Scope 3 TWG Group B Meeting Minutes

Meeting number 7

Date: 20 March 2025

Time: 10:00 AM – 12:00 PM ET

Location: Virtual

Attendees

Technical Working Group Members

1. Lindsay Burton, Ernst & Young
2. Leo Cheung, The Carbon Trust
3. Betty Cremmins, Independent
4. Holly Emerson, Duke University
5. Victor Gancel, Danfoss
6. Isihaka Hanghuja, Uganda National Bureau of Standards (UNBS)
7. Alasdair Hedger, Ellen MacArthur Foundation
8. Ashwini Hingne, WRI
9. Mitavachan Hiremath, SusPot – Center for Sustainability
10. Tom Jackson, Loughborough University
11. Aysegul Koseoglu, Inter IKEA
12. Marion Kurdej, EcoAct
13. Tim Letts, WWF
14. Thea Lyngseth, ECOS
15. Ryan Maloney, Apple
16. Nicola Stefanie Paczkowski, BASF
17. Vishwesh Pavnaskar, Indorama Ventures
18. Benedicte Robertz, Umicore
19. Stacy Smedley, Building Transparency
20. Ronald Voglewede, Walmart

Guests

n/a

GHG Protocol Secretariat

1. Natalia Chebaeva
2. Alexander Frantzen
3. Claire Hegemann
4. Allison Leach

Documents referenced

1. Discussion Paper B.2 Intermediary Parties
2. Supplementary Paper B.2
3. Scope 3 – Group B – Meeting#7 – Presentation

Summary

Item	Topic and Summary	Outcomes
1	***Housekeeping*** The Secretariat presented the housekeeping rules and decision-making criteria.	N/A
2	***Survey Results and Approach, Discussion of Questions 2-5*** The Secretariat presented an overview of survey results and approach for continuing the discussion of facilitators, restating the four questions for consideration. The TWG discussed both case-by-case scenarios and the four proposed criteria for identifying facilitated activities, as well as the optionality of reporting. Indicative polling was held.	There was consensus that some facilitators should/may report, but no system for unambiguously identifying facilitators nor for determining reporting optionality emerged.
3	***Next steps*** The Secretariat presented the next steps.	A follow-up survey will be circulated.

Discussion and outcomes

1. Housekeeping

- The Secretariat presented the housekeeping rules and the decision-making criteria (see slides 5 – 7).

<u>Summary of discussion</u>

- N/A

<u>Outcomes (e.g. recommendations, options)</u>

- N/A

2. Survey Results and Approach, Discussion of Questions 2 - 5

- The Secretariat presented an overview of qualitative survey results and an approach for continuing the discussion on facilitators (formerly intermediary parties) (see slides 8 – 16).
- The Secretariat re-stated the four questions for consideration, the proposed criteria for identifying facilitators, and analysis of quantitative survey results, as well as case-by-case considerations (see slides 17 – 53)

<u>Summary of discussion</u>

- A TWG member asked if the group could consider the 'why' of accounting for facilitated emissions first, before diving into the boundary question. The member questioned the purpose of the potential new requirements, asking if the goal is to punish high emitting industries, or if the idea is to require all parties to report all emissions that they are involved in.
    - The Secretariat replied that parties should account for transactions from which they generate income. PCAF requires financial institutions to account for facilitated emissions, e.g. underwriters and issuers have to account for a percentage of the money that they earn. The idea was to evaluate whether this principle applies to other cases.
    - The TWG member asked whether the issue to align on is if parties should account for transactions from which they generate income. The member accentuated they are in favor of resolving this question and highlighted the need for clear guidance that outlines the rationale either way. This outcome would inform their voting decisions on the rest of the issue.
- A TWG member asserted that guidance on the emissions accounting of facilitators should not inadvertently dis-incentivize the circular economy, as business models adopt circular activities such as reuse, re-manufacture, etc.

- The Secretariat asked whether generating income from and exchanging value should inherently quality an activity as being part of the value chain of a reporting company.
- A TWG member replied that the lack of guidance and unclarity of reporting in the instance of facilitating without clearly being in the upstream or downstream of a value chain constrains the implementation of the *Scope 3 Standard*. The member stated that this is a known gray area. The member offered another way of looking at the issue, that if a company is not incurring income or expenses, the activity is safely not within the boundary. The member asked if this kind of delineation is helpful for companies operating in the gray area and asked if the group is only considering this question in an income-driven boundary.
    - The Secretariat replied that the income-driven boundary is just one way of looking at the issue, and one way of unambiguously or objectively determining if a company should report an activity or not. It contrasts with using the principle of influence for the determination, with influence being subjective and less easy to define.
    - The Secretariat also emphasized that answering this one question will not resolve all potential facilitated emissions activities or cases.
- A TWG member stated two potential approaches: going for general principles or going case by case. The member questioned whether a clear rule or principle can tightly capture all facilitators, or whether sectoral emissions hotspot(s) should identify and target some facilitators. They asked whether the group should develop a general principle, or a set of answers for the most important, specific cases of facilitated emissions.
    - The Secretariat responded that, in terms of standard development, it is more helpful to write general rules that apply to all cases, if possible, rather than developing specific exception rules.
- A TWG member commented they are in favor of agnostic, future proof rules. The member also brought up the concept of assets and liabilities that add value, rather than utilizing the concept of income and expenses.
    - The Secretariat commented that this could be an approach, but that it might be difficult to apply asset and liability considerations to annualized reporting.
    - A TWG member proposed using the concept of 'financial benefit' to identify facilitators for cases where companies do not directly generating income, noting that the term 'financial benefit' would need a clear definition.
- The Secretariat asked members if they wanted to proceed by discussing Q3 – Q5, or if they preferred a case-by-case discussion first.
    - A member responded that a case-by-case discussion is preferable.
- The Secretariat presented the draft criteria for identifying facilitators (see slide 28).
- A TWG member questioned whether distributors are facilitators.
    - The Secretariat clarified that if a consumer purchases a product from a seller, and if the seller transacts with a distributor to deliver said product, then this reflects two (2x) counter-party transactions rather than a single (facilitated) transaction, and therefore would not make up a facilitated activity. As per the proposed criteria developed by the Secretariat, all four criteria have to be satisfied to identify a facilitator and to recognize a facilitated activity.
    - The TWG member commented that, as such, distributors do not qualify as facilitators.
- The Secretariat presented the survey results for cases that were identified as facilitated activities (see slide 29-30).
- A TWG member asked the group if, when voting in the survey, they saw facilitators as reporting within the scopes or if they made their determinations agnostic of how reporting would occur. The member asked if the answers say that facilitators should report inside or outside of the scopes.
    - Four TWG members clarified that they interpreted the questions as meaning: 'report inside the scopes'.
- A TWG member stated that it would be useful to have a high-level discussion on Q2-5 before diving into case-by-case considerations.
- A TWG member commented that the survey provided by the Secretariat was very helpful in informing their opinions, and that they appreciate the consolidation of results, stating that they do not see an obvious pattern or consensus.
    - The Secretariat agreed, stating that the survey did not result in consensus.
    - A TWG member agreed that the survey was a useful exercise.

- A TWG member stated that the results do not present a clear path forward for creating top-down rules.
- A TWG member requested the size of facilitated emissions in e-commerce.
    - The Secretariat replied that it does not have statistics on the amount of facilitated emissions to present to the group, and that both the business models in this category and their significance are ever changing, citing the example of the proliferation of video and audio streaming services over the last two decades. The Secretariat also stated that facilitated emissions from an activity may not be significant globally, while being significant for a company.
- The Secretariat commented on the results of slides 33, 35 and 37, outlining the levels of consensus on inclusion or exclusion of emissions.
- A TWG member stated that a major component to consider is ownership and influence over the activity. Citing the example of third-party marketplaces, they have some but not significant influence over decision making. The member highlighted the policy concept of unintended consequences, and warned the group of designing stringent requirements that could lead to unintended consequences. The member is worried about diluting the essence of reporting and whether reporting on emissions that the entity does not have significant influence over lowers the quality of the reporting overall. The member cautioned to think realistically about the impact of the decisions taken.
- The Secretariat emphasized that the decision-making criteria should guide the decision-making and stated that reporting facilitated emissions separately from scope 3, or in a new category within scope 3 are potential options.
- A TWG member asked members to comment on the results of polling on the oil & gas pipeline example, why they preferred to include emissions from grid owner/operators but not for pipelines.
    - A TWG member clarified that in the U.S., a pipeline or grid operator has no say in what ties into the grid or the pipeline. From a regulatory perspective, pipeline/grid operators cannot discriminate what they transport/distribute. A utility (grid owner and operator) has a lot more decision-making power. The member asked whether all players in the energy and fossil fuel sector should report regardless of their control or influence over the distributed product(s).
    - A TWG member commented that there is a distinction between quantifying emissions and holding a party accountable for decarbonization.
    - The Secretariat asked members to consider the issue beyond the particular case of pipelines – if a pipeline has to account for what it transports, does Fedex have to account for the emissions of the products that it transports? The Secretariat reminded members to consider the decision-making criteria in their answers.
- A TWG member commented that the survey was very helpful, even if it did not result in clear-cut decisions, as all the questions are interrelated. The member stated that in their opinion, some facilitator activities shall be required, and that others should be a "may" or "shall not". The member suggested making provisional determinations to put forward for public consultation if the TWG cannot propose a set of principles at this time, to gather more widespread feedback.
- A TWG member highlighted the difference between measuring, reporting, and target setting. The member asked if companies taking responsibility means disclosing the emissions in or alongside the scopes, or including them in their target setting? What makes sense for reporting may not coordinate perfectly with target setting. The member stated that determining target setting is not the role of the GHG Protocol, but that it is important to separate out the two.
- A TWG member commented that the current discussion is helpful to them, and that the determination of placing the emissions within the boundary or not, in a new scope or a new scope 3 category, impacts optionality considerations.
- The Secretariat stated that while no obvious pattern is emerging, however, the TWG exhibits general agreement that facilitators "shall" or "should" account for facilitated emissions in certain cases. Given the complexity of this topic, and in the absence of overall agreement, perhaps "should" or "may" language could be the solution, providing guidance but without strict definitions. The Secretariat also asked members if assurance could drive the decision on inclusion or exclusion of emissions, what assurers would need from the GHG Protocol in order to make this call?
    - A TWG member responded, delineating the difference between limited and reasonable assurance. Limited assurance means that there is no reason to believe that the preparer is not doing what they say they are doing. Reasonable assurance is more in depth (like financial

assurance), involving fact checking, interviews, and site visits. If there is vagueness in the criteria developed by the GHG Protocol, then only limited assurance would be possible, and reasonable assurance would not. There is a need for more prescriptive guidance for auditing to be adopted and expanded more seamlessly — for the market to move towards reasonable assurance.
    - The Secretariat asked whether (a) more prescriptively/tightly defining the minimum and optional boundaries of all scope 3 categories and (b) stipulating that companies "may" include facilitated emissions separately — whether this enhances unambiguous interpretation and thus reasonable assurance?
    - A TWG member replied that they are unsure whether assurers can assure a portion of a scope 3 inventory, asserting that assurers usually provide either limited or reasonable assurance across the entire GHG inventory.
- A TWG member asked if regarding transport, the accounting should be similar for transport via pipeline vs via rail.
- A TWG member commented that some facilitators need to be incentivized to decarbonize and that stakeholders need more data in order to make informed decisions. The member asserted that the TWG is moving in the right direction.
- A TWG member commented that whatever the outcome, the Standard should not instruct preparers to not include an emission. The original problem statement for this issue is that preparers are operating under a boundary 'gray area' and don't know whether to report emissions of some activities. The member is in favor of guidance (a) identifying facilitated emissions and (b) giving facilitators the option of reporting using "may" language (at a minimum). This would more unambiguously clarify how to classify these (facilitated) emissions as a starting point adoption. The four criteria developed by the Secretariat are the closest that the group has gotten to a proactive and agnostic system that helps an organization identify facilitated emissions. This alone would be a dramatic step in the right direction.
- A TWG member replied to the previous speaker, stating that it is sensible to not report some emissions. The member argued that if a company reports all conceivable emissions, then they could also report all conceivable reductions — even though they played no role in the reduction activities. Thus, they could pretend to be leading by example when, in fact, they are not (and possibly free-riding or greenwashing). The member expressed support for limitations on the boundary, to make sure that reported emissions correspond with a preparer's (reporting company's) capacity to influence.
- The Secretariat suggested that the guidance could specify that a preparer is a facilitator if they (a) meet the four criteria and (b) have any degree of influence (a fifth criterion). If both are true, then they "should" account, and otherwise they "may" account.
- A TWG member voiced their support for the criteria to identify facilitators, stating that the open question is regarding the shall/should/may/shall not language.
- The Secretariat stated that sometimes investors may reasonably expect a preparer to report its facilitated emissions, from a risk perspective. If the standard revision provides guidance for identifying facilitators and appropriate "should" / "may" language, that would be an improvement.

<u>Outcomes (e.g. recommendations, options)</u>

The Secretariat conducted polling on the following questions.

Please note: The calculation of outcome percentages excludes 'Abstain' votes. For example, if 2 out of 10 members abstained from voting in a poll, percentages rely on 8 votes in the denominator.

- What should the minimum vs. optional boundary be for facilitated emissions?
    - Optional – 21% (3/14)
    - Require, subject to magnitude threshold (e.g. 5%) – 43% (6/14)
    - Require, in certain cases – 43% (6/14)
    - Other – 0% (0/14)
    - *Abstain – 6% (1/15)*
- If you support case-specific requirements (6/15, 40% above), which criteria should be used?
    - Different magnitude thresholds (e.g. 20%+ of scope 3) – 10% (1/10)
    - Income significance (e.g. 20%+ of income) – 30% (3/10)

  - Case-/industry-specific requirements – 60% (6/10)
  - Another threshold/criterion – 0% (0/10)
  - *Do not support option 3 – 27% (4/15)*
  - *Abstain – 7% (1/15)*
- How should facilitators report their facilitated emissions?
  - Separately (not in scope 3) – 20% (3/15)
  - Disaggregate in scope 3 categories (distinguished from minimum boundaries) – 13% (2/15)
    - See follow up poll below
  - Other – 13% (2/15)
  - *Abstain – 6% (1/16)*
- If you support disaggregated reporting (in scope 3) (2/15, 13% above), which criteria should be used for in-scope 3 disaggregation?
  - New facilitated boundary – 66% (2/3)
  - New optional boundary – 0%
  - Other – 33% (1/3)
  - *Do not support option 2 – 58% (7/12)*
  - *Abstain – 17% (2/12)*
- If you support disaggregated reporting (in scope 3) (8/15. 53% above), which criteria should be used for a new category 16?
  - Aggregated – 22% (2/9)
  - Up/downstream sub-totals – 22% (2/9)
  - Category sub-totals – 44% (4/9)
  - Facilitated type – 0%
  - Other – 11% (1/9)
  - *Do not support option 3 – 33% (5/15)*
  - *Abstain – 7% (1/15)*
- How should facilitators attribute (allocate) facilitated emission?
  - All (100%) – 31% (5/16)
  - Fraction (%) of emissions from facilitated activity – 38% (6/16)
  - Optionality (100% or fraction %) – 31% (5/16)

7. Next steps

- The Secretariat presented the next steps (see slides 59-61).

Summary of discussion

- N/A

Outcomes (e.g. recommendations, options)

- The Secretariat will conduct a follow-up survey to further define the group's recommendation for reporting facilitated emissions.

Summary of written submissions received prior to meeting

The following reflects the asynchronous contribution of two TWG members.

- A TWG member expresses a preference for optional boundary of reporting for facilitated emissions, with case-/industry-specific requirements for facilitators activities for complex sectors in order to assist companies. The member expressed their preference for reporting facilitated emissions separately, in a new category (e.g. Category 16), aggregated as one value. The member expressed their preference for facilitators to calculate and report facilitated emissions as total (100%) OR a fraction (%).
- A TWG member expresses support for the terminology change of 'intermediary party' to 'facilitator'. The member commented that much of the rest of the analysis is overly complex for the cases of particular interest to them. For transport emissions linked to facilitated emissions, the member does not see a reason why these emissions should not be calculated and reported using the same methods

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and categories that already exist for the contracting party (Cat.9). The member strongly encourages the group to pursue this option.