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European Commission
1049 Bruxelles/Brussel
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LETTER FROM THE FEDERATION OF NORWEGIAN INDUSTRIES ON GUARANTEES OF ORIGIN ON THE CONSULTED REVISION OF THE GHGP REPORTING PRINCIPLES

Open letter to the Director-General Energy of the European Commission

The Federation of Norwegian Industries (Norsk Industri) wishes to express its support to an important principle put forward in the new draft "Land Sector and Removals Guidance" under development within the GHG Protocol Standard[1], as it promotes a more credible reporting principle by promoting a location-based emission reporting method, and demoting a market-based reporting method, for biomethane consumption. By doing so, the GHG Protocol promotes actual decarbonization over pure book-and-claim certification and offsetting mechanisms.

Norsk Industri, representing Norwegian power-intensive industrial manufacturers, is a staunch supporter of the goals in the Paris agreement and of the transition to a zero-carbon society. Achieving these formidable milestones can only done through a global commitment to real decarbonization, where everyone involved must do their part. Six years ago we published our Roadmap outlining how this can be achieved in Norway. It remains valid today.

Norwegian industry companies are required by regulation, by own operational decrees and by customers to report their scope 1, scope 2 and scope 3 emissions in an accountable, transparent and credible way. Nearly all companies apply the GHG Protocol (GHGP), a private initiative jointly created by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), as their accounting and reporting methodology.

Scope 1 emissions for most Norwegian industries predominantly stem from the use of carbon in industrial reduction, but use of gas, either for energy or feedstock, is another important contributor. Numerous industries have initiated the process of converting from fossil gas (natural gas, propane, or butane) to biogenic gases or hydrogen, adjusting or fundamentally changing their processing technologies, and contributing to the making and transporting of such gases, in the process.

For us, reducing scope 1 emissions by replacing fossil gas with the biogenic kind means that there must be a tangible use of the actual low-carbon gas in the process. This fits in with our principle that industry companies must *actively* promote decarbonization by securing that the consumption of low-carbon input materials is physical, or as close to physical realities as possible. We have the same view on scope 2 emissions. For this reason, our strong preference is to report emissions using a location-based method (i.e., use of on-site emissions for

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emissions reporting) rather than a market-based method (i.e., emissions determined based on the qualities of the purchase of book-and-claim certificates or carbon offsets).

To this end, the GHG Protocol is developing new “Land-use and Carbon Removals Guidance”, with a draft version under public review until 30 November. According to Annex B of the draft Guidance companies using the GHGP would not be able to use market-based instruments, such as Guarantees of Origin or other certificates, to report on emissions reductions stemming from the use of biomethane. There are several reasons why this is sensible.

- **Adherence to principles of Scope 1 (inside-the-fence) emission reporting.** Under the GHGP Corporate Standard, scope 1 emissions are required to be reported independent of any trades or purchases of certificates or credits. Biomethane certificates or credits cannot be used to adjust scope 1 emissions resulting from the combustion of gas delivered via a common carrier pipeline or the combustion of directly delivered natural gas. Permitting use of certificates or credits for this purpose would seriously undermine the credibility of emission reporting as disclosed emissions from gas combustion would be considerably different to the carbon content of disclosed gas purchase.

- **Incentives for decarbonization.** Allowing for use of market-based reporting through purchase of certificates or credits offer companies an easy, and by and large less costly, alternative to a firm decarbonization commitment, without certainty that the total emissions will be reduced accordingly. Prohibiting use of certificates or credits spurs companies wanting to switch to low-carbon gas to engage and involve themselves directly in these gases’ direct deployment and distribution.

- **Fostering development in critical low-carbon infrastructure and supply chains.** Using location-based reporting methods encourages development of critical infrastructure and supply chains for low-carbon gases, making these gases more accessible to more users. The resulting higher demand will in turn trigger higher supply and distribution capability. Moreover, it also encourages companies that want to decarbonize scope 1 emissions from gas combustion to locate to areas that have successfully managed to deploy considerable amounts of biogas.

The benefits of location-based reporting, and the limitations of market-based reporting, can furthermore be extended to scope 2 emissions. As the draft “Land Sector and Removals Guidance” timely points out, there has been mixed feedback on the use of the market-based method in scope 2**, including some criticisms about its efficacy and appropriateness**. The biggest limitation is the lack of climate credibility associated with the use of guarantees of origin for electricity, which frequently are completely detached from actual scope 2 emissions.

The limitations of market-based reporting of scope 2 emissions are highlighted through important EU policy developments, most notably the Carbon Border Adjustment Mechanism (CBAM). Umweltbundesamt, tasked to assess what methodology to apply to calculate emission intensities of imported industry products, strongly recommends to not allow use of guarantees of origin, or any other similar certificates, to calculate scope 2 emissions. Allowing for market-based reporting in CBAM offers a formidable chance of circumvention in that both domestic and external industrial producers can bypass credible emission footprint reporting.

Furthermore, the European Parliament has been clear in its position on the use of market-based reporting in the Regulation on Batteries and waste batteries. To secure accurate carbon intensity calculations for the energy used during the different battery life cycle stages and processes, the location-based method (country average carbon emissions) shall be used. The European Commission's proposal for a delegated act defining renewable hydrogen also uses a strict type of location-based approach for electricity.

Taxonomy is another relevant regulation that should not allow for the use of market-based methods. Threshold requirements to achieve the ”substantial contribution” grade depends amongst other things on indirect emissions. Allowing for market-based reporting effectively makes the ”substantial contribution” grade a sellable commodity, bereft of any real climate credentials.

Norsk Industri encourages the Commission, as a member of the GHGP's Advisory Committee, to use its position to support the GHGP in developing a reporting framework that ensures that emissions from gas consumption is based on the actual gas being consumed, and not based on the purchase of Guarantees of Origin or other carbon offsetting digital instruments. **We thus call on the European Commission to use its position in the Advisory Committee to support that only location-based reporting is permitted for Scope 1 emissions in the new "Land-use and Carbon Removals Guidance".**

Norsk Industri also supports GHG Protocol plans to holistically examine the appropriateness for market-based accounting across sectors, end-uses, and scopes, a process that should seek to explore whether market-based accounting is appropriate within scope 2. We believe it can be, but that requires a considerably stronger link between renewable certificates and renewable electricity contracts/actual grid characteristics. Improving market-based reporting mechanisms should take into account electricity distribution characteristics and actual flows.

Best regards,
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