Proposition Paper: Reduction 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 the **CO_2-eq Emission Reduction Criteria**, which we envision to become a key element of the new CNG Standard.
- This proposal takes into account the **IPCC's report '*Global Warming of 1.5 ºC*'** (January, 2019) and complements to **ICROA's definition of '*Carbon Neutrality*', post 2020** (May, 2019).
- 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. What are the required emission reductions?

The Paris Agreement strives to achieve a **net-zero global balance between GHG emissions and reductions by 2050** in order to keep temperature rise limited to an increase well-below 2°C by 2050 (and ideally below 1,5°C). By the international community (for instance in the Dutch '*Klimaatakkoord*'), this is often translated into the following global emission targets:

- Reduction target for 2030 = 49% GHG emission reductions achieved globally, compared to 1990;
- Reduction target for 2050 = 100% GHG emission reductions achieved globally, compared to 1990.

'*Global GHG emission reduction'* is defined as:

➔ **Any CO_2-eq emission** reduction (carbon dioxide or other GHG, converted to the equivalent amount of carbon dioxide), achieved in **any place in the world**, but **only 'counted'/ 'claimed' once** (i.e. for voluntary market, national compliance market).

2. How is this applied to our CNG Certification Program?

The reduction targets defined above are re-shaped into SMART criteria for CNG clients in the new CNG Standard, so that clients can reduce their emissions accordingly in a practical and realizable manner. However, CNG wants to be more ambitious than these global targets, for two main reasons:

1. First, when formally applying the Paris Agreement definition given above, both **internal reductions** (achieved by the organisation itself) as well as **external reductions** achieved elsewhere (i.e. through eligible offsetting or insetting projects[1]) can be used by clients to reach their own reduction targets. **Technically speaking, this means that in 2050, when a global net balance of zero emissions is required, corporates can still emit, yet would be able to (fully) compensate with offsetting.** CNG is of the opinion that offsetting is a very functional interim solution, but not solving the 'problem at its core'.
2. Secondly, since the Paris Agreement was signed, the international climate community has proceeded its investigations, resulting in new findings and new dialogues: For instance, It has become evident that the original (well-below) 2°C scenario is insufficient, and **temperature rise needs to stay under 1,5°C**[2] in order to mitigate the worst effects of climate change. Also, it has become evident that that some highly emitting sectors (in the compliance market) will not be able to meet their targets for valid reasons, the main one being that the needed technologies and alternatives won't be ready in due time. Even though it may seem unfair, some therefore need to pitch in more than others, if we want to reach the net zero target by 2050.

CNG's position is therefore:

➔ CNG offers a **voluntary 'On track' program** that challenges corporates to 'go beyond Paris', so that the **CNG claim really represents a certain level of ambitiousness.** (A certain degree of) internal reduction is therefore encouraged and enforced through the CNG Standard.

[1] On the condition that these projects meet the most stringent credibility requirements (i.e. no double issuance, counting or selling, and are compliant with ICROA guidelines), further explained in the '*Proposition Paper – Eligible Offsetting and Insetting*'.

[2] CNG adheres to the 1,5°C scenario which was defined by the IPCC as the minimum needed in order to mitigate the worst effects of climate change, see: https://www.ipcc.ch/site/assets/uploads/sites/2/2018/07/sr15_headline_statements.pdf

3. How will corporates be incentivized to reduce themselves?

- First, CNG believes the **market will partly regulate itself**. Art. 6 of the Paris Agreement sets out principles for voluntary cooperation, which will be reviewed during COP 25 in Santiago, Chile (end of 2019). It is expected that, enforced by regulatory changes, the carbon price and price of offset credits will go up significantly in the coming years, i.e. local reduction initiatives or offset projects may count towards nation's own Nationally Determined Contributions (NDCs), creating scarcity for the voluntary market and making offsetting more expensive. Thus, companies investing in internal reductions today, prevent accumulative costs resulting from (increasingly more expensive) offsets year after year.
- In addition**, internal reduction leads to a range of (long-term) additional benefits** for companies, such as: 1) reduction of operational costs (e.g. energy-saving); 2) more efficient use of resources (e.g. material and packaging saving); 3) spur ambition for company innovation; 4) be ahead of national regulatory changes (e.g. tighter national laws are anticipated); 5) potential access to subsidies (e.g. governmental support).

CNG has recently launched its new **'On Track Program'**, with the aim to encourage and support clients with internal reduction measures. This entails: 1) awareness raising activities (e.g. on the above to points), 2) the provision of costs-benefit analyses of internal reduction investments compared to costs of external reductions, and 3) offering (customised) technical advice as to how the internal reductions can be achieved, also in cases of company growth resulting in new emissions. First pilot results are positive and demonstrate a good appetite amongst clients to start the 'On Track' program.

In addition, CNG proposes to **reward clients that reduce internally more than required** for the 'on track claim' (for at least two consecutive years in a row) as 'good performers', meaning these clients qualify for a lower audit frequency and intensity (thus lower audit costs).

Summarizing: the amount spent on offsetting, can also **be invested in corporates own internal reduction plans**, leading to cost saving and additional benefits in the long run. CNG will launch a '**On Track Program'** that helps clients to reduce internally.

4. How will the CNG Certification Program work?

1. During the first year of certification (t=0), the total number of annual GHG emissions is calculated and validated for the scope that the client has chosen (which is either '*certification of the organisation*', '*certification of a particular product or service"* or a combination of both). This 'first year' becomes the *'baseline year', and the 'baseline footprint/ LCA'* is ascertained.
   ➔ **Section 5 outlines which emissions are to be included in the footprint/ Life Cycle Assessment (LCA)[3] calculation. Annex 1 provides a more detailed description of GHG scopes 1, 2 and 3.**

NOTE: If the client's footprint was ascertained and verified by CNG or another credible verifier in the past, this earlier year may function as the 'baseline year', so that any reduction achievements realised since then are incorporated, meaning an annual reduction target for coming years that is less steep.

[3] LCA is a method or technique to calculate the environmental impact associated with all the stages of a product's life from raw material extraction through materials processing, manufacture, distribution, use, repair and maintenance, and disposal or recycling. For 'certification of an organisation' CNG refers to a footprint calculation, and for 'certification of a product or service', CNG refers to an LCA calculation.

2. By 2030, 49% internal reduction needs to be achieved (compared to the original baseline) and by 2050, the remaining 51% (thus totalling to 100%) needs to be achieved. This means that an *'annual reduction target'* can be calculated[4]:
   - For the period between baseline year and 2030: $Annual\ reduction\ target = \frac{49\%}{(2030 - baseline\ year)} = \frac{100\%}{Y\ years} = X\ \%$
   - For the period between 2031 – 2050: $Annual\ reduction\ target = \frac{51\%}{(2050 - 2031)} = \frac{51\%}{20\ years} = Y\ \%$

NOTE: If the original baseline footprint/ LCA should be adjusted in a certain year, e.g. due to company growth resulting of instance in a relative higher number of emissions, a new annual reduction targets is defined, which will apply from that year onwards. As such, the annual reduction target is always expressed as a ratio of e.g. FTE, production volume, sales volume, etc.

NOTE: 'Compliance flexibility rule': To facilitate compliance, clients are given a 3-years-period to demonstrate internal reduction results. That means that in year 1 an ambitious internal reduction plan shall be made, but the actual emission reduction only need to be achieved after 3 years. However, after these 3 years, the required reductions has accumulated for 3 years, meaning 3 * annual reduction target needs to be demonstrated to remain compliant.

3. A) For organisation certification only: Clients who are found to be compliant with the annual reduction targets (after an audit) deserve the right to claim to be **'On Track'.** If the organisation reduces its remaining emissions to a nett zero e.g. though eligible offsetting[5] or more internal reduction, the claim '**Climate Neutral**' is also permitted.
   B) For product certification: The status of '**Climate Neutral**' always need to be achieved.
   ➔ **Section 6 outlines which internal and external measures qualify to achieve the reduction requirements.**

5. Which emissions need to be included in the baseline footprint/ LCA calculation?

Option 1: **Certification of the Organisation**	*Option 2:* **Certification of a Product (or Service)**
If a client choses to get certified for its organisation, the baseline footprint shall include all emissions resulting from the organisation's own organisational activities **= total of GHG scope 1 and 2** (see GHG Corporate Standard), **plus 'relevant' GHG scope 3 emissions**[6] (see GHG Value Chain (Scope 3) Standard, or SKAO handbook[7]).	If a client choses to get a product or service certified, the baseline footprint/ LCA shall include all emissions that occurred from the sourcing, manufacturing, delivery (and optionally disposal) of that particular product or service, i.e. from **Cradle-to-Gate/Shelf/Grave**[8] **= scope 3 for that product/ service only** (see GHG Product Life Cycle Standard), **plus a 'corresponding portion of GHG scope 1 and 2 emissions'**[9] (see GHG Corporate Standard).

[4] The Paris Agreement takes 1990 as the reference year for reduction setting. Between 1990 and today, a certain degree of reductions has already been realised at global, national and company level. Technically speaking, companies' future reduction targets should therefore also be adjusted accordingly with their reductions already realised since 1990. However, this makes the program rather complex, as the baseline year varies for each client and CNG does not want to favour one client over the other. Thus, for practicality reasons, CNG suggests to set the baseline year at 100% for all clients, whereby 49% reductions need to be achieved by 2030 and 100% by 2050.

[5] Another Proposition Paper on eligible insetting and offsetting is also being developed by CNG.

[6] 'Relevant scope 3 emissions' are those GHG scope 3 emissions that can be directly controlled and influenced by the client, for instance emissions resulting from business commuting, business flights, packaging. This is part of the scope and boundaries definition process, see Assurance Protocol.

[7] The SKAO handbook is particularly known in the Dutch market. SKAO's scope definition is acknowledged by CNG, because 'relevant' scope 3 emissions are classified as scope 2, see: https://www.skao.nl/handbook-3.

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

[9] '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 certified product/ service. This is part of the scope and boundaries definition process, see Assurance Protocol.

NOTE: '40% scope 3 rule': clients of which their total GHG scope 3 emissions (for all products and services combined) **exceed 40%** of their total GHG scope 1 + 2 + 3 emissions can only qualify for 'certification of the organisation' if they also reduce 40% on scope 3 (in line with the Science Based Targets). Alternatively, these clients can apply for product certification. **NOTE:** If the organisation has **multiple sites or locations, or sub-contracts activities to other parties,** their GHG scope 1 and 2 (and relevant scope 3) emissions are included in the emission scope (meaning: included in the footprint calculation and subject to the verification and certification process, unless FC and CB have agreed to grant an exception).	**NOTE: '80% materiality rule':** If the product's supply chain includes **multiple tiers**, all their individual emissions pertaining to the certified product/ service are included in the emission scope (meaning: included in the LCA calculation and subject to the verification and certification process, **however for an accuracy (materiality) of 80% only**, meaning that only the biggest 'emitters' shall be included.

FOR STAKEHOLDER INPUT (see also: 'Assurance Protocol):

- **For certification of organisation:** Is the '40% scope 3 rule' reasonable? It is in line with Science Based Targets, and represents the ambition the CNG program stands for, but at the time, is this doable for clients?
- **For certification of organisation:** If a certain scope 1 or 2 activity is outsourced, should it still be included in organisation's footprint, or not?
- **For certification of a product:** It is important to treat all clients equally and to require the same boundaries (to gate, shelf, grave). Would it help if CNG would define sectors, and define rules per sector, or would that actually be a limitation for some clients?
- **For certification of a product:** Also, is the 'to-grave' option desirable, or does 'to-gate' and 'to-shelf' suffice client needs?
- **For certification of a product:** Is the '80% materiality rule' feasible? (sufficient ambitious versus practically doable for clients?)

6. How can the required reduction target be achieved?

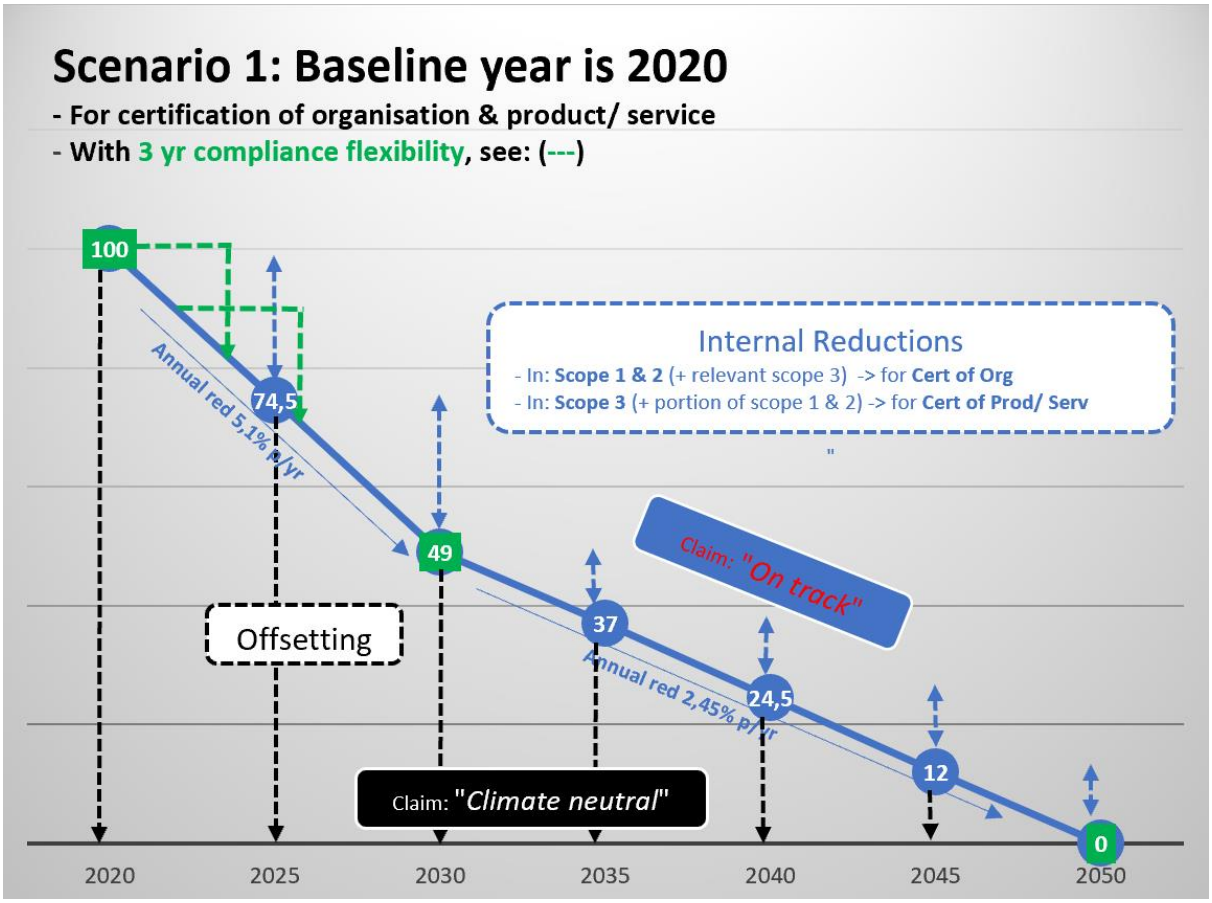
Certification Scope	***Option 1:*** **Certification of the Organisation**	***Option 2:*** **Certification of a Product (or Service)**
Option A: **Eligible reductions to claim: 'On Track'**	**1A:** • Internal Scope 1, 2 + relevant scope 3 reductions	**2A:** **not permitted**
Option B: **Eligible reductions to claim: 'Climate Neutral**	**1B:** • More internal scope 1, 2 + relevant scope 3 reductions **and/or** • External reductions through eligible offsetting	**2B:** • <u>To meet the annual reduction target:</u> Scope3 reductions in that particular product's supply chain (=insetting), and/ or reduction in the corresponding portion of scope 1 and 2. **and/or** • <u>For the remaining:</u> External reductions through eligible offsetting

NOTES:

- Clients can become certified for their organisation as well as for several products of their product portfolio at the same time.

- In that case of option A (certification of the organisation):
  - the client first needs to comply with option 1A (be 'on track'), and can only then comply with option 1B (be 'climate neutral');
  - only off-pack claims (i.e. on a company website or brochure) are permitted.
- In the case of option B (certification of a product/ service):
  - the client needs to comply with option 2B for each product separately;
  - on-pack claims (i.e. on the packaging of that particular 'certified' product) and/or online claims (if on clients product/ service page or direct link with product/ service is made), are permitted;
  - scope 3 reductions refer to reductions achieved by the client in the supply chain of the 'certified' product, because the client has invested in its external sources or providers. During an audit, clients needs to be able to demonstrate concrete evidence that the investment led to additional[10] reductions in scope 3 in that particular product's supply chain[11].

Summarizing: Clients who are 'certified for their organisation', first need to be **'on track'**, through internal reductions' after which the remaining emissions can be offset or further internally reduced, in order to become also **'climate neutral'.** Clients who are 'certified for a certain product or service' need to achieve the internal reduction target through reduction of their emissions in scope 3 (or the corresponding portion of scope 1 or 2), and for the remaining (to become '**climate neutral'**) through additional reductions and/ or offsetting.

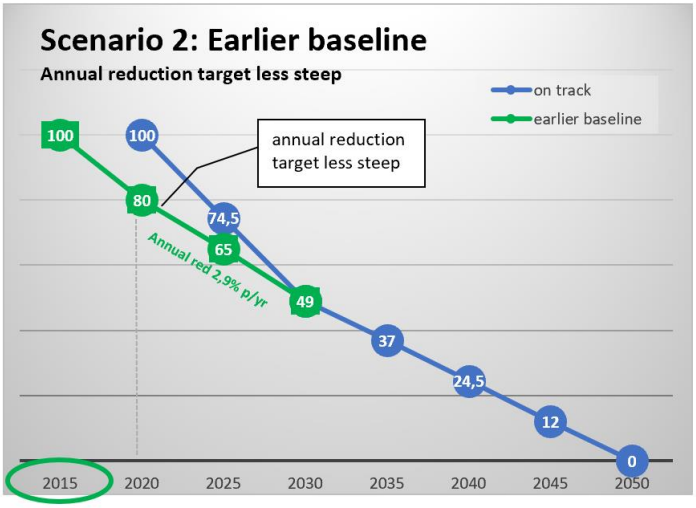


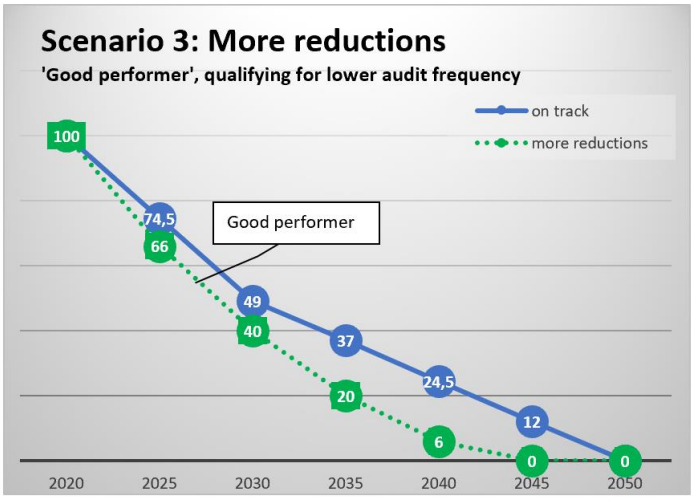
[10] Meaning these reductions would not have been achieved if the investment was not made, and are not counted also for another purpose (e.g. towards a nation's NDC)
[11] See '*Proposition Paper – Eligible Insetting*'

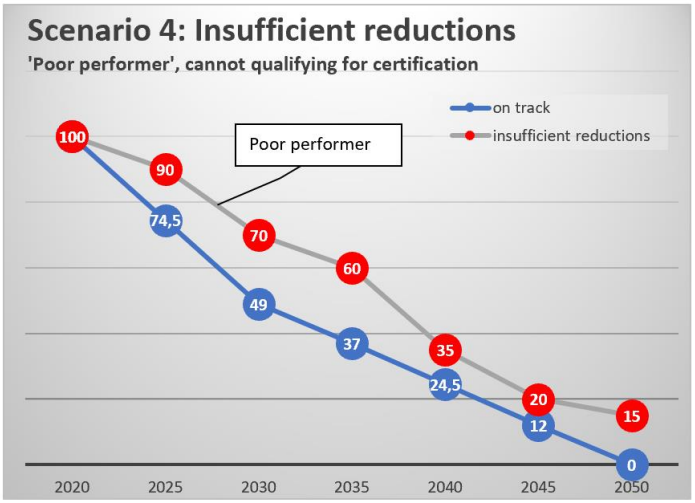
FOR STAKEHOLDER INPUT:

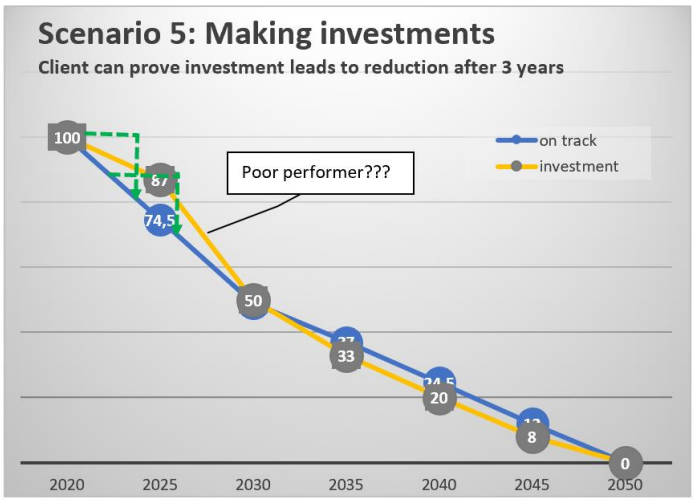
- **For certification of the organisation:** should CNG offer two separate claims ('on track' + 'climate neutral) or only one ('climate neutral', with the on track requirement on internal reduction included)? I.e. 'on track' claim could serve as an entry option for 'new clients' only, but it can create confusion for consumers if there are multiple claims.
- **For certification of a product:** is it feasible for clients to meet the annual reduction target, meaning reduce in their supply chain annually with appr 2,5 – 5%, or should the program only enforce a certain percentage of the annual reduction target, which for example over the years increases (= thus not track anymore)?

6. Other scenarios and examples









Example - Organisation certification (option 1) **– with 'compliance flexibility rule' (see scenario 1) and 'revised baseline' (see scenario 2):**

Client X was already verified by CNG against the KNG Standard 2.0 is in 2017. At that time, an organisational footprint of 250T CO_2-eq emission was ascertained (based on the organisation's 2016 emission data for GHG scope 1, 2 + relevant scope 3). Since then, the client has invested in solar panels, resulting in a new footprint of 200T CO_2-eq emission in 2020. In other words, the client has already reduced its footprint with 20% in 3 years time. In 2020, therefore a new annual reduction target may be ascertained:

- To claim to be 'on track' (**option 1A**): => client X only needs to reduce the remaining 29% (49% - 20%) in the period 2020 to 2030 (10 years) through scope 1, 2 + rel. scope 3 reductions => $Annual\ reduction\ target = \frac{49\%-20\%}{(2030-2020)} = \frac{29\%}{10} = 2{,}9\%$. This means that the client should at least reduce its own emissions with 2,9% * 250 = 7,25T/yr (for the period 2020 – 2030). Based on the compliance flexibility rule, client needs to prove a total internal reduction of 3 * 7,25T = 21,75T each three years.
- To claim to be 'climate neutral' (**option 1B**): client X needs to meet the annual 'on track' requirement, and in addition further reduce its emissions resulting from scope 1, 2 + rel. scope 3, through further internal reduction or eligible external reduction (offsetting) to net zero.

7. What other flexibility can CNG offer?

- Practicality is key. CNG deliberately chooses for a practical program that can be easily explained, and implemented and is sufficiently attractive (credible vs cost-efficient), so that many new clients can be attracted and actually large-scale impact can be made. However, a certain degree of ambitiousness is also needed. The 'On Track' claim is added, as an entry level for companies that want to make improvements, but cannot commit yet to climate neutrality).
- The program is not about 100% accurate footprint calculations (and spending a lot of effort on that), but rather about collective improvement results of all clients together. In other words, efforts should be on actual reductions, rather than the calculations thereof. Therefore, the following discrepancies are permitted:
  - Permitted footprint/ LCA calculation error – 5% and 20%, respectively. CNG offers the service of credible footprint calculation following ICROA's best practices, but clients can also choose from a list of approved/ eligible calculation methods and emission factors.
  - If LCA tools are not available for a certain commodity or material, best guesses and averages suffice, especially for complex supply chains (see proposition paper on insetting).

FOR STAKEHOLDER INPUT:

- Besides the 3 year compliance flexibility rule, what flexibility to offer in case clients do not achieve the annual reduction target, e.g. due to other pending investments or technical barriers? What 'promises' are acceptable and what not (anymore)? When is non-certification justifiable?

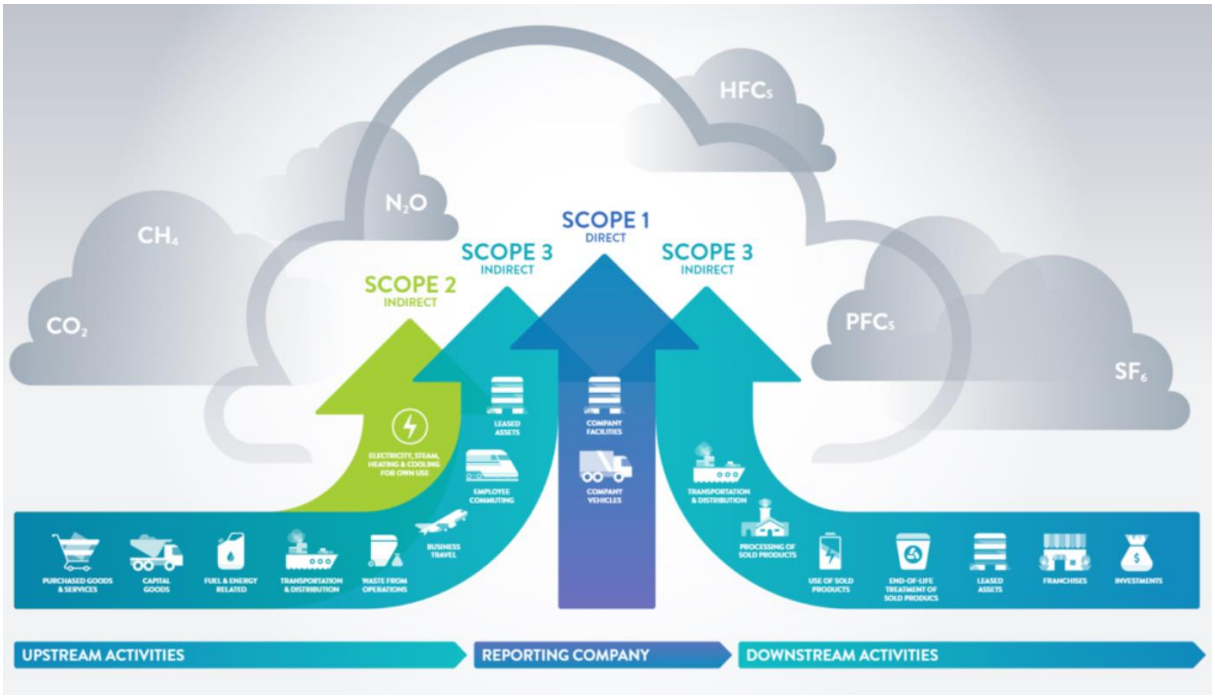
Annex 1: FAQs - GHG scope 1, 2 and 3 [12]

1. What are scope 1, 2 and 3 emissions?

The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes':

- Scope 1 emissions are direct GHG emissions from owned or controlled sources, e.g. fuels and refrigerants.
- Scope 2 emissions are indirect GHG missions from the generation or consumption of purchased energy, electricity heat or steam.
- Scope 3 emissions are all indirect GHG emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions, such as the extraction and production of purchased materials and fuels, procured transport-related services, electricity-related activities that are not covered in scope 2, outsourced activities, waste disposal, etc.

NOTE: CNG currently deals with certain scope 3 emissions as if they were scope 1/2 emissions. This, because those GHG scope 3 emissions can be directly controlled and influenced by the client, for instance emissions resulting from business commuting, business flights and packaging. In this document these emissions are referred to as '*Relevant scope 3 emissions*'.



2. What are product life cycle emissions?

Product life cycle emissions are all the emissions associated with the production and use of a specific product, from Gradle-to-Grave, including emissions from raw materials, manufacture, transport, storage, sale, use and disposal.

NOTE: CNG currently follows the 'Gradle-to-Shelf' approach and does not take e.g. use and disposal into account for GHG scope 3 emission calculations.

[12] Sources:
https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf
https://www.vitalmetricsgroup.com/ghg-reporting

3. What is the main difference between the two GHG standards?

The **GHG Protocol Corporate Value Chain (Scope 3) Standard** and **GHG Protocol Product Life Cycle Standard** both take a value chain or life cycle approach to GHG accounting. The Corporate Value Chain (Scope 3) Standard accounts for emissions at the corporate level, while the Product Life Cycle Standard accounts for emissions at the individual product level. The Corporate Value Chain (Scope 3) Standard helps companies identify GHG reduction opportunities, track performance, and engage suppliers at a corporate level, while the Product Life Cycle Standard helps a company meet the same objectives at a product level. Together with the **GHG Protocol Corporate Standard**, the three standards provide a comprehensive approach to value chain GHG measurement and management.

4. Why are value chain emissions important?

Most of the largest companies in the world now account and report on the emissions from their direct operations (scopes 1 and 2). The new standards close the GHG gap: businesses can now act on the full range of corporate value chain and product emissions as well. Emissions along the value chain often represent a company's biggest greenhouse gas impacts, which means companies have been missing out on significant opportunities for improvement. For example, road tester Kraft Foods found that value chain emissions comprise more than 90 percent of the company's total emissions. Developing a full GHG emissions inventory – incorporating corporate-level scope 1, scope 2, and scope 3 emissions – enables companies to understand their full value chain emissions and to focus their efforts on the greatest GHG reduction opportunities.

NOTE: It is for this reason that CNG has decided that corporates with high scope 3 emissions (more than 40% of their total emissions) should actively work in their value/ supply chains and hence cannot only qualify for 'certification of the organisation'.