

IDFA Submission, 14-March-2023



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

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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".

With attribution

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 issues.

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

On behalf of its member organizations, IDFA wishes to draw attention to areas of uncertainty pertaining to both accounting and reporting of value chain (scope 3) emissions within the agriculture sector. This proposal highlights gaps and weaknesses in the current GHG Protocol suite of standards, especially related to calculations and allocations of emissions in conjunction with relevant market instruments outlined in the GHG Protocol's Market-based Accounting Approaches Survey Memo.¹

This proposal:

1. Brings to light a cascade of existing and emerging challenges created by GHG Protocol Corporate Accounting Standards, especially as they affect the U.S. food and agriculture sector, namely dairy production and processing.
2. Seeks to elevate a longstanding concern that current standards do not consider reporting for entities and supply chains that both emit and remove carbon. Industries such as agriculture and waste management have opportunities to conduct transactions on both sides of the GHG accounting ledger, yet many reporting entities are uncertain about best practices for accurately (and consistently) accounting for carbon removal activities.
3. Illustrates how the agricultural industry and its supply chain would benefit from more guidance and examples (e.g., scenario cases and graphic diagrams/illustrations) of complex reporting situations. Such clarifying points and explanations should increase user-friendliness of the GHG Protocol Standards without lessening the flexibility needed across industries.

A prudent first step toward addressing these accounting challenges is for WRI and WBCSD to invite representatives from across food, agriculture, forestry, and natural resources management to participate in a dialogue about how standards function best to achieve the collective decarbonization goals.

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

The current standards and guidance do not provide the necessary flexibility and clarity for industries that operate as both carbon sources (or emitters) and carbon sinks (or removers) in the context of multi-pronged national approaches to carbon reduction. Moreover, as a global standard, accounting uncertainties arise as environmental regulations and marketplaces develop across jurisdictions.

¹ GHG Protocol Market-based Accounting Approaches Survey Memo, page 3, <https://ghgprotocol.org/sites/default/files/Market-based%20accounting%20Survey%20Memo.pdf>

Observed limitations:

1. Nations take differing approaches to promoting carbon reductions. The U.S., for example, eschews strict national controls in favor of state-based regulated trading markets and private market-based trading programs that offer incentives to entities that mitigate and remove GHGs. As other nations develop their strategies, they may choose similar multi-pronged approaches while others take a purely market-based or regulatory approach. Regardless of variation in approaches to carbon/GHG reduction and financing, a more flexible accounting standard is needed to ensure that all industries have simultaneous access to voluntary markets and unique regulatory compliance programs (e.g., California’s Low Carbon Fuel Standard, or LCFS, marketplace).
2. The U.S. dairy sector serves as a salient example of the accounting challenges. Like many agricultural commodities, milk (and associated dairy products/ingredients) may be purchased from aggregated pools/distribution networks. Within a single “supply shed” there may be farms managing GHG mitigation interventions that generate credits that both stay within the processed dairy value chain (i.e., insets) and others that leave the value chain as sold offsets. Under current standards, it seems there is not a clear best practice for accounting for the real reductions happening at the farm level, and how those reductions are consistently accounted for by multiple downstream buyers. Some reporting entities may be utilizing a combination of project-based accounting and supply shed accounting based on best available emissions factor estimates. It must also be noted that participation in GHG credit markets provides critical financing that enables dairy producers to reduce their GHG impact and then re-invest in additional projects to improve efficiency and environmental/climatic impact. The current *Market-based Accounting* survey, specifically question 25, is indicative of the current limitation: should market-based approaches utilize inventory or project/intervention methods to account for reductions?
3. In the absence of local, national, international, corporate and/or philanthropic funding, many individuals and entities engaged in food, agriculture, forestry, and natural resources management—who make up part of an industry value chain—sometimes rely on voluntary markets and compliance programs to attract and leverage incentives and resources. Such resources promote GHG removal practices that would otherwise be unavailable. Although the GHG Protocol is intended to serve a neutral accounting function, in reality, operationalizing the standard has made it an important factor in driving progress in climate mitigation. This creates concerns when an industry operates as both a carbon sink and emitter, while at the same time operating in a localized and specialized regulatory market such as the California LCFS. The result is that the current standards drive carbon reduction financing from sources outside the agricultural supply chain, which undermines an agriculture operation’s ability to balance its own reportable GHG inventory in its own supply chain. The result is that a significant part of an industrial sector is unable to report carbon removals – while still reporting carbon emissions.

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

We propose that stakeholders from key industries (e.g., food processing, agriculture, waste, forestry, etc.) that act as both GHG emitters and sinks be invited to a working group with the GHG Protocol standard developers. Engaging in a multi-industry, geographically diverse group dialogue will facilitate sharing of challenges and potential solutions for GHG accounting along value chains that operate as both emitters and sinks. Our constituents are motivated to continue developing their climate action plans, and they are eager to discuss options for long-term, credible, and consistent accounting and reporting solutions. Ultimately, more accounting certainty will help make decarbonization progress accessible to all industries and scales of enterprise, regardless of how individual nations and regulatory markets approach carbon reduction strategies.

The following are suggested changes and examples of how additional guidance may be developed:

1. After further engagement with key stakeholders to fully characterize the accounting and reporting challenges, we believe the standard should be revised to offer a flexible, clear, and actionable approach to accounting for supply chains and supply sheds (i.e., multiple chains that aggregate commodities from a region) that both emit and reduce (or remove) emissions. For all parties involved, including suppliers, buyers, offset purchasers, governments, and consumers, increased transparency about carbon flows will be key. This is especially relevant to any company or sector/industry that has set commitments for GHG reporting and emissions reduction over time. Notably, value chain accounting and reporting is a priority issue for U.S. Dairy, which continues to work towards its 2050 GHG neutrality commitment alongside many dairy processors working towards their own climate action goals, including numerous science-based target (SBTi) participants.

The GHG Protocol should demonstrate how companies buying goods from agricultural operations can credibly meet their reporting obligations, publicly acknowledge real decarbonization progress within supply-sheds (e.g., dairy-producing regions), and also support producer autonomy to utilize various market instruments to finance mitigation activities. Establishment of an accepted best practice for reporting in this scenario would be a real acknowledgement of reporting challenges currently encountered by agricultural operations and their supply chains.

2. IDFA strongly supports the current standard's flexibility to utilize primary or secondary emissions data for calculations. We propose that additional clarifying examples of reporting along value chains be developed for future iterations of guidance documents. This will help organizations, especially small- and medium-sized enterprises, correctly design and carry out consistent reporting routines.

For example, as a supplement to Chapter 8 ("Allocating Emissions") of the Corporate Value Chain (Scope 3) Standard, a complex accounting example could help illustrate accounting best practices where some farm contributors to a dairy cooperative's aggregate milk pool have achieved decarbonization (through efficiency gains, insets, or offsets), and multiple reporting

entities purchase dairy ingredients from the cooperative. Given the reality of accepted sampling methodology within large agricultural supply-sheds, flexibility to choose primary or secondary emissions data, and the potential presence of removal or reduction activities at the individual farm level, we propose that current standards and guidance documents do not sufficiently address the scenario described above.

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 CO₂ removals: Conservativeness, Permanence, and Comparability if relevant

We believe the proposed areas for change within the GHG Protocol suite of standards align well with the decision-making criteria and hierarchy, part A. Our proposal is intended to highlight the relevance of current reporting uncertainties to ensure accuracy, completeness, consistency, and transparency in future accounting/reporting.

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.

The intention of this proposal is to advocate for further demonstrative examples and points of clarification in standard/guidance documents to prevent accidental accounting errors. As such, this proposal is fully aligned with GHG Protocol's science-based approach to standard setting and IPCC-level consensus on the degree to which global warming should be curtailed.

Specifically, this proposal seeks to spur a dialogue aimed at solidifying best practices that correspond with the Hierarchy part B statement above regarding indirect emissions. It is our view that current

accounting practices leave room for aggregation errors amongst organizations participating in scope 3 (indirect) emission reporting.

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)?

Addressing the nuanced details of GHG accounting along complex (and globalized) value chains, including a more robust discussion of how to account for progress in cases involving aggregated agricultural commodities, should facilitate more standardized GHG accounting and reporting overall. In the case of dairy, the suggestions outlined in this proposal should: (1) better inform reporting entity decision making, and (2) provide a more transparent view of how environmental market participation is driving on-farm decarbonization, thus further enabling the pursuit of effective mitigation projects.

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 is both feasible and relevant to a wide variety of current and potential reporting entities (globally and across industries). IDFA believes this proposal, which primarily requests a diverse stakeholder forum consisting of entities that are both GHG emitters and sinks to develop new guidance/tools, does not involve any challenges that would be deemed unworkable.

Through a multi-stakeholder solution development process, it is possible that new calculation methodologies and standard reporting practices will be proposed. In such cases, the GHG Protocol will need to critically evaluate what data are currently available compared to what data (or degree of data granularity/specificity) are necessary in order to implement new standard practices. We view this as a key issue for WRI and WBCSD to consider when reviewing survey responses and proposals, especially those responses specific to the *Market-based Accounting* survey. Associated revisions or updates to the Standard could improve the overall reliability and rigor of reportable data moving forward.

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

If elements of this proposal were specific only to a single industry, then such elements may be inconsistent with the GHG Protocol hierarchy/principles. For the long-run legitimacy of the GHG Protocol standard, the standard developers should always consider the potential challenge of inadvertently imposing obstacles (or favoring) any specific industries.

With that in mind, we propose that the requests for additional clarity on the issues described above are not unique to the global dairy industry. Accounting and reporting challenges pertaining to value chain emissions in the presence of market-based mitigation instruments persist across multiple sectors of the global economy.

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

At this time, it is unclear if this proposal would affect alignment with all other climate-related disclosure initiatives. However, we propose that the nature of the clarification our sector seeks should increase certainty and transparency, which should be welcomed by external stakeholders such as ESG analysts, CDP, Task Force on Climate Related Financial Disclosures (TCFD), et cetera.

- 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.**

We wish to draw attention to the California LCFS marketplace because of its relevance at least to the U.S. dairy sector (however, our stakeholder engagement meetings on GHG accounting have revealed that biomethane accounting/certificate programs are also relevant in some areas of the European Union).

1. California's LCFS program website: <https://ww2.arb.ca.gov/our-work/programs/low-carbon-fuel-standard>
2. California LCFS guidance documents: <https://ww2.arb.ca.gov/our-work/programs/low-carbon-fuel-standard/lcfs-guidance-documents-user-guides-and-faqs>

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

In preparing this response to the GHG Protocol survey/proposal opportunity, IDFA participated in three stakeholder engagement workstreams:

1. IDFA participated in task force meetings facilitated by the Dairy Checkoff/Innovation Center that helped develop an institutional perspective on current GHG Protocol concerns that are especially relevant to U.S. dairy farmers and dairy processors alike.
2. IDFA sought feedback from over 40 dairy food processing companies through our internal sustainability committee. IDFA members include both publicly and privately owned dairy processors as well as producer-owned dairy cooperatives operating in U.S. and international markets.
3. IDFA also participated in a more internationally representative GHG Protocol task force facilitated by the Global Dairy Platform (GDP). This group of global stakeholders divided into subgroups, each of which focused on a particular area of the GHG Protocol Standard (i.e., the Corporate Standard, Scope 2, Value Chain/Scope 3, and Market-based Instruments).

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

Thank you for the opportunity to comment on current GHG accounting and reporting issues.

About the IDFA Organization:

The International Dairy Foods Association (IDFA), Washington, D.C., represents the nation's dairy manufacturing and marketing industry, which supports more than 3.3 million jobs that generate \$41.6 billion in direct wages and \$753 billion in overall economic impact. IDFA's diverse membership ranges from multinational organizations to single-plant companies, from dairy companies and cooperatives to food retailers and suppliers, all on the cutting edge of innovation and sustainable business practices. Together, they represent 90 percent of the milk, cheese, ice cream, yogurt and cultured products, and dairy ingredients produced and marketed in the United States and sold throughout the world. Delicious, safe and nutritious, dairy foods offer unparalleled health and consumer benefits to people of all ages.

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 CO₂ 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.