Scope 3 Reporting Using FARM ES

March 2022

WHAT ARE SCOPE 3 EMISSIONS?

A company's greenhouse gas (GHG) emissions are divided into Scopes 1, 2, and 3:

- Scope 1: Emissions that occur on-site. For example, if a company burns natural gas for energy, the GHG emissions are directly released during that process on-site.
- Scope 2: Emissions that occur elsewhere, but for which the company has operational control. The best example is electricity. The company has operational control over whether the lights are on or off, but the emissions occur off-site where the electricity is generated.
- Scope 3: All other indirect emissions not covered in Scope 2. This includes all of the upstream emissions that occurred before the company had operational control over a process or product (e.g. for a cheese manufacturer, this would include GHG emissions to create the milk that the company purchased). It also includes downstream emissions (e.g. emissions that occur after the cheesemaker's products leave the plant, like those at the grocery store or when consumers dispose of packaging).

GHG emissions are categorized into each Scope based on the company's perspective. For a cheese manufacturer, on-farm emissions are considered Scope 3. But for the farmer, those emissions are Scope 1 and 2.

You can find out additional details in the Innovation Center for US Dairy's Scope 1 & 2 GHG Inventory Guidance and Scope 3 GHG Inventory Guidance for dairy cooperatives and processors.

CAN FARM ES BE USED FOR SCOPE 3 REPORTING?

Yes. FARM Participants can aggregate FARM ES data for Scope 3 reporting, either for their own organization's Scope 3 reporting purposes or for reporting to dairy buyers. In fact, the Innovation Center for U.S. Dairy has created Scope 3 GHG Inventory Guidance for dairy cooperatives and processors, which recommends the use of FARM ES.

The Scope 3 GHG Inventory Guidance has been reviewed by the GHG Protocol and is in conformance with the requirements set forth in the Corporate Value Chain (Scope 3) Accounting and Reporting Standard. The GHG Protocol maintains frameworks for measuring and managing GHG emissions. It is widely used for reporting to CDP.

FARM ES data represents lifecycle-based, cradle-to-farmgate emissions – consistent with GHG Protocol Scope 3 guidance. For a dairy co-op or processor, FARM ES data typically falls into the Scope 3 category of "Purchased Goods and Services." More details can be found in the Scope 3 GHG Inventory Guidance for dairy cooperatives and processors.

HOW CAN COMPANIES REPORT THEIR SCOPE 3 EMISSIONS VIA FARM ES?

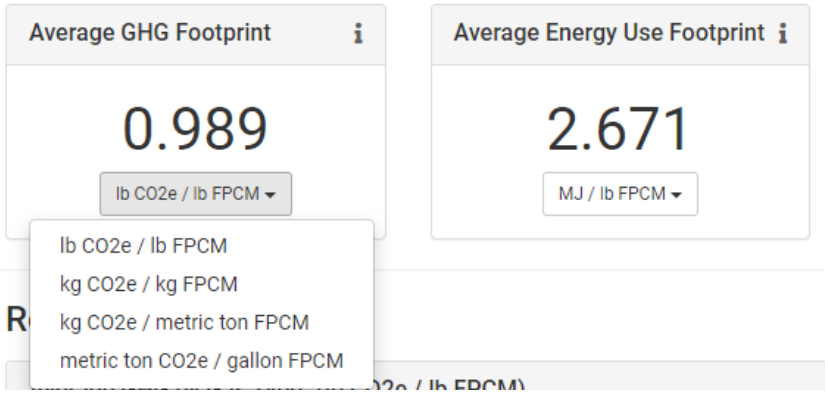
The way in which companies access FARM ES data depends on whether they directly participate in the program or are further downstream in the supply chain.

Companies who administer the FARM Program on behalf of their farms (in other words, co-ops or proprietary processors considered FARM Participants) have access to a page to aggregate their FARM ES data within the password-protected FARM database. The FARM ES 'Stats Page' provides the average GHG and energy footprint for all on-farm evaluations that the company has completed. The organization's designated FARM Program Manager(s) have access to the FARM ES 'Stats Page'.

Companies who purchase milk from co-ops or proprietary processors can request the aggregate FARM ES data from their suppliers via their B2B relationship. If certain suppliers are not currently implementing FARM ES, then industry-wide emissions factors may need to be utilized in conjunction with supplier-specific FARM ES data.

WHAT DATA DOES THE FARM ES 'STATS PAGE' PROVIDE? HOW DOES IT ALIGN WITH CUSTOMER REQUESTS?

The FARM ES 'Stats Page' provides an organization's average of the GHG and energy use footprints across their evaluated facilities. The units can be toggled to assist with various customer reporting:



The 'Stats Page' offers organizations the ability to specify the time period (i.e. "Provide an average of the evaluations conducted between January 2021 to December 2021") or filter by program Version (i.e. "Provide me an average for evaluations conducted under the Version 2 program cycle").

Cooperatives and processors can use the aggregate, farmgate greenhouse gas data when responding to customer sustainability requests (for example, the TSC THESIS survey, Walmart's Project Gigaton, and more) .

DOES MY ORGANIZATION NEED TO EVALUATE 100% OF FARMS IN ORDER TO AGGREGATE FARM ES DATA? AND TO REPORT SCOPE 3 EMISSIONS?

Any organization (co-op or proprietary processor) who has conducted FARM ES evaluations has access to the FARM ES 'Stats Page' to aggregate data. There is no minimum threshold for number of evaluations to calculate an aggregate average.

In terms of Scope 3 reporting, if an organization's goal is to obtain an average that represents their entire farmgate milk supply, then FARM's recommendation is to either evaluate 100% of farms or use FARM's random sampling protocol to select a representative sample of 10-15% of farms.

Organizations may choose not to evaluate 100% of farms or not to select a random sample. Those organizations can still aggregate their FARM ES data – they are advised to indicate the % of farms or milk supply that the data represents (e.g. this GHG number represents 75% of our farmgate milk supply).

IN WHAT UNITS IS THE GHG FOOTPRINT PROVIDED?

FARM ES provides the GHG footprint in lbs. CO_2e / lb. FPCM. The data can be converted to other units as needed using the FARM ES 'Stat's Page.'

IS THERE ADDITIONAL GUIDANCE FOR MANAGING SCOPE 3 DATA AND REPORTING AS WE LOOK TO ENGAGE IN REDUCTION PROJECTS?

Cooperatives and processors may be working with customers interested in funding reduction projects in their supply chain through insetting or purchase of carbon credits. FARM recommends referencing recognized standards for guidance on Scope 3 accounting for such supply chain collaboration. The GHG Protocol, for example, maintains frameworks for measuring and managing GHG emissions. It is a widely used and well-regarded initiative. The GHG Protocol will be releasing a Land Sector and Removals Guide in early 2023. Gold Standard is another reputable organization that has developed a Value Chain Interventions Guidance, designed to fit within the GHG Protocol framework. The Gold Standard guidance may be updated as the GHG Protocol finalizes its Land Sector and Removals Guide in 2023.

Cooperatives and processors may also be interested in reporting their own progress in FARM ES regardless of supply chain collaboration projects. To aid in that effort, FARM is working with a GHG accounting expert to develop guidance on how cooperatives and processors participating in FARM ES can externally communicate about their participation and any reductions in GHG emissions observed over time. This guidance will be available late 2022 and will align with recognized standards.