Cradle-to-gate of purchased fuels	Scope 1, scope 2, scope 3 cat.1, cat 2*, cat. 3, cat.4, cat. 5, cat.6, cat. 7, cat. 8
	Cradle-to-gate of supplied energy (without combustion)	Scope 3 cat.3, cat.4
	Cradle-to-gate of energy (T&D)	Scope 1, scope 3 cat. 3
	Direct emissions from combustion (re-sold energy)	Scope 1
<b>Category 4</b>	Scope 1 and 2 (transport)	Scope 1, Scope 2, Scope 3 cat. 8
	Cradle-to-gate (vehicles, facilities and infrastructure)	Scope 3 cat. 2*, cat. 8 (if cradle-to-gate of leased assets provided)
<b>Category 5</b>	Scope 1 and 2 (treatment)	Scope 1, Scope 2
	Not specified (Transportation of waste)	Scope 3, cat. 4
<b>Category 6</b>	Scope 1 and 2 (transport)	Scope 1, Scope 2, Scope 3 cat. 8
	Cradle-to-gate (vehicles and infrastructure)	Scope 3 cat. 2*, cat. 8 (if cradle-to-gate of leased assets provided)
<b>Category 7</b>	Scope 1 and 2 (transport)	Scope 1, Scope 2
	Not specified (Remote working)	N/A
<b>Category 8</b>	Scope 1 and 2 (asset operation)	Scope 1, Scope 2, scope 3 cat. 13**
	Cradle-to-gate (manufacturing of the asset)	Scope 3 cat. 1***, cat 2*
<b>Category 9</b>	Scope 1 and 2 (transport)	Scope 1, Scope 2, Scope 3 cat. 8
	Cradle-to-gate (vehicles, facilities and infrastructure)	Scope 3 cat. 2*, cat. 8 (if cradle-to-gate of leased assets provided)
<b>Category 10</b>	Scope 1 and 2 of processing	Scope 1, Scope 2
<b>Category 11</b>	Scope 1 and 2 (use)	Scope 1, Scope 2 (subject to the type of product)
	Scope 1 and 2 of indirect use phase emissions	Scope 1, Scope 2 (subject to the type of product)
<b>Category 12</b>	Scope 1 and 2 of treatment	Scope 1, Scope 2
<b>Category 13</b>	Scope 1 and 2 (asset operation)	Scope 1, Scope 2, scope 3 cat. 8**
	Cradle-to-gate (manufacturing of the asset)	Scope 3 cat. 2*
<b>Category 14</b>	Scope 1 and 2 (operation)	Scope 1, Scope 2
	Cradle-to-gate (manufacturing of the franchise)	Scope 1, Scope 2, scope 3 cat.1, cat 2*, cat. 3, cat.4, cat. 5, cat.6, cat. 7, cat. 8
<b>Category 15</b>	Scope 1 and 2	Scope 1, Scope 2
	Scope 3	Scope 3

\*this table is a placeholder intended to visualize potential guidance. It cannot be used as advice on corporate level data allocation.

## Restrictions

In case Option 1C is chosen, restrictions on use of the approach shall be imposed

**Option 2A.** Categorize allocated emissions as of lower quality (lower tier)

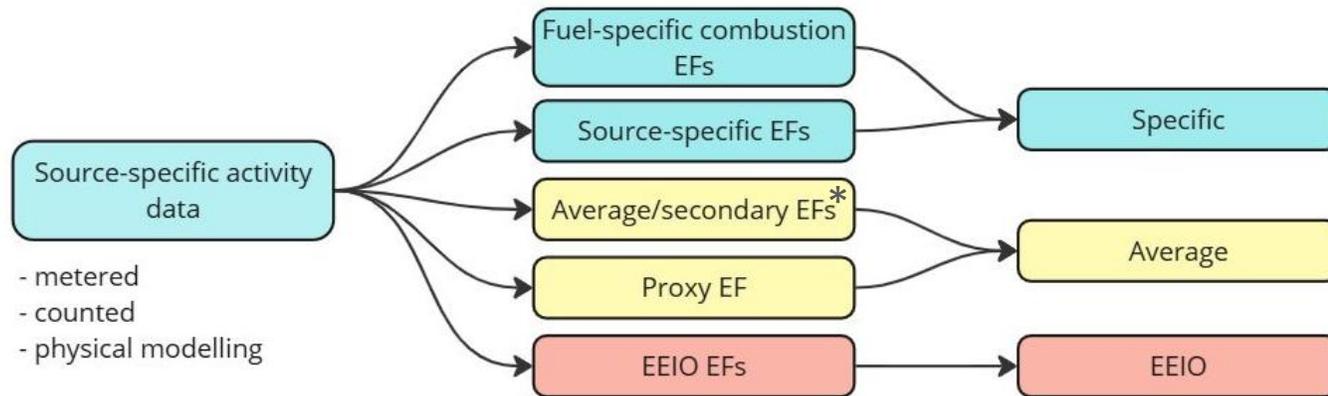
**Option 2B.** Restrict methods (e.g. only physical allocation can be used)

**Option 2C.** Requiring adding a disclaimer

**Option 2D.** Restrict uses (e.g. can only be used in certain categories, or for certain activities)

## Option 2A. Categorize allocated emissions as lower quality

In this option, corporate level data allocation would be maintained, however it would be assigned to a lower tier of disaggregation.



*This scheme presents a draft suggestion as an input for the TWG discussion*

A correction to the rules may be introduced, e.g.:

“If a calculation uses source-specific corporate level emissions data, allocated on the reporting entity, the result shall be classified as “Average”

\* The Term “Average” might be replaced with another term to better reflect the nature of the EF

## Option 2B. Restrict allocation methods

In this option, the allocation methods would be restricted.

Potential restrictions:

Options	Example
1. Scopes and categories of the value chain partner to include into allocation are prescribed	<p>Company A sources steel parts from company B.</p> <p>Company A is allowed to allocate the corporate level data of company B only if it includes at least: Scope 1, Scope 2, Scope 3 Cat. 1-8</p>
2. Only physical allocation can be used	<p>Company A sources steel parts from company B.</p> <p>Company A is allowed to allocate corporate level emissions data, deriving the proportion as the weight of parts sourced over the total weight sold by B in the reporting year.</p>
3. Allowable allocation method is prescribed per category	<p>Cat. 1 goods: physical; Cat. 1 services: physical or economic</p> <p>Cat. 4: physical</p> <p>Cat. 15: economic or physical</p> <p>etc.</p>

## Option 2C. Requiring adding a disclaimer

In this option, a disclaimer shall be included into the report, specifying, e.g.

- Share of the inventory reported using allocation of corporate level data
- Categories utilizing the method
- Types of allocation used (physical, economic)

## Option 2D. Restrict uses

In this option, the use of corporate level data allocation is restricted

### 1. Restricted only to certain categories, or activities

I.e. only for activities which minimum boundaries are limited to scope 1 and scope 2 of the value chain partner.

### 2. Restricted to use only in cases of “homogenous” activities of the corporate (value chain partner)

I.e. when the reporter can reasonably assume that the value chain partner’s output activities are of homogenous physical properties and/or economic value, thus suitable for such allocation.

## Discussion

- 1. Which options (align/ do not align) with the decision-making criteria?**
- 2. Which option is preferable?**

### **Q1. Should the corporate level data allocation be maintained as is or revised?**

Option 1A. Maintain current guidance

Option 1B. Prohibit and phase out

Option 1C. Maintain but restrict



### **Q2. If it stays allowed, should any restrictions be introduced on allocation?**

Option 2A. Categorize allocated emissions as of lower quality (lower tier)

Option 2B. Restrict methods (e.g. only physical allocation can be used)

Option 2C. Requiring adding a disclaimer

Option 2D. Restrict uses (e.g. can only be used in certain categories, or for certain activities)

# Multifunctional process allocation



## Options for consideration

Q3. Shall the GHG Protocol allocation hierarchy be made prescriptive?

Option 3A. Maintain current guidance

Option 3B. Assign prescriptive choices

Option 3C. Outsource (leave) to sectoral standards

Q4. Shall system expansion with substitution be added to the allocation choices?

Option 4A. Maintain current guidance

Option 4B. Allow

Option 4C. Explicitly prohibit

Option 4D. Explicitly prohibit, including in the sourced emission factors

### **Q3. Shall the GHG Protocol allocation hierarchy be made prescriptive?**

- Challenges:
  - Lack of clarity in application (questions on which allocation to use)
  - Inconsistency (combination of different allocation methods in practice)
  - Underreporting in cases of unfit allocation choice

*Shall more prescriptiveness be introduced?*

*If yes, what shall be prescriptive?*

## Q3 – Decision making criteria considerations

Shall the GHG Protocol allocation hierarchy be made prescriptive?

Option	Option A: Maintain current guidance	Option B: Assign prescriptive choices	Option C: Outsource prescriptive choices to sectoral standards/guidance
Scientific integrity	NA	NA	NA
GHG accounting and reporting principles			
Support decision making that drives ambitious global climate action			
Support programs based on GHG Protocol and uses of GHG data			
Feasibility to implement			

## Options for prescriptive hierarchy

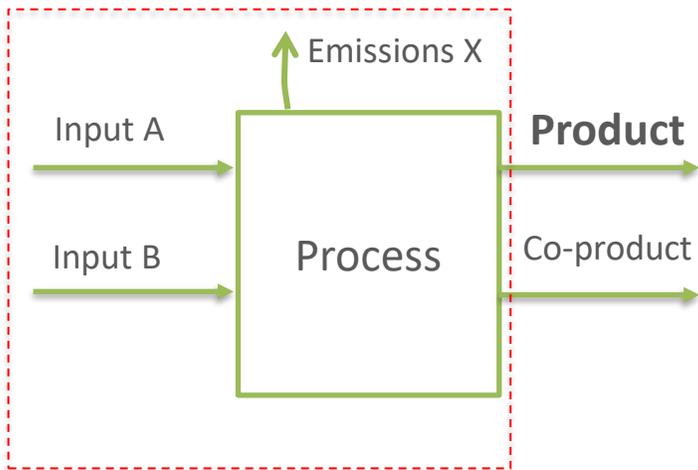
If the GHG Protocol to make allocation hierarchy more prescriptive, then how?

- Partitioning shall be based only on physical characteristics
- Partitioning shall be based only on economic value
- Both physical and economic partitioning can and should exist, a rule shall be created
- Both physical and economic partitioning can and should exist, choices shall be prescribed per category

## Q4. Shall system expansion with substitution be added to the allocation choices?

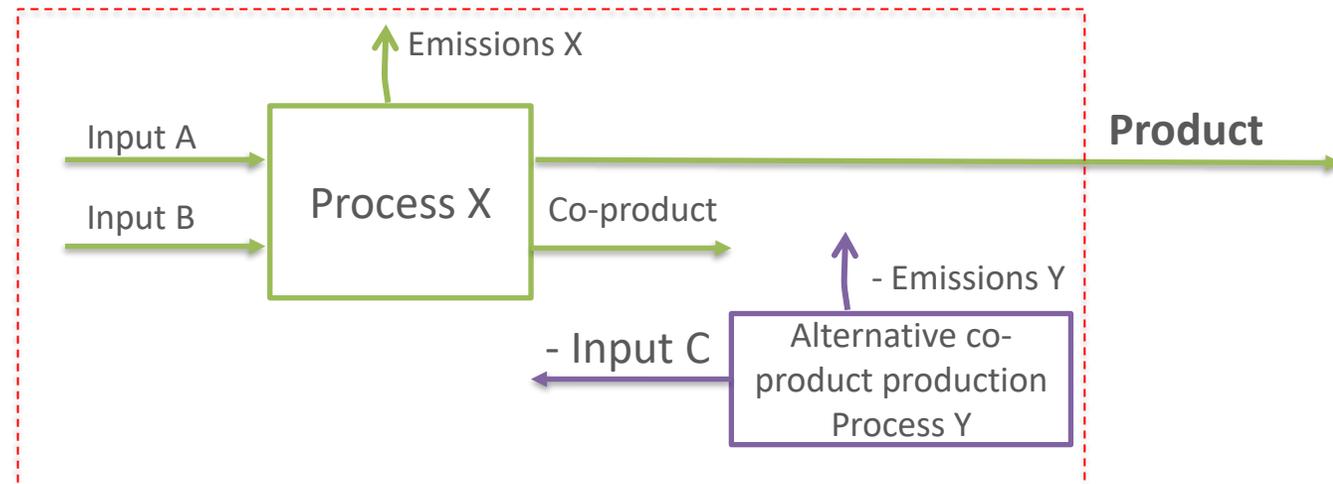
System expansion: considering a larger system that would include all co-products of the process in question. In the context of the need for information of a footprint of a particular product or service, system expansion would be coupled with substitution

### Partitioning



*Solution: split the system impacts based on a pre-defined proportion (e.g. mass, energy, economic value)*

### System expansion with substitution

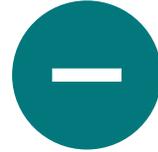


*Solution: keep the wider system with all its impacts, isolate product's impact by substituting the avoided emissions of a co-product production*

## Challenges



- System expansion with substitution is a widespread LCA practice, and is used in many studies
- Method is allowed by the Product Standard
- Method is often seen as more consistent allocation approach



- System expansion with substitution is rather a consequential practice
- Method involves accounting for avoided burden, i.e. hypothetical emissions that have never actually occurred, impeding inventory-method imperative
- When mispracticed, can lead to questionable results
- When reductions are achieved, the product bears the full reduction, with co-product “keeping” the same impact

## Options

### **Option 4A. Maintain current guidance**

No specific language in the standard, leaving the interpretation to the practitioner. Implicitly, not allowed.

### **Option 4B. Allow**

Provide conditions under which method can be allowed. E.g. when co-product is residual heat, where recovered energy could bear the emission factor of the originally sourced heat.

### **Option 4C. Explicitly prohibit**

Provide language prohibiting use of the method in the corporate inventory modelling.

### **Option 4D. Explicitly prohibit, including in the sourced emission factors**

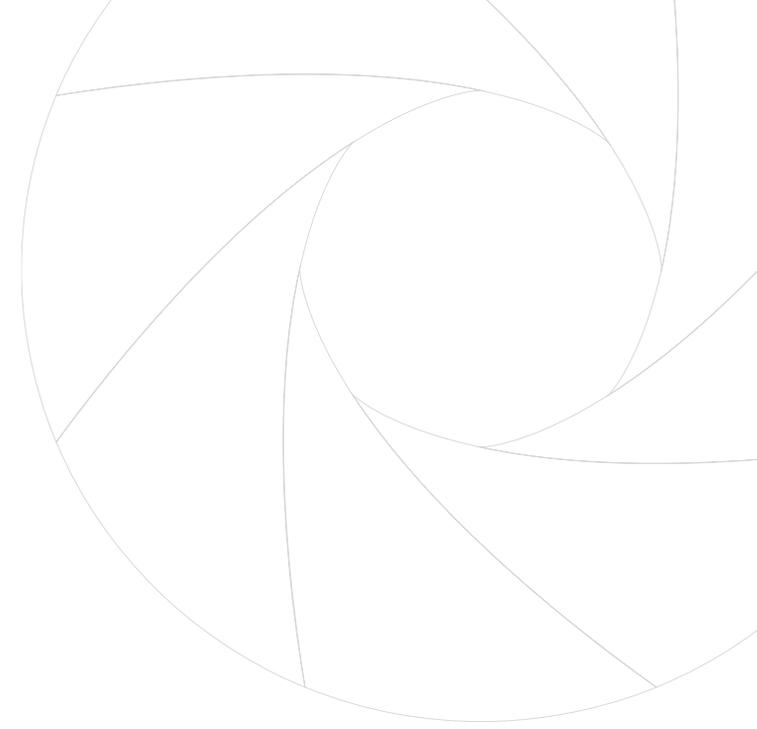
Provide language prohibiting use of the method in the corporate inventory modelling, and prohibiting use emission factors modelled with the use of the method (e.g. LCA studies using the method).

## Q4 – Decision making criteria considerations

Shall system expansion with substitution be added to the allocation choices?

Option	Option A: Maintain current language	Option B: Allowing system expansion and substitution	Option C: Prohibit system expansion and substitution	Option D: Prohibit system expansion and substitution in foreground and background
Scientific integrity	Yellow	Orange	Yellow	Yellow
GHG accounting and reporting principles	Yellow	Orange	Yellow	Green
Support decision making that drives ambitious global climate action	Green	Orange	Green	Green
Support programs based on GHG Protocol and uses of GHG data	Yellow	Yellow	Yellow	Yellow
Feasibility to implement	Yellow	Yellow	Green	Yellow

**Next steps**



## Next steps

### Meeting follow-up:

- GHG Protocol Secretariat to distribute the recording and feedback form (by Mar 14)
- GHG Protocol Secretariat to prepare and distribute minutes of the meeting (by Mar 20)

**Next meeting on April 3<sup>rd</sup> 6AM PT/ 9AM ET / 3PM CET / 9PM CHN/ 0AM AEDT(+1)**  
*Allocation discussion*

**Thank you!**

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