

# ISO Standard on Greenhouse Gas Accounting

## ENTITY (ORGANIZATIONAL) ACCOUNTING

### *Recent Developments and Next Steps*

Report by ECOLOGIA (July 2003)

## **Background**

In June 2002, the International Organization for Standardization (ISO) began creating a new international standard for the quantification, reporting and verification of greenhouse gas (GHG) emissions, usually called 'greenhouse gas accounting'. This report seeks to inform NGOs and other parties interested in climate change about the recent developments in drafting the ISO standard on GHG accounting at the **entity** ('organizational' or 'corporate') level.

This report has been prepared by **ECOLOGIA**, an international NGO that participates in ISO decision-making as an 'A-liaison' organization, and is a member of ISO Technical Committee 207's '**Working Group 5**' (**WG5**), which is responsible for the development of the GHG standard. ECOLOGIA seeks to work with NGOs to promote a GHG accounting standard that has **environmental integrity**, is **transparent**, based on **best practice** -- especially the WRI/WBCSD *GHG Protocol* -- and supports, rather than undermines, national and international **initiatives for combating climate change**.

This report is guided by the draft [NGO Position Paper](#) on the ISO GHG standard and its supplementary [issue paper](#) concerning the entity part of the standard<sup>1</sup>. It reflects the priorities identified by ECOLOGIA and its NGO allies for negotiation within Working Group 5. Any reference in this report to positions of "countries" should be understood within the context of ISO procedural customs: WG5 officially is comprised of experts who are expected to speak their individual opinions, but in fact they are nominated by their national standards bodies and usually form positions as national expert groups.

## **Summary**

### *Recent developments*

Working Group 5 met for 3.5 days in Bali, Indonesia in July 2003. Key modifications and additions to the draft standard made there include:

- ✧ Quantification and reporting of GHG emissions associated with imported electricity, heat, steam or other energy products is recommended in the standard, but not mandatory. Entities using the standard are recommended (not required) to justify the choice not to quantify such emissions. (-)

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<sup>1</sup> Both documents are available from ECOLOGIA's Web site [www.ecologia.org](http://www.ecologia.org).

- ✧ Entities are required to establish GHG data management processes with elements of continuous improvement. (+)
- ✧ Entities are required to consider and document objectives, needs of intended users and other key elements of GHG reporting in report planning. (+)
- ✧ Entities are required to report 13 key elements of GHG inventory including the “nature of verification”. (+)

*Evaluation of the current draft and recent developments<sup>2</sup>*

| Element                           | Recent Developments | Likely Future Change |
|-----------------------------------|---------------------|----------------------|
| Environmental integrity           | +/-                 | +/-                  |
| Transparency                      | +                   | -                    |
| Compatibility with best practices | -/+                 | +                    |
| Compatibility with key regimes    | +                   | ?                    |

*Immediate goals:*

Safeguard positive developments, ensure rigorous link with verification, review compatibility with the new edition of the *GHG Protocol*, populate the “methodology” annex with best practices, push for more rigorous treatment of emissions from imported energy, heat, steam, and fuel products.

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## **ISO standard on entity GHG accounting**

A standard on GHG accounting is being developed by Working Group 5 (WG5) of the ISO Technical Committee 207 (TC 207) as one of the ISO 14000 series of environmental management standards. The standard will cover GHG inventories for organizations (entities), quantification of effects of GHG abatement projects, as well as reporting and verification of GHG assertions or claims.

This international standard will be divided into three parts:

**Greenhouse gases – Part 1** (ISO 14064-1): specification for the quantification, monitoring and reporting of entity emissions and removals.

**Greenhouse gases – Part 2** (ISO 14064-2): specification for the quantification, monitoring and reporting of project emissions and removals.

**Greenhouse gases – Part 3** (ISO 14064-3): specification and guidance for validation, verification and certification of entity- and project-level GHG quantification.

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<sup>2</sup>Symbols reflect ECOLOGIA’s evaluation as follows: “+” – the principle is largely followed; “+/-” – the principle is followed but with some omissions; “-/+” – the principle is not followed, though an attempt is made; “-” – the principle is largely ignored; “?” – significant uncertainties exist

This report addresses only Part 1 of the standard. Supplementary reports have been prepared for Parts 2 and 3 (please see [www.ecologia.org](http://www.ecologia.org)).

The most widely used approach to preparing corporate GHG inventories is the *Greenhouse Gas Protocol: a Corporate Accounting & Reporting Standard*, developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) ([www.ghgprotocol.org](http://www.ghgprotocol.org)). The policy of WG 5 is to maintain maximum compatibility with the WRI/WBCSD *GHG Protocol*.

## **Process**

ISO TC 207 WG 5 formally began the development of ISO's its GHG standard in June 2002. It is working on a three-year timeline and expects to publish its standard in June 2005. As of July 2003, WG 5 has met four times: in Johannesburg, South Africa (June 2002); Berlin, Germany (Nov. 2002); Langkawi, Malaysia (March 2003); and Bali, Indonesia (July 2003). A working draft of the entity part of the standard was circulated for comments from WG5 experts in March 2003. At the WG5 meeting in Bali, a sub-group on Part 1 reviewed 53 pages of comments on the standard and introduced numerous changes. Upcoming milestones in the development of the standard include:

|                   |  |
|-------------------|--|
| <b>Oct. 2003</b>  | Publication of a <b>Committee Draft</b> <sup>3</sup> , on which TC 207 member bodies not in WG5 will make their first formal country comments. The Committee Draft requires either consensus within the TC or 2/3 approval in a full committee vote in order to become a Draft International Standard. |
| <b>Mar. 2004</b>  | Next meeting of WG5 (in the UK), for discussion and incorporation of country comments on the Committee Draft.  |
| <b>June 2004</b>  | Approval of a <b>Draft International Standard</b> , which requires 2/3 approval in a full vote by all ISO member bodies (even those not represented in TC 207).  |
| <b>March 2005</b> | Approval of a <b>Final Draft International Standard</b> , which again requires 2/3 approval in a full vote by all ISO member bodies.   |
| <b>June 2005</b>  | Publication of International Standard <b>ISO 14064</b> .   |

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<sup>3</sup> An explanation of the stages of the ISO standards development process can be found in the "[Guide to NGO Participation in ISO TC 207](#)" available from [ECOLOGIA Website](#).

## **Recent key developments**

Hundreds of changes have been made in the draft text of the standard, many of them of a technical nature. ECOLOGIA keeps track of all changes and can provide this record to interested NGOs on request.

ECOLOGIA considers the developments summarized in Table 1 to be of most significance from the perspective of our [NGO Position Paper](#). Overall, we consider that most changes and developments have been positive.

**Table 1. Key developments and changes in the draft entity reporting standard**

| <b><i>Developments and changes in the draft</i></b>  | <b><i>ECOLOGIA's evaluation</i></b> | <b><i>Explanation and notes</i></b>   |
|--|-------------------------------------|---|
| It is made clear that when the requirements of the standard are different from the requirements of a regulatory regime/scheme <b>both</b> should be met.   | +                                   | <b><i>Compatibility with Climate Initiatives</i></b> is enhanced.   |
| Materiality of GHG emissions has been linked to <b>all</b> of the following: (a) intended use of the standard; (b) insignificance of emissions; and (c) costs or other technical obstacles in quantifying the emissions. | +                                   | Additional evidence is required in demonstrating immateriality of non-reported emissions ( <b><i>Transparency, Environmental Integrity</i></b> ). |

| <b><i>Developments and changes in the draft</i></b>   | <b><i>ECOLOGIA's evaluation</i></b> | <b><i>Explanation and notes</i></b>  |
|---|-------------------------------------|--|
| <p>Requirement to <b><i>separately</i></b> report emissions, removals, internal reductions of emissions and external "projects" is strengthened.</p>  | <p><b>+</b></p>                     | <p>Further promotes <b><i>Transparency, Environmental Integrity</i></b> and <b><i>Compatibility with Climate Initiatives</i></b>.</p>  |
| <p>The current draft states that the entities <b><i>should</i></b><sup>4</sup> quantify <b><i>indirect emissions from import of electricity, heat, steam or other energy products</i></b> and <b><i>should justify</i></b> exclusion of any such sources from the inventory.</p> <p>The members of the WG were split on this issue. Canada, Singapore and Germany argued for "shall" for electricity only. ECOLOGIA, UK and Japan argued for "shall" for "Scope 2" (electricity, heat or steam). Australia and the US argued for "should". Australia and Germany argued for including imported fuel in "Scope 2".</p> | <p><b>-/ +</b></p>                  | <p>(-) On the negative side, the standard departs from the WRI/WBCSD <i>GHG Protocol</i> in that it provides the "should" (rather than "shall") language for quantifying the large quantity of emissions arising from import of electricity, heat or steam (Scope 2).<br/><b><i>(Compatibility with Best Practice, Environmental Integrity)</i></b></p> <p>(+) On the positive side, the standard recommends justification of exclusion of such emissions and adds to this "scope" emissions associated with imports of other energy products such as fuels. <b><i>(Environmental Integrity)</i></b></p> |

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<sup>4</sup> In international standards, "should" implies discretion on the part of the user of the standard while "shall" denotes a mandatory action for conformity with a standard.

| <b><i>Developments and changes in the draft</i></b>   | <b><i>ECOLOGIA's evaluation</i></b> | <b><i>Explanation and notes</i></b>  |
|---|-------------------------------------|--|
| The preference for using <b><i>established quantification methodologies</i></b> as listed in Annex B is stated. | +                                   | <b><i>Environmental Integrity</i></b> and <b><i>compatibility</i></b> are promoted as entities are encouraged to use quantification methodologies referenced to by the standard. (Said methodologies remain to be specified.)  |
| Establishment of <b><i>GHG data management processes</i></b> is made mandatory.                                 | +/-                                 | <p>(+) On the positive side it is mandatory to have a data management process for GHG quantification. This can be verified and increases <b><i>Transparency</i></b> and <b><i>Environmental Integrity</i></b> of the standard</p> <p>(-) the term "process" rather than "system" is used, which may be perceived as a more lax requirement</p> |
| New requirement for <b><i>periodic review of opportunities for improving data management processes</i></b> .    | +/-                                 | <p>(+) This is a reflection of the "continuous improvement" principle to ensure that entities improve their GHG inventory as <b><i>Best Practice</i></b> evolves.</p> <p>(-) direct reference to "continuous improvement" was impossible (supported by Canada, objected to by Germany).</p>  |

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|--|-------------------------------------|--|
| <p>A "shall" requirement to consider and document a number of issues including the needs of the users in <b><i>planning GHG reports</i></b>.</p> | <p>+/-</p>                          | <p>(+) There is a requirement to "document" (in some form) such important issues as the intended use of the report and the needs of users; this can be potentially used in verification to make sure that the <b><i>Transparency</i></b> is served.</p> <p>(-) ECOLOGIA and Canada argued for a mandatory <b><i>reporting plan</i></b>, but it was lost due to opposition from Germany and the US.</p> |
| <p>A "shall" requirement for 13 key elements of entity GHG reports</p>   | <p>+</p>                            | <p>All of the key elements originally recommended by ECOLOGIA are included as mandatory except the "scope 2" emissions. (<b><i>Environmental Integrity</i></b>)</p> <p>Moreover, there is a requirement to make a statement regarding the conformity of the report to the Standard and to describe the nature of verification. (<b><i>Transparency</i></b>)</p>  |

| <b><i>Developments and changes in the draft</i></b>  | <b><i>ECOLOGIA's evaluation</i></b> | <b><i>Explanation and notes</i></b>   |
|--|-------------------------------------|---|
| Additional recommendations for what an entity "should" include in the reports including assessment of uncertainty and emissions from biologically sequestered carbon.  | <b>+</b>                            | We may plan to strengthen these by adding "generic" requirements on the content of reporting (currently absent), such as a requirement to report all GHG information material to intended audiences and usages of the report.<br><br><b><i>(Environmental Integrity, Transparency)</i></b>                                  |
| "GHG report" is defined as:<br>"A self-contained document (in printed or electronic form) prepared in accordance with ISO 14064 and intended to communicate the entity's or project's GHG emissions, reductions and removal enhancements and other related issues to its intended users" | <b>+/-</b>                          | (+ ) Being strictly interpreted, this definition would require all public reports following the standard to contain, as a minimum, all 13 key elements mentioned above.<br><br>(-) Other interpretations may be conceivable, especially in countries which lack rigorous legal culture.<br><br><b><i>(Transparency)</i></b> |

## ***Next steps***

ECOLOGIA considers the following key immediate goals for ensuring the effective standard for entity GHG accounting:

1. Safeguard the positive developments so far. We anticipate that many of the positive requirements will be criticized at the next round of TC 207 member bodies' comments (scheduled for October'03 – February'04), particularly those that promote transparency in reporting. ECOLOGIA will lobby for retaining them during the upcoming comments period and the WG5 meetings in March and June of 2004.
2. Ensure a proper link between the "entity" and the "verification" parts of the standard. The most recent official draft of the entity standard contained a section on self-verification. We have suggested that this section be deleted and provisions for self-verification dealt with by the "Verification" part of the standard. This will be the best solution provided that the verification standard is generic enough and provided that the current transparency requirements in the entity standard are retained (e.g. the

- obligation to report on the nature of verification). See also the recent developments report on the verification part of the standard [give web address].
3. Review the compatibility of the draft standard with the forthcoming revised edition of *The GHG Protocol* corporate module and advocate necessary changes.
  4. Ensure that Annex B, which is to contain references to quantification methodologies, is populated by “best practices” compatible with the *GHG Protocol*, UNFCCC and IPCC approaches, etc.
  5. Follow developments in the as-yet unwritten “monitoring” section of the standard.
  6. Advocate for more stringency in the ‘energy indirects’ (*GHG Protocol* ‘Scope 2’) section of the standard by requiring – with “shall” language – entities to justify any decision to exclude these from their inventories.