INTRODUCTION FOR SUSTAINABILITY SYSTEMS

GREENHOUSE GAS EMISSIONS REPORTING FOR CERTIFIED COMMODITIES

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INTRODUCTION

This document represents a short 'start here' level introduction to the 'Accounting & Reporting the emissions of certified commodities' suite of guidance documents. There are four such introductory guides, for schemes (this document), certificate holders/applicants, assurance and oversight providers and buyers. It is recommended that each stakeholder group begins with their respective 'start here' document, followed by the general 'Introductory Guidance' document, which goes into more contextual detail and finally the 'Guidance for Sustainability Systems to design and implement credible greenhouse gas reporting systems'. The latter is, as the title suggests, directed at sustainability systems, but other stakeholders may find it interesting to review the more detailed approaches recommended.

WHO?

This document is specifically aimed at ISEAL member schemes or other sustainability systems who have commenced or are considering commencing on a process to align their certification of commodities and chains of custody models with emissions reporting good practices.

WHAT?

This suite of guidance supports sustainability systems to quantify and attribute emissions data to their commodity certification and credibly allocate those benefits to companies in support of their corporate inventory targets and reports.

The guidance envisages the creation of a 'Greenhouse Gas Reporting System' that includes the planning, engagement, mapping, design, implementation, governance and continuous improvement of approaches to quantify, attribute and allocate emissions data.

The guidance refers to the pre-eminent emissions reporting and target-setting frameworks; the Greenhouse Gas Protocol and Science Based Targets. Other systems

of equal or greater rigour may emerge in future, in which case the guidance may be updated to accommodate.

The guidance also covers the interface of corporate emissions reporting with impact incentives, such as ecosystem services and carbon markets.

The expected output of applying this guidance is therefore a robust, credible, good practice aligned GHG Reporting System that governs the quantification, attribution and allocation of emission data to commodity certificates.

WHY?

In the context of the climate emergency, companies are increasingly held to account by regulation, consumers, investors and the public for their climate impact. Historically that action has been criticized for a lack of transparency and rigour and for prioritizing claims such as offsetting and carbon neutrality over the decarbonisation of a company's own footprint.

In 2022, the Science Based Targets Initiative (SBTi) released its landmark 'Net Zero Standard' that prioritises 'Value Chain Abatement', which includes the abatement of emissions in value chains (Scope 3), whilst also recognising the benefit of also taking responsibility for residual emissions along the decarbonisation journey.
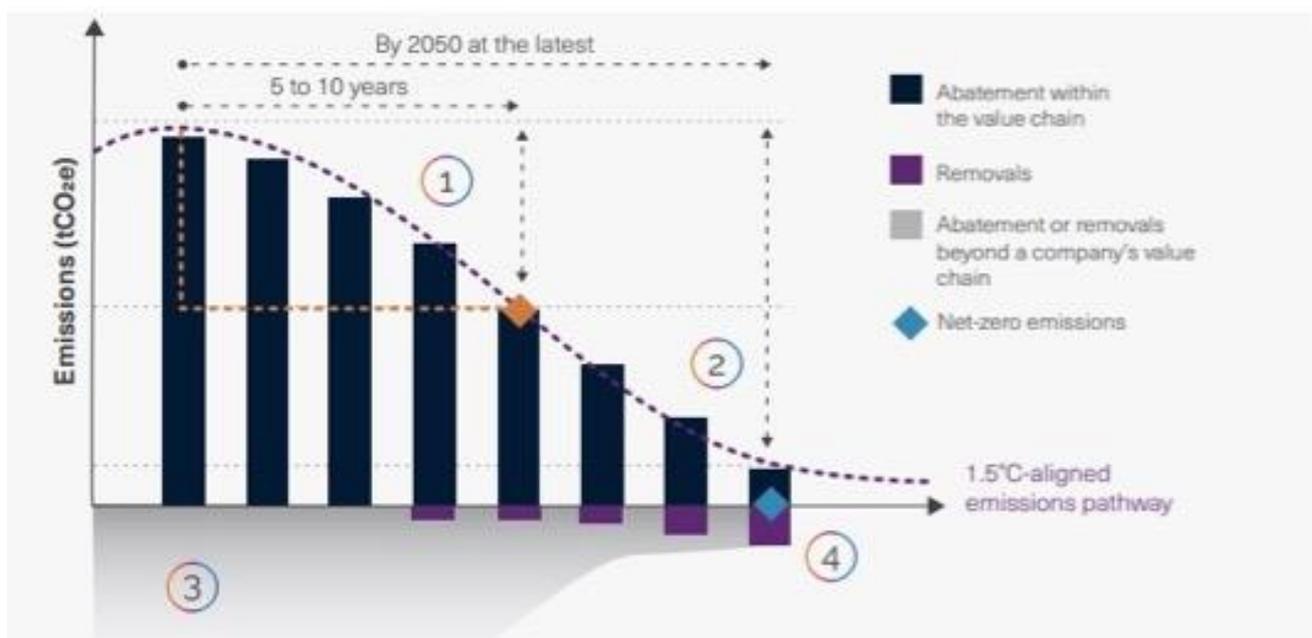
FIGURE 1: *excerpt from SBTi Net Zero Standard*

The Net Zero Standard, in line with science, calls for a 50% reduction in emissions by 2030 and a 90 to 95% abatement of company emissions by latest 2050, of which a major portion for many companies will be related to their supply chain.

Within the supply chain, a major proportion of emissions, particularly for consumer goods companies, relates to the goods they purchase. It is in this space that sustainability systems that certify commodities have the potential to add value, given their ability to administer and allocate commodity certificates to purchasing companies.

The guidance seeks therefore seeks to assist members to create the systems of quantification, attribution and allocation[1] of emissions to serve this emerging incentive.

Each member scheme will have its own nuanced 'why' for considering this guidance. It is likely that these will fall across a number of categories, such as:

1. Mission and stakeholder driven desire to align with good practices as a response to the climate emergency

2. Mitigation of risk and obsolescence as more and more companies demand emissions data, allocation and ongoing decarbonization in line with science

3. Response to producer and/or buyer demand

4. To realise potential price premiums or preferential procurement for certified goods and to encourage and increase demand for sustainable commodities

5. To drive consistency, quality and integrity within a given sector and to demonstrate good practices to the wider world

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[1] Quantification – how emissions data is calculated, collated and presented for accounting. Attribution – how the data is then attributed to specific commodities/certificates. Allocation – how those certificates (and the attributed data) is allocated to purchasing companies.

The guidance aligns with the accounting norms of the Greenhouse Gas Protocol and is thus focused on the quantification, attribution and allocation of emissions data to certified commodities. This is explained in **Box 1**, below.

**BOX 1: CORPORATE ACCOUNTING FOR PURCHASED GOODS**

Companies report purchased goods based on the volume they purchased in a given time period (typically a year) multiplied by the emissions intensity of each unit (i.e. how much greenhouse gas is emitted from processes/sources associated with the production of each unit). A reduction in emissions intensity makes a commodity potentially more attractive for purchase as it will progress the purchaser towards their science-based emissions reduction target.

Emissions intensity is calculated as the sum of all the sources of emissions associated with production, divided by yield, to provide a per unit metric. The sources are identified and quantified using Life Cycle Assessment/Inventory techniques, explained in greater detail in the guidance.

Companies may report either the specific emissions data for goods they purchase, where traceability exists, or an average emissions factor to the most granular level available (for example a regional or global factor). Though there is an emerging discourse on market-based allocation in the absence of traceability, this work remains nascent and not yet fully legitimised.

The guidance envisages the creation of a GHG Reporting System comprising of eight elements, to be worked through as a cycle. It may be that a member is beginning the process from scratch and starts at Element 1, before reviewing the scheme ongoing as part of Element 8. Another member may already have some aspects in place and use the guidance to audit their existing system for further improvement and alignment with good practice.

The eight elements are as follows. It is noted that the guidance itself is not designed for formal adoption by members, but rather the output (the GHG Reporting System, built of the eight elements) is detailed in **FIGURE 2**, below.
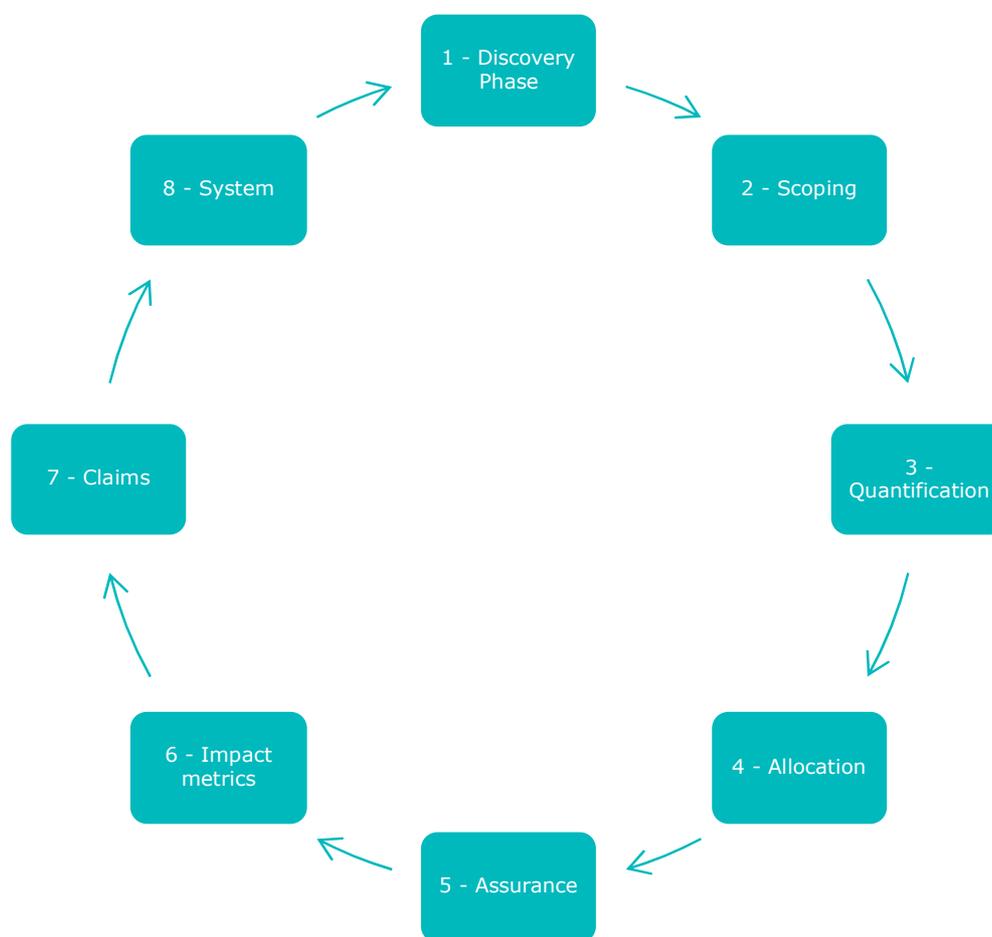
FIGURE 2: *Overview of the eight GHG Reporting System elements*

1. Engage with stakeholders, understand capacities, opportunities and risks. Map included standards, commodities and geographies.

2. Map the commodities and their processes to be included in the GHG-RS and consider what traceability profiles each may have.

3. Take the output of Element 2 and create and/or recognise data quantification and quality methods, i.e. how to quantify the emissions associated with commodities and attribute them to certificates.

4. Based on decisions to date, decide how certificates (and thus emissions data) will be allocated to corporates.

5. Develop an overview of how Elements 1-4 will be assured within the system.

6. Consider the relationship of inventory reporting data with impact data, such as carbon markets or ecosystem services.

7. Develop additional claims guidance to supplement the wider system, where needed.

8. Create the management and governance systems to oversee the progress of the GHG-RS and repeat the discovery phase towards continuous improvement.

TO GET STARTED

The way each member will engage with the question of emissions accounting and thus the guidance is likely to be different. There are however some early steps that are recommended to consider that can assist the scheme on its way:

1. Appoint executive and management ownership of the challenge and seek a governance and stakeholder mandate to do so. This will help ensure the issue is taken seriously at all levels and that resource can be allocated (or fundraising sought) to pursue it.

2. Appoint a team leader with carbon literacy. It isn't necessary for that person to be able to produce all aspects and tools associated with the GHG Reporting System and thus deep technical expertise may not be required, but a good understanding of the Greenhouse Gas Protocol and Science Based Targets and their underlying philosophy is important. It may also be possible to train a good manager, via training courses such as those published by the Greenhouse Gas Protocol or institutions such as the Greenhouse Gas management Institute.

3. Carefully review the guidance and begin the process of understanding where the challenges are and in particular how to set about understanding the needs and capacities of the scheme's users and stakeholders (Element 1). Build an initial workplan.

4. Consider the appointment of an expert oversight group to support the manager conduct their review and understand the landscape in which they are working. This can also help supplement a good manager who perhaps has lower levels of accounting expertise.

5. Conduct initial research on initiatives, research, tools and data available to the scheme's sectors and geographies and create a shared file to save them to. Review the recommended reading, below.

6. Participate in the sustainability system and reach out to other members and participants to see how they're approaching the question and whether there are areas of collaboration available.

RESOURCES NEEDED

Aligning with emissions reporting good practices and responding to stakeholder demand is likely to require human and financial resources. Whilst the initial steps above can likely be conducted largely with existing in-house expertise, the overall creation of a system is likely to need a range of resources including for:

- Designing and conducting stakeholder engagement and feedback capture, including ongoing feedback loops.

- Research to map out the processes included inside and outside certification, quantification approaches and attribution techniques. This will include environmental scans of existing initiatives and tools and engagement with third parties.

- Review and update of allocation and tracking information to ensure certificates are correctly reported by buyers.

- Updates to standards documentation and guidance to reflect the procedures designed.

- Capacity building and training materials for, for example, certification bodies and certificate holders, as well as review of oversight procedures to ensure coverage of emissions information.

RECOMMENDED READING

- WWF's Corporate for Corporate Action on Climate and Nature gives a good overview of civil society expectations for corporate responsibility with regards climate action. It refers to other documentation in this list.

- The Science Based Targets Initiative Net Zero Standard and introductory materials are good for understanding how value chain abatement, where this guidance fits, is to be targeted and reported.

- The Greenhouse Gas Protocol is the underlying accounting framework that SBTi applies. The Scope 3 Standard and especially the Scope 3 Guidance (especially Category 1, Purchased Goods and Services) are the cornerstone of the quantification, attribution and allocation of emissions. Although not published at the time of writing, the Protocol has also announced plans to release guidance for land-based emissions. This development should be monitored.

- Quantis' World Food LCA Database guidance is a good starting point for understanding how the processes and emissions sources associated with agricultural commodities can be identified, quantified and attributed. It is quite technical but is worth reviewing.