

Date: August 2009

**EEF response to: Consultation  
on draft guidance for how to  
measure and report your  
greenhouse gas emissions**

# About EEF

With over 6,000 business members from the manufacturing community (employing approximately 1 million employees) and more than 20,000 associate companies, EEF is dedicated to fostering enterprise and evolution across manufacturing to keep industry competitive, dynamic and future focused.

As the only membership organisation dedicated entirely to manufacturing, we are an established UK leader in the delivery of business services, government representation and industry intelligence.

Commercially driven and re-investing profits for the benefit of industry and members, EEF's trusted influence means that manufacturing companies are particularly receptive to the advice and service offerings of carefully-selected partners with whom we choose to work.

Our network of offices in England and Wales keeps us close to our members, allowing us to focus on local issues and thereby to function as a unique community. Our London office provides a focal point for development of our broad portfolio of business services designed to deliver maximum value. From London, EEF provides first-class representation with government and regulatory bodies and supports our local offices in their programmes to influence regional policy. Our structure places us at the heart of the UK business community.

EEF's broad service portfolio is delivered by an unparalleled team of experts including 30 economists and policy specialists, 90 HR and legal advisers, 150 health, safety and environment advisors, 20 occupational health specialists and around 200 trainers, based in our regional offices and in centres of excellence nationwide.

# EEF response to consultation questions

We understand that climate change is a global issue requiring collective action by all facets of society and agree with the principle that unless greenhouse gas emissions (GHG) are measured they can't be managed. EEF, therefore, welcomes the DEFRA *'Draft guidance on how to measure and report your greenhouse gas emissions'* and the opportunity to respond on its proposals.

We commend DEFRA's decision to base its guidance model upon the Greenhouse Protocol – The internationally recognised standard for corporate accounting and reporting of GHG emissions. This approach should also help facilitate consistency across international reporting strategies. The guidelines, therefore, are considered a successful initial attempt to provide a common streamlined source of information and guidance for companies to report their emissions.

However, the provisions laid down in the Climate Change Act for government to publish guidance on the measurement or calculation of greenhouse gas (GHG) emissions no later than 1 October 2009 has set an ambitious timescale for government to develop and effectively consult upon a course of action. As a result, we believe that the consultation has taken too narrow a focus and that it should have been accompanied by a comprehensive long term strategy on how to engage and encourage businesses to begin reporting. With powers accessible to the Secretary of State to introduce mandatory company reporting of GHG emissions by 6 April 2012, we believe this is a missed opportunity.

EEF represents the interests of 6,000 engineering, manufacturing and technology based businesses who employ over 1 million people, as well as supporting 20,000 associates. Our sector, which includes manufacturers of steel, chemicals, electrical equipment, transport and machinery, are responsible for approximately 27million tonnes of CO<sub>2</sub>e emissions in the UK and are committed to their reduction. A recent survey of our members supports this commitment with over 81% having, or is considering, taking action to reduce their carbon emissions. Respondents to the survey also encouragingly showed that there is an appetite from many companies to report their GHG emissions with 32% of members currently measuring their carbon footprint (14% across the organisation, 13% across manufacturing processes, and 5% in aspects of the supply chain). Whilst just over a quarter of respondents (27%) are considering reporting, 41% are not considering measuring their carbon footprint.

This emerging support and action from business provides the momentum to drive a culture of reporting forward. However, feedback from members indicates that the draft voluntary guidance will not act as a catalyst and accelerate the uptake of GHG reporting, and may in fact temper current ambitions. This decision is largely driven by the fact that organisations are put off reporting voluntarily when the introduction of mandatory reporting regulations of GHG emissions looms less than three years away. Inadvertently but usually invariably climate policies seem to benefit late starters not those companies which have proactively sought to lower their GHG impact voluntarily. Climate Change Agreements (CCA) and the impending Carbon Reduction Commitment (CRC) are particularly good examples of this argument.

The decision not to adopt the guidelines may also be further confounded by the current fragile economic conditions which shrouds UK manufacturing - 66% of survey respondents believe that addressing climate change will increase the cost of doing business in the UK. Organisations may remain dissuaded from taking action until the foundations of financial recovery solidify.

EEF firmly supports efforts to measure and to report GHG emissions. We believe measurement can show where inefficiencies in business processes exist and reporting offers opportunities to members to distinguish themselves against their competitors and win new business. And so, for our part, we will actively seek to encourage **all** our members to voluntarily measure and report their GHG emissions as good practice.

Since the ability to encourage companies to report wrests heavily on the approach government takes introducing regulations requiring mandatory reporting of GHG emissions by 6 April 2012, we would encourage government to outline its intentions on whether it will exercise its powers in 2012. This statement of intent should coincide with the publication of the voluntary guidance, and should indicate the possible criteria for reporting. An option which we believe government should consider, and which would reward early action, is to permit organisations that have begun to report to continue whichever approach best defines their operations. Mandatory reporting should apply to those companies who have yet to take any action and should specify elements of 'best practice'. To take into account demands on business and levels of competency, the regulations should stagger mandatory requirements with large organisations, already substantially versed in climate change leading the field (i.e. EU ETS, CRC). This transitional timetable could be phased in from 2014-2018 for large-medium-small-micro sized organisations.

This phased approach over a challenging but achievable timeframe allows organisations the necessary time to consider adopting a voluntary approach, and provides sufficient time to embed the necessary reporting procedures and skills into their business operations well in advance of stricter mandatory requirements. The advantage of this approach is that, when implemented, the mandatory reporting scheme would be much smaller and less of a cost burden to businesses and to government. This proposal rewards early action and is of mutual benefit to both government and business. EEF would welcome discussing its proposal in more detail with DEFRA and DECC

This mechanism to reward early action is needed. In late 2007, a study for the Environment Agency revealed that just 3% of 537 FTSE all-share firms disclose robust, comparable figures on water, waste and climate change impacts in line with DEFRA guidance, a year after they had been published. Clearly it is optimistic to assume that companies will adopt and use the voluntary guidelines just because they have been published.

Industry representative organisations such as EEF can play a hugely influential role in accelerating the understanding and uptake of the reporting guidance, Government should ensure that it engages fully and openly with these organisations and utilises the significant potential of these important delivery channels.

Government has an important role to play in demonstrating that it is leading by example. EEF applauds the government's announcement in the White Paper *'The UK Low Carbon Transition Plan'* that all government departments will report their GHG emissions. We would encourage government to extend this commitment to ensure all associated government regulatory and support organisations report their GHG emissions in accordance with the guidance by 2011.

Our formal response to the questions provided in the consultation is now included:

**Q1. Does the guidance provide enough detail? Are there any issues on which you would welcome further guidance?**

The guidance does a good job in striking the right balance between neither offering too much or too little information. It also successfully tackles the tensions between flexibility and consistency, with DEFRA rightly leaning towards flexibility. The guidance correctly averts from being too technical and is written in a simple, uncomplicated style which should be easily digestible to all readers.

There are aspects of the guidance that require greater clarification and improvement, however we rightly recognise the guidance is essentially a coverall document which needs to be bolstered with a host of supporting materials and technical guidance. We would, therefore, suggest that DEFRA and DECC develop a jointly funded micro site to support this function. Of particular value will be live links within the electronic document to relevant case studies and technical ISO standards (e.g. ISO14063/64/65). The support material should aim to include guidance about reporting on climate change risks and opportunities and providing forward-looking data. Government should also seek to develop an online toolkit and software reporting package to facilitate greater adoption and ease of use for businesses.

Examples of particular areas of the guidance which require further work and/or support information include:

**Intensity ratios:** The worked example in Annex A provides an intensity ratio based on square metres for a small Bed and Breakfast (B&B). We question whether this is an appropriate sector metric as it could be easily argued that an intensity ratio based on room occupancy or per guest may be more satisfactory, giving a fairer reflection of the organisations associated emissions. For example, it is unclear whether the intensity ratio based on square metres has been determined on all liveable space in the B&B or simply the six double bedrooms which are rented? This simple example of an intensity ratio illustrates how important it is to successfully select the appropriate metric. It also illustrates how easy it can be for different determinations of an appropriate ratio may occur and, therefore, how attempting to make comparisons between organisations within a sector may be misleading. As outlined in response to question 2 we have strong reservations about the relevance of intensity ratios in this capacity.

In developing its REACH help micro site the Health & Safety Executive (HSE) welcomed case studies from industry to outline examples on how REACH responsibilities were determined within a sector. DEFRA/DECC should adopt a similar approach and encourage organisations to submit worked examples along the five step process prescribed in Annex A, and which would include an agreed sector metric for determining intensity ratios (i.e. for steelmaking it would be per tonne of product).

**Verification and assurance:** The guidance fails to provide information on how data provided in accordance with the guidelines should be verified. The guidance should not specify that organisations should have their reported emissions verified by an external verification body. However, we do believe that there is significant benefit to organisations developing their own internal capability to audit/verify their GHG emissions. International reporting standards ISO14063/64/65 provide a set of agreed principles/processes which provide the template to develop an in house competency. EEF has already engaged with the Institute of Environmental Management and Assessment (IEMA) to explore the criteria for an appropriate training programme. We would encourage DEFRA to work with interested parties to develop an appropriate skills development programme in this area.

In addition, we would encourage government to follow the recommendation put forward by IEMA in response to the DEFRA *'Concept Note: Guidance on Greenhouse Gas Measurement and Calculation'* and to include a common 'verification statement/declaration' of assurance in the guidance.

**Determining scope and boundaries:** Annex D provides a useful worked example to help demonstrate how the three control approaches for accounting GHG emissions may apply to fictional organisation. However, Table 2 of the worked example incorrectly cites AN Other as having joint financial control of XXX industries. AN Other does in fact have joint control of YYY industries. This error affects the figures for financial control.

**Leased asset:** within the CRC draft order there is a definition on franchises, which conflicts with the proposal in the draft guidance. Under CRC vehicle manufacturers would have to take responsibility for dealer's emissions, even though dealers are separate companies, operate their own businesses and often carry out activities not-related to the sale of particular brands vehicles (e.g. servicing, body shops, selling petrol, car washes, etc). The definition of franchises emissions in the GHG consultation (Annex E), on the other hand, states that the franchisor should not include the franchises emissions unless it has equity share or control (financial or operational). Despite having none of these the CRC definition says the franchisor should be responsible for the franchisees emissions.

It is imperative that such a blatant disparity in approach is addressed. EEF strongly supports the proposal put forward in the GHG consultation that the franchisor **should not** include the franchises emissions unless it has equity share or control (financial or operational).

On a more general note we would recommend that the guidance contains worked examples for each of the steps in Annex E. These may clutter the actual guidance so could be provided as a supporting source of information.

**Mergers and acquisitions:** The guidance fails to provide an example of how an organisation should calculate and report GHG emissions after a merger or acquisition. This information is provided in the GHG protocol but absent from DEFRA’s guidance. A case study in the guidance, or at least a link to the GHG Protocol, would be beneficial.

**Quality management systems:** The guidance promotes the use of a quality management system (QMS) to provide a systematic process for preventing and correcting errors in an organisations carbon footprint. QMSs (i.e. an Environmental Management System) are generally the preserve of larger organisations. To take account of SMEs we would recommend that the guidance refer to formal processes/procedures with established quality checks rather than prescribing a comprehensive and robust QMS just for GHG reporting

**Carbon Reduction Commitment:** Annex C identifies a number of differences between the mandatory requirements of the Carbon Reduction commitment and the GHG guidance. We are concerned that the differences between the two schemes, particularly in relation to the identification and definition of an “Organisation”, will introduce significant and unnecessary administrative burdens and costs to business. To limit the burden on businesses DEFRA/DECC should seek to align the mandatory reporting obligations of CRC with the guidance.

**Q2. Do you agree with all the recommendations? It would be helpful if you could comment on any recommendations with which you disagree (Guidance: page 76).**

EEF is broadly supportive of the nine recommendations listed in the draft consultation, as they very much align with the provisions of the GHG protocol. One visible oversight is the omission of climate adaptation from the guidance. We would welcome a best practice recommendation on reporting on climate adaptation to encourage businesses to begin to think about the risks and opportunities presented from a changing climate. Because of historic emissions we are already committed to decades of climate change and businesses need to respond and prepare accordingly. The inclusion of climate adaptation would send a powerful and positive message to businesses.

Recommendation one correctly makes provision for organisations to adopt their preferred reporting approach (i.e. equity share, financial control, operational control), so long as it is applied consistently. We support this provision as the financial control approach, whilst preferable, does not necessarily suit all organisations. The GHG Protocol provides examples of two similar organisations (BP and Shell) having taken two differing approaches (equity share and operational control respectively). This example of the differing approaches taken by organisations with long established monitoring, reporting and verification processes illustrates the importance of not over prescribing this requirement.

As previously stated, we will be encouraging all our members to measure and to report their GHG emissions. To mitigate any barriers to this development, and to encourage a step-by-step approach to reporting, we would encourage government to simplify recommendation two and divide it into ‘standard’ and ‘best’ practice’. Our proposal is:

<b>2</b>	<b>Standard Practice:</b> Measure or calculate your total emissions on a UK basis
<b>2</b>	<b>Best Practice:</b> Measure or calculate your total emissions on a global basis

The original recommendation goes too far as an initial step to reporting and we believe that this approach could stifle action. Once reporting national scope 1 and 2 emissions, we believe the transition to reporting global emissions, and finally ‘significant’ scope 3 emissions becomes far less daunting as reporting processes and competencies improve. We will encourage companies to adopt our proposal.

For large organisations, where appropriate, we would encourage them to consider piloting GHG reporting within a division/company/businesses unit before taking reporting to a higher level. We believe that this approach will also help to encourage a greater level of reporting amongst organisations.

Recommendation eight (Report on total scopes 1 and 2 emissions using an intensity ratio) is supported but we have reservations whether normalising scope 1 and 2 emissions by means of an intensity ratio provides a useful mechanism with which to compare and contrast performance with other similar type organisations. Industrial processes producing similar products (e.g. steel, glass, etc) may be very different and therefore comparing these processes based on an intensity ratio is too simplistic, and could result in result in organisations reluctant to participate in reporting. The guidance should be clear that the use of an intensity ratio is best served as a means for organisations to chart performance over time.

We do not support the ‘Best Practice’ recommendation (9) for companies to set an absolute emission reduction target. This recommendation has the potential to restrict growth for many organisations and is therefore unachievable in the foreseeable future. Government must ensure that it puts reporting GHG emissions in the broader context of sustainability and remember that organisations have a responsibility to balance all three pillars of sustainability. Since setting an absolute target is already an option outlined in ‘Standard Practice’ we would request that the ‘Best Practice’ recommendation is removed.

We would advise government to include an additional recommendation in its guidance, which encourages verification of GHG emissions to a common level of competence; for example, in conformance with the principles of ISO14064/65. This recommendation will significantly improve the level of confidence in the validation process. As previously explained, the guidance should not specify that organisations should have their reported emissions verified by an external verification body. Our support for verification is as either an internal or external process. Furthermore, we do not believe that external verification should be considered superior (i.e. best practice) to internal verification (i.e. standard practice). What is important is that the verifier has the appropriate level of competence to perform the necessary task.

Our recommendation supports the proposal put forward by the Institute for Environmental Management and Assessment (IEMA) to help firms develop their own internal capability to audit and verify GHG emissions. Given the plethora of reporting obligations which are now placed on growing numbers of business, (i.e. CRC, EU ETS, CCAs, etc.), it seems logical to look to develop an appropriate skills programme in this area. Investing some effort in developing capabilities to collect and report greenhouse gas data would, in EEF’s view, be effort well spent and would save substantial amounts of money in the longer term through avoided third-party verification fees. EEF would welcome the opportunity to work with government and IEMA in developing such a programme. An example of our recommendation is now provided:

<b>10</b>	<b>Standard Practice:</b> Reported GHG emissions should be verified by a competent person
-----------	-------------------------------------------------------------------------------------------

Finally, we would also propose that government drops the term ‘standard practice’ in favour of ‘good practice’. Standard practice implies a minimum requirement of compliance and could deter those seeking support to begin a voluntary reporting scheme. Good practice, on the other hand, implies an effort which goes beyond compliance and illustrates an organisation proactively taking action. From a consistency perspective, the terms ‘good’ and ‘best’ were also used in DECC’s recent carbon neutrality consultation. So, reverting back to our proposal for recommendation two it should now read as follows:

<b>2</b>	<b>Good Practice:</b> Measure or calculate your total emissions on a UK basis
<b>2</b>	<b>Best Practice:</b> Measure or calculate your total emissions on a global basis

**Q3. Do you agree with the criteria given to determine which scope 3 emissions are significant? If you disagree, please suggest additional or alternative criteria (Guidance: page 55).**

Yes we agree with the five criteria (scale, importance, stakeholders, potential for reductions, ability to influence) for determining 'significant' scope 3 emissions. Reporting these emissions is clearly a subjective process yet the 5 criteria provide a suitable framework to rationalise 'significance' and to provide suitable justification which informs the decision making process.

We support the decision to recommend the reporting of scope 3 emissions as 'best practice'. This provides the right level of ambition to organisations aspiring to record relevant, complete, consistent, transparent and accurate GHG emissions - a requirement of GHG protocol. However, to ensure that claims of 'best practice' are not subject to abuse the government should develop some simple case studies. For example, if an organisation reports scope 3 emissions based on national factors and estimated data and another carries out measurements, are both scenarios considered best practice? One would assume not.

**Q4. Your comments are sought on the emissions data that we recommend you report? (Guidance: page 23-25)**

We are supportive of proposals to report GHG emissions as a gross figure in tonnes of CO<sub>2</sub>e before accounting for any emission reductions that an organisation has bought or sold. However, we are not convinced of the merits requiring total emissions to be broken down into their respective Kyoto gases as standard practice, unless, of course, the relevant gases were significant.

As outlined in detailed response to question 6, the guidance shouldn't denigrate carbon offsets in favour of 'domestic' action, nor should it denigrate voluntary carbon offsets which are an important and additional option for delivering emission reductions.

As previously mentioned in response to question 2, EEF questions the value of an intensity ratio to compare performance with other similar type organisations. Similar organisations may have very different processes and, therefore, comparing these processes based on an intensity ratio can be a crude and misleading tool. The guidance should be clear that the use of an intensity ratio is best served as a means for organisations to chart performance over time.

**Q5. What is your view on the supporting explanations that it is suggested organisations should include in their report? (Guidance: page 25-29)**

Raw, quantitative GHG emission data must be supported with contextual evidence which outlines an organisations decision making process and qualifies performance trends. The supporting explanations provided in the guidance therefore are a helpful source of information. Whether a company decides to follow the explanations provided it should, nonetheless, always ensure that it satisfies the common principles of reporting – That information is relevant, complete, consistent, transparent and accurate.

**Q6. Your comments are sought on the external emission reductions activities that we have identified and the 'good quality' criteria that these reductions activities should meet (Guidance: Page 58-65)**

EEF does not support the premise that organisations should take all steps to reduce their own GHG emissions before purchasing carbon offset credits. We believe that organisations should be encouraged to find the most cost effective approach to reducing GHG emissions. Only by advocating this approach will companies be encouraged to set an ambitious reduction targets. This approach after all has been the case for the UK government. If international agreement is reached at Copenhagen towards the end of this year the UK is set to increase its 2020 GHG reduction target from 34% to a hugely ambitious 42%. To achieve this target the government recognises that carbon offsets will be a factor of its budget strategy.

Government should do more to dispel this common perception that 'domestic' reductions are somehow superior or more environmentally rewarding than carbon offsets. Put simply, carbon

offsetting is either a credible means of reducing GHG emissions or not. With the clean delivery mechanism (CDM) set to be improved and the voluntary offsetting industry having worked hard over recent years to improve the credibility of the market - the Voluntary Carbon Standard and Gold Standard are widely regarded as comparable with Kyoto-compliant credits - It is now time for carbon offsetting to move out from the shadows of domestic reductions and feature more centrally in government's climate strategy.

We would recommend that the guidance dispenses with its three step approach to counting emission reductions in Annex G, and instead should open with a section on 'Determining the best approach to GHG emission reductions' where both options (domestic and offsetting) are explained with equal validity. Following on, the next section could describe the 'good quality' offsetting criteria.

**Q7. Your comments are sought on how organisations should account for renewable electricity that they generate. (Guidance: Page 58)**

We support the draft guidance proposal on how organisations should account for electricity it generates and consumes from renewable sources accredited by Renewable Energy Guarantees of Origin (REGO) certificates. This approach is inline with the GHG Protocol.

**Q8. We welcome your comments on the attached impact assessment for this policy? Do you have any estimates for how long it would take you to follow the guidance? We welcome information on costs and benefits for both policy options.**

The government predicts that 2000 large companies and 3000 SME's, who currently report their GHG emissions, will convert to the government's guidance. It also predicts that a further 500 large companies and 11,750 SMEs who have not previously reported may adopt the new guidance. This figure appears significant but in reality is a small percentage of the overall number of businesses in the UK with the potential to measure and report their emissions. Of the 4.7m who could potentially report only 370 companies are currently required to report aspects of their overall emissions, with the advent of CRC this will be increase to a further 5000 companies come 2010. This illustrates the scale of the task ahead of government, and why we believe incentivising and rewarding early voluntary action sends the right message to organisations.

The impact assessment predicts the number of hours to collect, calculate and report GHG emissions for large organisations and SMEs. Whilst recognising that this information is based on Carbon Disclosure Project (CDP) predictions, we question whether it is limited in its scope and doesn't recognise the wider challenges associated with reporting. We believe that the current level of knowledge amongst manufacturers, and businesses in general, on reporting GHG emissions is low. Our assumption is based on results from our 2008 Environment Survey which showed that whilst 82% of members have a person or department responsible for managing environmental issues; these responsibilities are more likely to contribute part-time to a person or department's overall job function. Indeed for many, particularly those in smaller organisations, 'environment' constituted a small percentage of their employment (<10%). The focus of environmental responsibility within wider manufacturing generally centres upon the organisations environmental management system. For many, GHG reporting is an entirely new discipline.

Educating those with limited or no knowledge of GHG emissions reporting is a significant undertaking and is not something that we believe is realistically achievable in the limited number of hours prescribed in the impact assessment. The suggestion in the impact assessment that businesses would need only to spend 3-4 hours familiarising themselves with the guidance is wholly unrealistic. The government totally underestimates the level of understanding of climate change amongst its 4.7million limited companies. Recording 'relevant, complete, consistent, transparent and accurate' GHG emissions data will be a difficult a strenuous effort for many, particularly SME's. EEF, in discussion with IEMA, are working to develop training programmes for organisations on reporting GHG emissions and consider a 2-3 day training package a minimum requirement to attain a sufficient level of competency.

Government should recognise that identifying and calculating emissions may be the ultimate responsibility of the environment representative but that to successfully reduce emissions the workforce, at all levels, and must feel empowered to take action. These individuals will need some understanding of climate change, the requirements GHG reporting, and their ability to influence change. This once again is a further resource requirement. We disagree with the impact assessment which considers the administrative burden on businesses to familiarise themselves with the guidance is “minimal”, especially since the guidance is voluntary. This statement is short-sighted as the guidance provides a framework for future mandatory reporting, and, therefore, requires a sufficient level of competence across an organisation.

We question whether the figure of £10.60 (2008 median figure for gross hourly pay across all companies) is a realistic representation of a ‘competent person’. The level of personnel and management required to understand and interpret the guidance, measure and collect data, calculate emissions and publish a report would indicate a much higher hourly rate of pay. Similarly, should an organisation decide to outsource this work one would expect this figure to be significantly exceeded.

It would be useful for the impact assessment to have included annual follow-on cost predictions to reporting for ‘large’ and ‘smaller’ companies. Potential reporters may be deterred by the initial costs associated with year one but may be more receptive if it is known that subsequent annual costs are likely to be a lot less.

EEF will work to develop a carbon footprinting case study with a large/medium member company, to ascertain the level of resource necessary to begin reporting scope 1 and 2 emissions and to identify ‘significant’ scope 3 emissions. EEF is happy to share its findings with government.

**Q9. Please provide any general comments on the guidance, especially any issues where you would welcome further explanation.**

General comments on the guidance are incorporated in the previous eight questions; however, an issue of uncertainty persists. When government comes to publish its guidance in October it would be useful to understand how the relationship between DEFRA and DECC will be managed. It is unclear why GHG reporting remains the chief responsibility of DEFRA when a department (DECC) specifically designed to tackle climate change mitigation exists. How will this “joint” relationship function? How will future plans/responsibilities (i.e. developing mandatory reporting regulations by 2012, a review of GHG reporting in 2010) be determined/agreed?

**Prepared by:**  
**Kevin Considine**  
**Senior Climate & Environment Policy Adviser**  
**E: [kconsidine@eef.org.uk](mailto:kconsidine@eef.org.uk)**  
**T: 020 7654 1572**