

May 2012

## **Comments on EBRD Methodology for Assessment of Greenhouse Gas Emissions**

Version 7, 6 July 2010.

It is encouraging that the EBRD has developed a methodology to assess the climate impacts of the projects it financially supports. However the bank needs to develop a clear policy on how it will use the results of these calculations to influence its investment decisions and refrain from investing in projects which involve GHG increases or do not involve decreases in line with the GHG reductions trajectory outlined by climate scientists. In order to have a high likelihood of keeping global temperature rise to below 2° C, scientific studies suggest that global emissions must decrease by at least 70% below 1990 levels<sup>1</sup>. Therefore it is essential to invest in clean energy infrastructure now in order to prevent the lock-in of dirty technologies that will prevent humanity from limiting global warming.

We provide comments on the EBRD's methodology in an effort to improve the carbon footprint of EBRD's investments. We primarily focus on how baselines are set and the treatment of scope 2 and scope 3 emissions.

### *Baselines*

The EBRD's guidelines provide little guidance on baseline setting. In the case of emissions from an industrial or thermal power plant upgrade, the EBRD assumes that the emissions from the plant prior to upgrade would be the baseline. This is incorrect, as it needs to be compared against the current lowest GHG options, taking into account criteria such as:

- Technological feasibility and efficiency
- The extent to which the project is compatible with or can be partly replaced by energy efficiency and conservation measures
- Greenhouse gas emissions
- Other environmental impacts: water and land use, pollution
- Social impacts
- Cost

A plant upgrade can only be considered to reduce relative emissions if the upgrade results in reduced GHG gas emissions levels that are equal to the current most environmentally acceptable option.

In addition, existing plants would have had to be closed down anyway, either to meet new more stringent pollution legislation or because of reaching the end of its economic life, so it cannot be assumed that the emissions from a plant form a baseline beyond the end of the plant's life.

In the case of a new plant, the EBRD's guidance states that for a new facility the baseline emissions would be the emissions from operations that are to be displaced due to the construction of the new facility. This is only correct if existing facilities are able to meet demand growth. Otherwise the emissions of the facilities must be compared against the current lowest GHG options.

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<sup>1</sup> Meinshausen, M. et al. (2009) Greenhouse-gas emissions targets for limiting global warming to 2° C, *Nature*, 458, 1158-1162 and Allen, M.R. et al. (2009) Warming caused by cumulative carbon emissions towards the trillionth tonne, *Nature*, 458, 1163-1166.

## *Indirect Emissions*

It appears that the EBRD does account for scope 2 emissions (electricity purchased/consumed for the project) based on page 7 and GN 4. It also appears that in the transport sector scope 3 emissions may be accounted for, as the methodology requires annual fuel use and distance travelled by each vehicle type.

Otherwise the EBRD does not consider other indirect emissions (in particular scope 3 emissions) and writes „a life-cycle approach is not considered practical or appropriate“. Naturally estimating scope 3 emissions is not always straightforward and requires balancing accuracy and completeness. But if an entity is interested in reducing greenhouse gas emissions from its operations it is essential to consider scope 3 emissions as they can be significant.

While it may have been true a few years ago that access to data needed to evaluate scope 3 emissions was not readily available, and there were methodological issues related to double counting of emissions among the various scopes, many of these issues have been resolved. In fact the Greenhouse Gas Protocol released a comprehensive Scope 3 Accounting and Reporting Standard this past October. The Scope 3 Accounting and Reporting Standard also provides guidance on identifying the scope 3 emissions that should be accounted for to ensure that major emissions are accounted for, while making the exercise manageable and not too cumbersome.

Scientific studies also indicate that scope 3 emissions are significant<sup>2</sup>, with one study suggesting that they can be as high as 75% of an entity's total emissions. (see Figure 1 – at the end of the document)<sup>3</sup> A study that estimated scope 1 through 3 emissions of all 491 economic sectors in the United States with the aid of a life cycle analysis mathematical model found that scope 3 emissions comprise at least 75% of total emissions from two-thirds of sectors providing goods and services<sup>4</sup>. The 10% of sectors with low scope 3 emissions (less than 20%) are well-known sources such as power generation, cement manufacturing or shipping.

For example, the manufacture of a car only accounts for 15-25% of total emissions from a car.<sup>5</sup> The primary source of emissions are those from consumers. But when a car maker looks beyond simply reducing emissions due to the manufacturing of the car and extends it to emissions produced during use by the consumer, the manufacturer can realize that retooling cars to more efficiently burn fossil fuels or having cars run on other sources of energy can lead to much larger climate benefits. This information allows companies to innovate and remodel their business rather than making small incremental changes. Knowledge is power. Therefore the EBRD should also require scope 3 emissions and adopt the framework developed by the Greenhouse Gas Protocol for reporting scope 3 emissions.

## *Other Issues*

In the guidance on how to calculate greenhouse gas emissions from coal mining only fugitive emissions are accounted for. Emissions from diesel combustion or explosives are not considered. Why is this the case?

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<sup>2</sup> Huang, Y. A., C. L. Weber and H. S. Matthews (2009) Categorization of scope 3 emissions for streamlined enterprise carbon footprinting, *Environmental Science and Technology*, 32, 8509 – 8515.

<sup>3</sup> Matthew, H.S., C.T. Hendrickson, C.L. Weber (2008) The importance of carbon footprint estimation boundaries, *Environmental Science and Technology*, 42, 5839-5842.

<sup>4</sup> Matthews, H. S., C. T. Hendrickson and C. L. Weber (2008) The importance of carbon footprint boundaries, *Environmental Science and Technology*, 42, 5839-5842.

<sup>5</sup> See <http://www.carbontrust.co.uk/policy-legislation/international-carbon-flows/automotive/Pages/10.aspx>

*Recommendations:*

- Develop a clear policy on how the bank will use the GHG accounting results to prevent financing for projects which will increase emissions or not decrease them sufficiently to be in line with the EU's 2050 climate goals, especially for projects within the EU and countries with aspirations of joining the EU.
- Adopt baselines based on the most environmentally, economically and socially sustainable option rather than assuming that current emissions would continue in the absence of the project.
- Develop a clear set of assumptions regarding the potential for demand side energy efficiency and demand management to mitigate the need for at least some of the project capacity and include them in the setting up of the baselines used.
- Make accounting of scope 3 emissions mandatory, especially for pipeline, airport and port expansion projects, and industry projects such as car manufacture.

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