

**May 2009**

# **EEF response to the consultation on the definition of carbon neutrality**

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## 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 advisers, 20 occupational health specialists and around 200 trainers, based in our regional offices and in centres of excellence nationwide.

**UK Steel**, a division of EEF, is the sectoral trade association for the steel industry. All the country's steelmakers are in membership, as well as many downstream steel processors.

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# EEF submission to DECC's consultation on a draft definition of carbon neutrality

## **Question 1: Is it appropriate for Government to produce a definition of the term carbon neutral and recommendations on using the term?**

EEF strongly supports the government's attempts to produce a definition on carbon neutrality. We believe it is vitally important that clear recommendations and boundaries are set in order to avoid future public cynicism. If done correctly, we believe that the goal of attaining or aspiring to carbon neutrality can drive positive change within an organisation which is consistent with the government's goal of a low carbon economy.

## **Question 2: Do you agree with the Government's broad approach? If not, what alternative would you propose?**

EEF believes the government's broad approach – that of a transparent process of calculating emissions, reducing those emissions and offsetting residual emissions – to claim carbon neutrality is sound.

## **Question 3: Do you agree that basing the measurement of emissions, including the recommendation on good practice, on the GHG Protocol, is appropriate? If not, what alternative(s) would you propose?**

Yes. The accurate calculation of carbon emissions is essential both for effective carbon management and for any supporting claims of carbon neutrality. We believe that it is vital that carbon accounting is clearly defined and that comparable measures are used by businesses. A common accounting standard, driven by government, is therefore needed.

But at present EEF does have concerns that by stipulating the use GHG Protocol, small and medium sized enterprises (SMEs) could become isolated. The GHG Protocol, while fine for larger companies, is not as accessible for SMEs. We believe, therefore, that until Defra's forthcoming reporting guidelines have been finalised, and supporting tools have been developed (when the situation can be reviewed), SMEs should be allowed to use the Carbon Trust's carbon footprint calculator in order to calculate their organisational carbon equivalent footprint. This should reduce the complexity and burden on smaller businesses while ensuring a consistent approach.

## **Question 4: Do you agree that users of the term carbon neutral should retain flexibility over exactly what emissions to measure? Should organisation be able to pursue carbon neutrality only for certain parts of the organisation?**

No. While EEF agrees that there are good reasons to recommend differences in scope between products and services, organisations and communities, we believe that there is a significant risk of public cynicism if clearer boundaries are not set.

Given that competitive advantage can be obtained through use of the term, there needs to be a level playing field. Consumers need to be confident they are comparing like with like when making purchasing decisions. In addition, in the past, the decision to exclude certain emissions while including others has given rise to significant and damaging criticism. To avoid this situation in future clear boundary conditions should be recommended.

We believe that the starting assumption should be to include all scope 1, 2 and 3 emissions initially, rejecting those sources that do not materially affect overall emissions or those outside of its direct control. While this is likely to be the area which will be most difficult to ensure its

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consistent application, we believe it should be a condition that companies give due consideration to scope 3 emissions in order to avoid public cynicism.

**Question 5: Are the proposed recommendations on good practice for measuring emissions clear and appropriate? Are recommendations necessary?**

EEF believes that recommendations are necessary to ensure transparency. The division of “good practice” and “better practice” however leaves scope for confusion and an unequal playing field. Instead there should be one set of guidelines for firms to adhere to when measuring emissions. Once published, recommendations for calculating scope 1 and 2 emissions should be aligned with company reporting requirements under the Climate Change Act.

We would like to stress that there needs to be a difference in terminology between *measuring* emissions and *calculating* emissions. Requiring companies to measure emissions would be expensive and technically difficult, not least because it is less accurate. Measurements in gases, for example are less accurate than measurements in solids or liquids.

**Question 6: Do you believe that users of the term should be able to choose whether to measure all Kyoto greenhouse gases (in CO<sub>2</sub>e) or only emissions of CO<sub>2</sub>. Or should the definition specify measurement of all Kyoto gases?**

EEF believes that all Kyoto greenhouse gases should be calculated, in line with UK targets in the Climate Change Act. It is unclear from the consultation paper why government is considering keeping the option open. We believe that if a user’s emissions of other greenhouse gases are insignificant then this would be best addressed through a *de minimis* threshold – say 95%. This would avoid unnecessary burdens on businesses to calculate insignificant levels of greenhouse gases which do not materially impact on total emissions. Equally it would strengthen the credibility of using the term.

**Question 7: Do you agree that PAS 2050 (or the full life cycle of the product using ISO 14044) should be used as the basis for calculating the carbon footprint of products for carbon neutrality purposes? If not, what alternative(s) would you propose?**

While EEF accepts that it would appear logical to use PAS 2050 or ISO 14044 as the basis for calculating the carbon footprint of products, particularly as the infiltration of PAS 2050 is continuing in the market place and is expected to reach a significant amount this autumn. However we are concerned that the costs and complexity make it unpractical for many small and medium sized enterprises.

We understand that the Carbon Trust is developing sector-specific guidelines to address concerns that the expense and technical complexity of applying PAS 2050 would mean only large firms would be able to meet it. This is a sensible approach.

Ultimately we would like to see more work being undertaken to make PAS 2050 simpler and cheaper for SMEs to apply. We need to move to a position in which the same standard is used for calculating the carbon footprint of products or services, regardless if that is for carbon labelling, measuring a carbon footprint or for claims of carbon neutrality. In this respect we call on the Carbon Trust to redouble their efforts in this area.

**Question 8: Do you agree that emissions reductions form a necessary part in the definition? If not, why not?**

Yes. EEF believes that emission reductions are a vital part of the definition, particularly if the term is to have any credibility amongst consumers and in turn be of any use to manufacturers.

In our experience, businesses naturally look to reducing their carbon footprint further once monitoring and reporting systems have been established. Emissions reductions should not be

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mandatory, but organisations should have the flexibility to offset or reduce emissions where it is most appropriate to do so.

**Question 9: Should the Government definition and/or good practice recommendations specify a reduction requirement and/or timeframe for delivery of emissions reductions? If so, what would you propose?**

EEF believes that alongside claims of carbon neutrality there should be strong commitment to reduce emissions. Nevertheless, it would be problematic for government to specify a specific level of emissions reduction requirement to aspire to as the ability and scope to reduce emissions will vary considerable between entities. Therefore, we believe it should be left to individual organisations to articulate the level of their ambition in relation to this commitment.

We do, however, support a timeframe being in place to deliver emission reductions, where possible. In line with the Carbon Trust's product carbon label, which allows companies to retain the label if it achieves emission reductions within two years, it seems appropriate to expect similar when making claims of carbon neutrality.

**Question 10: Are the recommendations on good practice for reducing emissions clear?**

Yes, EEF believes the recommendations are clear.

**Question 11: Do you agree that emissions reductions can be measured in either absolute or relative terms? If no, what would you prefer? If yes, do you support the use of the relative measures recommended (per unit turnover, per revenue expenditure and per functional unit) or would you propose other specific measures?**

EEF believes that organisations should be given the flexibility to calculate emission reductions in either absolute or relative terms or the unit of measurement – provided this is clear in any claim being made.

**Question 12: Do you believe the transparency elements on reducing emission to be correct and/or sufficient?**

Yes. EEF believes this to be sufficient.

**Question 13: Do you agree that carbon offsetting is a fundamental element of achieving carbon neutral status?**

Yes. EEF believes that carbon offsetting is a vital component in achieving carbon neutral status.

**Question 14: Given that the Government currently only feels able to vouch for the quality of Kyoto-compliant credits under the Quality Assurance Scheme should the definition only include the use of such credits? Or would you propose other types of restrictions on the types of credits allowed?**

While certified reduction credits would be preferable, it would be prohibitively restrictive to stipulate only credits assured by government under its quality scheme. This is particularly the case as few offsetting schemes have been assured - at the time of writing, just five offset providers were listed. In addition, CERs are significant more expensive than VERs and, in the current financial climate, are likely to be less attractive to manufacturing organisations.

Therefore, EEF believes that voluntary emission reduction credits should be allowed – providing they are fully additional and rigorous. VERs can be innovative and of a high quality. And they can test models which can be brought into regulated carbon markets at a later date.

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But some restrictions *should* be in place to avoid the issue of “carbon cowboys.” EEF supports the government’s view to restrict the purchasing of UK-based VERs, at least for the time being. EEF also recommends that no schemes involving tree planting in temperate regions should be supported, because of the scientific concerns about the carbon benefits of such schemes.

If the government does in future include VERs under its quality scheme, then and only then might it be appropriate for this to restrict offsetting credits to these.

**Question 15: Do you agree that, because of the difficulties inherent with domestic offsetting, such offsetting should not tend to be pursued as part of becoming carbon neutral? If not, why not? Can you suggest other ways of supporting and encouraging valuable domestic action that does not qualify as carbon offsetting?**

Yes, see above.

**Question 16: Are the draft recommendations on good practice for offsetting clear?**

No. We would like to see a checklist of key questions that smaller businesses should refer to when assessing whether offsets are genuine and additional.

**Question 17: Do you believe the transparency elements on carbon offsetting to be correct and/or sufficient?**

It wasn’t clear from the consultation paper what transparency elements had been proposed in relation to carbon offsetting.

It would be appropriate for those using the term carbon neutral to have information available outlining the degree to which offsetting has been used, the projects that have been supported and the offset provider they have been procured from.

**Question 18: Do you believe that the proposed definition and recommendations can work in practice?**

EEF supports government’s ambitions to develop a common definition for the term carbon neutrality. But if the objective is to give consumers certainty that the term is being applied appropriately then as it stands the definition and associated recommendations will not deliver this.

There needs to be a stronger emphasis on comparability of claims and a mechanism to ensure consumers are reassured that the claims have been expertly verified. Without it, there is a significant risk of the term losing credibility – which could undermine the considerable organisational benefits that can be brought to bear if a firm chooses to aspire to carbon neutrality.

**Question 19: Do you believe the Government should regulate the use of the term carbon neutral? If so, why and how? How could regulation be enforced?**

EEF supports proposals put forward by the Institute for Environmental Management and Assessment 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, from the Carbon Reduction Commitment to forthcoming reporting obligations under the Climate Change Act, it seems logical to look to develop an appropriate skills programme in this area. Investing some effort in developing firms’ capabilities in collecting and reporting on greenhouse gas data would, in our view, be effort well spent and would ultimately save substantial amounts of money in the longer term through avoided third-party verification fees. We are keen to work with government and IEMA in developing such a programme.

In the short term, it might be appropriate to consider a carbon neutrality assurance scheme. This could work in a similar way to the process of carbon labelling. For a small fee, firms would

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provide data to a third party for independent verification. We would prefer for a list of external verifiers to be assigned the role, rather than one body – such as The Carbon Trust – to be given the role as this should help reduce the financial burden on businesses. However, we would be concerned if the fees were set too high. If pursued this should be subject to careful thought to ensure costs and effort are proportional and were not restrictive to smaller organisations. We would also welcome involvement in any of the detailed thinking around this.

As mentioned above, we support a timeframe being in place to deliver emission reductions. Given that under the Carbon Trust's product carbon label companies are able to retain the label if emission reductions are achieved within two years, it seems appropriate to expect similar when making claims of carbon neutrality. A review of emissions should be conducted at this point as it is likely that emissions will have changed and hence reduction efforts and offsetting will need to be recalibrated.

**Question 20: Do you believe the Government should develop a definition of carbon neutral that would allow more direct comparison between uses of the term? If so, what means of delivering this would you propose?**

Yes, as argued in previous questions, boundary conditions should be more clearly set and the greenhouse gases calculated under the definition should be comparable, preferably set to all Kyoto regulated gases. In addition, if a third party was assigned the role of verifying emissions then this would also give a stronger assurance to buyers of goods and services that direct comparisons could be made.

**Question 21: Do you agree that users of the term carbon neutral should retain the flexibility to decide what type of verification is applied? Or should the Government make recommendations on external verification? If so, what should they be?**

As above, EEF believes there should be a recommendation to have claims externally verified. We would like to see the government recommend bodies equipped to provide this service.

**Question 22: In addition to any guidance offered by Government under the Climate Change Act later in 2009, should the Government make recommendations on how to communicate carbon neutrality statements?**

No, providing the other recommendations are met businesses should be free to decide how to communicate statements on carbon neutrality.

**Question 23: Should Government make specific recommendations for good practice on reviewing carbon neutrality status? If so, what would you propose?**

Yes. As discussed earlier.

**Question 24: If you agree that Government should make recommendations on carbon neutrality, should they tend towards good practice or best practice? How often should recommendations be reviewed?**

EEF believes that recommendations from government should be geared towards best practice in order to prevent public cynicism. Recommendations should be reviewed every three years or in light of developments i.e. inclusion of VERs in the government's Quality Assurance Scheme and the publication of Defra's reporting guidelines.

**Question 25: Should Government make recommendations on when and how it would be appropriate for individuals, communities and organisations to pursue carbon neutrality? Should Government encourage or discourage the pursuit of carbon neutrality?**

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No. It should be up to individuals, communities and organisations to determine when it is appropriate to pursue carbon neutrality. Nevertheless, because of the change culture it can promote when organisations pursue carbon neutrality, EEF believes government should encourage its pursuit.

**Question 26: Should carbon neutrality be viewed as a transitional term to be phased out over time? If so, how might this be achieved?**

No, EEF does not believe the term should be phased out.

**Question 27: Are there any additional carbon-related terms that you believe the Government should define? If so, what approach should Government take i.e. recommendation on good practice or regulation?**

Recently there has been growing use of the neutrality claims in various guises – waste neutrality and water neutrality are increasingly being used. More recently a firm claimed to be plastics neutral. In order to prevent public cynicism and increase accessibility to these terms, EEF believes it would be beneficial for government to establish some good practice on the use of these terms and that these should share common principles with the definition of carbon neutrality and the final recommendations on its use.

**Question 28: Although the carbon neutral targets set by Government for its purposes are not the subject of this consultation, do you agree that Government should apply this definition to those targets? Are there other issues relating to those targets for Government to consider?**

Yes. EEF believes that government should apply this definition and apply best practice in its application.

**For further information contact:**

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