Proposition Paper: Insetting Criteria

For the new CNG Standard

(DRAFT RELEASE - vs 0.1 - June 2019)

Important notes and considerations:

*CNG is currently revising and updating its certification program, as outlined in the **Terms of Reference**. The new CNG Certification Program (vs 1.0) consists of a revised Standard (vs 3.0, in the past referred to as the KNG Standard vs 2.0), a new Assurance Protocol (vs 1.0) and a new Claims Policy (vs 1.0). For questions related to the CNG Certification Program, please contact certification@climateneutralgroup.com. All (draft) documents can be found on the CNG website: https://www.climateneutralgroup.com/en/cng-certification-program-development-process/.*

- This (draft) Proposition Paper is developed by CNG, and includes a **first proposal** for **Insetting criteria**, which we envision to become a key element of the new CNG Standard.
- This proposal is in accordance with the ***'ICROA Insetting Recommended Practice Guidance'*** (vs. May/ June 2019), which was, at the time of writing this document, still under development.
- Key stakeholders are invited to provide their feedback on this proposal, first during a **Stakeholder Event** on the 25th of June, 2019, and afterwards through a formal **Online Consultation Round**. This feedback will be incorporated in the development process of the criteria of the CNG Standard. CNG's strives for criteria that are practical and realizable, but also sufficiently ambitious to make impact.
- This document is publicly available (for free, from the CNG website) in English, which is the only official and binding version. If requested by multiple stakeholders, a Dutch version can be provided.

1. Introduction

Insetting has evolved from the concept of offsetting, whereby corporates purchase offset credits (generated through eligible[1] offset projects that represent additional GHG emission reductions achieved elsewhere), and use these to compensate for their own (residual and unavoidable) emissions. In addition to mitigating climate change, suchlike offset projects offer additional socio-economic and environmental co-benefits to local communities.

Insetting typically provides for the same, yet the differences are: A) the corporate directly invests in an emission reduction project (i.e. makes a direct financial contribution), and B) the emission reduction project is within the corporate's value/ supply chain. Besides the above offsetting co-benefits, insetting may also add value in the form of increased supply chain efficiency (e.g. higher yields or lower production costs), strengthened supply-demand relations, committed market parties, and customer loyalty.

There is a growing gap of how insetting is defined and what is recognised as international best practise (i.e. what the credibility and additionality criteria should be), so that it can be used for corporates' climate neutrality claims post-2020. (Inter)national insetting and offsetting regulation for the voluntary market is expected to change after COP25 in Santiago. As such, the International Carbon Reduction and Offset Alliance (ICROA), recognised as the oversight and policy-making body that sets the framework for credible offsetting and insetting, strives to provide clarity to the above. CNG, being an ICROA member and also part of ICROA's Insetting Taskforce, is bound to ICROA's Code of Practice and also actively contributes to the development of ICROA's Insetting Guidelines as input for COP25.

CNG clients already certified or interested in certification have increasingly shown interest in insetting, especially for certification of agricultural products. In this Proposition Paper, CNG therefore makes a first proposition for how, within the boundaries of ICROA's (future) '*Insetting Guidelines*', it sees possibilities to incorporate insetting as a means to bring clients' reductions down, for their product certifications. Note that for organisational certification, the discussion amongst taskforce members has insufficiently matured till date, hence no formal proposition is made by CNG yet.

2. CNG's position towards 'insetting' for product certification

When a CNG client wishes to get a certain product (or service[2]) of its product portfolio 'CNG certified', all emissions caused throughout the supply chain to produce and deliver that final end product, shall be included in the product's footprint calculation, also referred to as the product's Life Cycle Assessment (LCA). This includes all emissions from the sourcing, manufacturing, delivery (and optionally disposal) of that particular product or service, i.e. from Cradle-to-Gate/Shelf/Grave[3]. In practise, this accounts to the client's scope 3 emissions (for that particular product only), plus a corresponding portion of the client's own scope 1 and 2 emissions[4] that occurred during the client's activities related to that product.

> NOTE: A detailed explanation of the GHG scopes 1, 2 and 3 can (currently) be found in Annex 1 of the 'Proposition Paper – Reduction Criteria', but will be included in the final version of the Standard.

If, following the conditions mentioned below, the client makes a direct investment at any level (read: link or tier) **in the supply chain** of that particular product (e.g. at the level of cultivation, production, manufacturing, export,

[1] Offset projects meeting the ICROA guidelines, see: https://www.icroa.org/

[2] Where referred to certification of a 'product', this could also refer to certification of a 'service'

3 Depends on what was agreed with Footprint Calculator, as part of the scope and boundaries definition process, see Assurance Protocol.

[4] 'Corresponding portion of scope 1 and 2 emissions', are those GHG scope 1 and 2 emissions that can be directly or proportionally allocated to the composition of the certified product.

import, (re-)packaging, transport and/ or retail) that leads to a direct (proven) GHG reduction, this achieved reduction can be accounted for as a direct reduction of the client's scope 3 emissions (for that product only). In other words, the client can subtract the achieved supply chain reductions from its own product's emissions footprint, which (when net-zero) entitles the clients to claim its product to be 'climate neutral'. An investment in the sphere of influence is not valid, see examples below.

3. Insetting conditions for product certification

3.1 For calculation of the footprint of the (certified) product:

LCA calculation principles	The product's emissions shall be calculated following credible LCA calculation methods[5] (defined in the CNG Standard), based on **ISO 14040:2006**, **ISO 14044:2006** and the **GHG Product Life Cycle Standard and GHG Corporate Standard**, and verified by eligible, independent Certification Bodies (defined in the CNG Assurance Protocol) as part of the overall verification and certification process. Supply chains are however complex and not always known or traceable, therefore CNG allows for a certain degree of flexibility versus accuracy for the LCA calculation: • Products may be composed of many ingredients or raw materials. The client shall create a 'supply chain map', and estimate all major and minor ingredients and emitters adding to the total GHG emissions of the certified product. Emissions caused by minor ingredients and/ or minor emitters may be excluded from the LCA calculation (for a maximum of 20%), meaning **emissions caused by major ingredients or emitters shall be accurate for 80% of the total (estimated) emissions**. • In the event that the origin of the product's major ingredient(s) is (partially) unknown, a Mass Balance approach is permitted, which means the client makes certain investments (under certain conditions), for which in turn the client may make claims for a proportional amount corresponding with the investment. Suchlike exceptions shall be consented formally first by CNG and Certification Body, but in general the conditions are: 1. The product emissions are **based on industry averages** (e.g. defined in external literature and databases), **plus an additional x% emission is added;** 2. The CNG client shall invest in an insetting project in **any supply chain of that product** (see example 3, section 4); 3. The achieved reductions resulting from that investment are quantified, and can be used by the client to reduce the certified product's emissions.

FOR STAKEHOLDER INPUT:

For products with many ingredients and/or complex or partly unknown supply chains, LCAs will assumingly be made using generalised data and averages available from external databases and literature. CNG however wants to challenge clients to strive to mobilise its supply chain to obtain factual data on (at least) the biggest 'emitters' in the product's supply chain. To prevent that clients are incentivised to make (unnesessary) use of the Mass Balance approach an additional X% is added to the product's footprint calculation (meaning more investment needs to be made). What is a reasonable X%?

[5] Such as the Cool Farm Tool (developed by the Cool Farm Alliance) or the KNVKT Tool (developed by Koffie & Thee Nederland, formally known as Koninklijke Nederlandse Vereniging voor Koffie en Thee)

3.2 For insetting projects:

Type of investment	The corporate (CNG client) invests in the development of an emission reduction project (or initiative) within the perimeter of the supply chain of the certified product (for which the client wishes to receive 'product certification') Thus not: within the supply chain of another (non-certified) product of the client's portfolio.
Location of the investment	At any location where a supply chain activity takes place, e.g. raw material production, product transformation or transportation. Thus not: an activity that takes place within the supply chain's sphere of influence and/ or within communities of the supply chain.
Project initiation	Projects can be developed by the CNG client itself, suppliers or partners of the product's supply chain, external 3rd party organisations (e.g. NGOs), or CNG. This can be for any project, provided that: a) the GHG emission reductions are generated at the location of investment, and; b) the project initiator can provide evidence of/ adhere to the following principles: 1. **Additionality:** the reductions would not have been achieved if the investment was not made (*evidence needs to be provided*); 2. **Uniqueness:** the reductions are only counted and claimed once (Thus not: if the reductions need to be added to nations NDCs, then they cannot be claimed also by the CNG client) (*evidence needs to be provided*); 3. **Measurability:** the reductions can be measured and can be made quantifiable in 'reduction units' e.g. X tonne CO2-eq (Thus not: converted into owner-transferable credits); 4. **Verifiability:** the reductions achieved at the investment location can be verified.
Project design and implementation	Like regular offsetting projects, eligible insetting projects shall be based on the **GHG Project Protocol** and **ISO 14064-2:2019**, which requires that: a) first a project plan with estimated emission reductions shall be developed and validated by an eligible Certification Body (CB) for correctness, and; b) once implemented, the actual reductions are made quantifiable, booked in a registry to prevent double claiming, and verified by the same CB.
Project validation and verification	The investment location (e.g. the production or manufacturing site) can be part of the scope of the client's audit and thus be audited physically. Rules are outlined in the Assurance Protocol. CBs shall comply with additional eligibility criteria and have experience with verification of offsetting and/ or insetting projects.

4. Examples

Examples of what is considered to be eligible for insetting - for known supply chains:

- *Example 1:* An agricultural project that changes farmer cooperatives' banana cultivation practices to increase carbon sequestration in soils -> project location = sourcing region where the client's certified product is being cultivated.
- *Example 2:* A cocoa beans-roasting project aimed to re-use waste water resulting from the roasting activities for the heating of community housing -> project location = roaster that roasts all beans used to manufacture client's certified cocoa product.

Examples of what is considered to be eligible for insetting - for unknown or complex supply chains (only permitted in exceptional situations, see section 3.1):

- *Example 3:* A coffee climate smart coffee project that promotes different use of pesticides and fertilizers, which proves to reduce CO2-eq emissions -> project location = any region where coffee is produced, not necessarily in a region that the CNG client is sourcing from.