Stakeholder Event:
CNG Certification Program

Climate Neutral Group
for better business

25th of June, 2019

Ellen Brouwer – van Haastert

1.

Introduction

Why are we here today?

CNG is currently revising its Certification Program, as per ISEAL's Codes of Good Practise.

iseal alliance

Today's objectives:

- To present our first ideas for the future CNG Certification Program
- To receive input from our main stakeholders on these ideas, which will be incorporated in a new version of the program documents.

Why a revision?

- 'Urgenda': now is the moment and the momentum!
- Request from clients
- Continuous improvement of CNG's activities

Who knows what's in the Paris Agreement?

- Reduce GHG emissions globally to a net-zero by 2050 => in 2050, a net-zero global balance between GHG emissions and reductions.

And, what's in the Dutch 'klimaatakkoord'?

- An additional, interim global reduction target is defined => in 2030, 49% GHG global emission reductions achieved, compared to 1990.

But, what is actually needed?

The world is slowly understanding and committing to the Paris Agreement.

But, new studies and more recent Climate Change Conferences (COPs) confirm:
more is needed!

- **Aim for 1,5° instead of 2° degrees temperature rise by 2050, to prevent disastrous effects.**
- **Technologies not fast enough for some major emitters e.g. steel and aviation industry. They cannot achieve the targets.**

So, <u>own reductions</u> are pivotal.

If not now, then when?

From:
What can I do?

To:
What is needed?

The context is also changing!

Expect much more stringent rules for nations and industries after COP’25:

Nations want to claim reductions achieved in their country **for their own NDCs**

Less offsetting projects available for voluntary market

Offsetting is getting more expensive

(price of credits increase + more stringent rules to prevent double-counting and rules to prove ‘additionality’)

More stringent rules for certain industries, e.g. carbon taxes, increase of carbon price, emission rights, etc

Emitting is getting more expensive

Natural ‘enforcement’ of own reductions

Round of introduction

1. Your name + organisation
2. What do you do, to reduce your own emissions
3. Your expectations of today's event

Who is Ellen?

Rainforest Alliance UTZ | Joining forces for a better future → Climate Neutral Group

It never works out as planned!

Some rules

- Respect each other’s opinions
- What you hear today, is just a starting point
- Please hold questions till the Q&A moments
- But, please interrupt for translation in Dutch
- Slides + minutes will be shared afterwards
- Conclusions of today will be posted on our website

Agenda

1. Introduction
2. Terms of Reference (for Development of the Program)
3. Proposition – Reduction Criteria (for Standard)
4. Proposition – Insetting Criteria (for Standard)
5. Assurance Protocol
6. Exercise
7. Wrap up

09:30 – 10:00	Registration and coffee
10:00 – 10:15	Welcome & Introduction by CNG Director
10:15 – 11:15	Presentation
11:15 – 11:30	Coffee break
11:30 – 12:30	2 break-out sessions: excercise
12:30 – 13:00	Wrap up & follow up
13:00 – 14:00	Lunch (free of charge)

2.

Terms of Reference

Describes the process and procedures for the development process of the CNG Certification Program (Standard, Assurance Protocol, Claims Policy)

Major changes

- ✓ In accordance with ISEAL Codes, and starting **ISEAL membership** trajectory

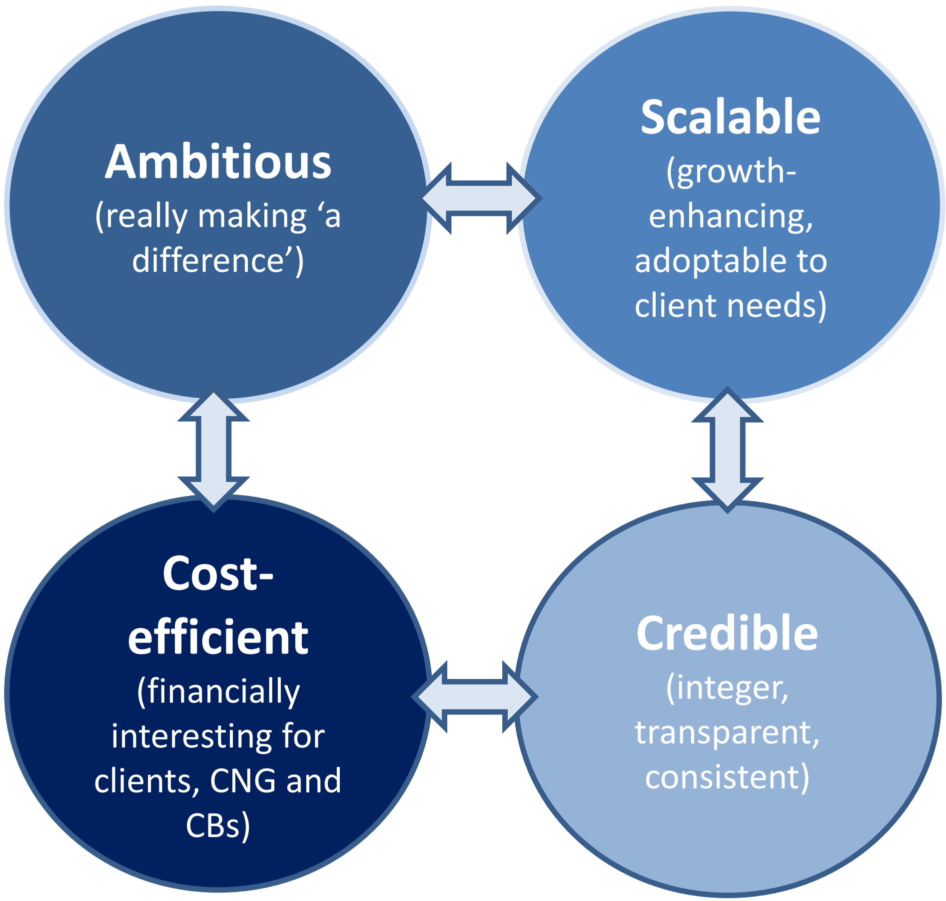
- ✓ A **certification package** ("**CNG Certification Program**"), including:
    1. REVISED: **Standard** with updated + new criteria, mainly on **reduction** and **insetting**
    2. NEW: **Assurance Protocol**
    3. NEW: **Claims Policy**

  (also in English and new terminology used)

- ✓ Verification and certification process **outsourced** to independent **Certification Bodies** (CBs)

- ✓ Focus on **internal reduction** (next to external reduction). '**On Track Program**' established to provide technical support to clients.

Finding the right balance, to make real impact!

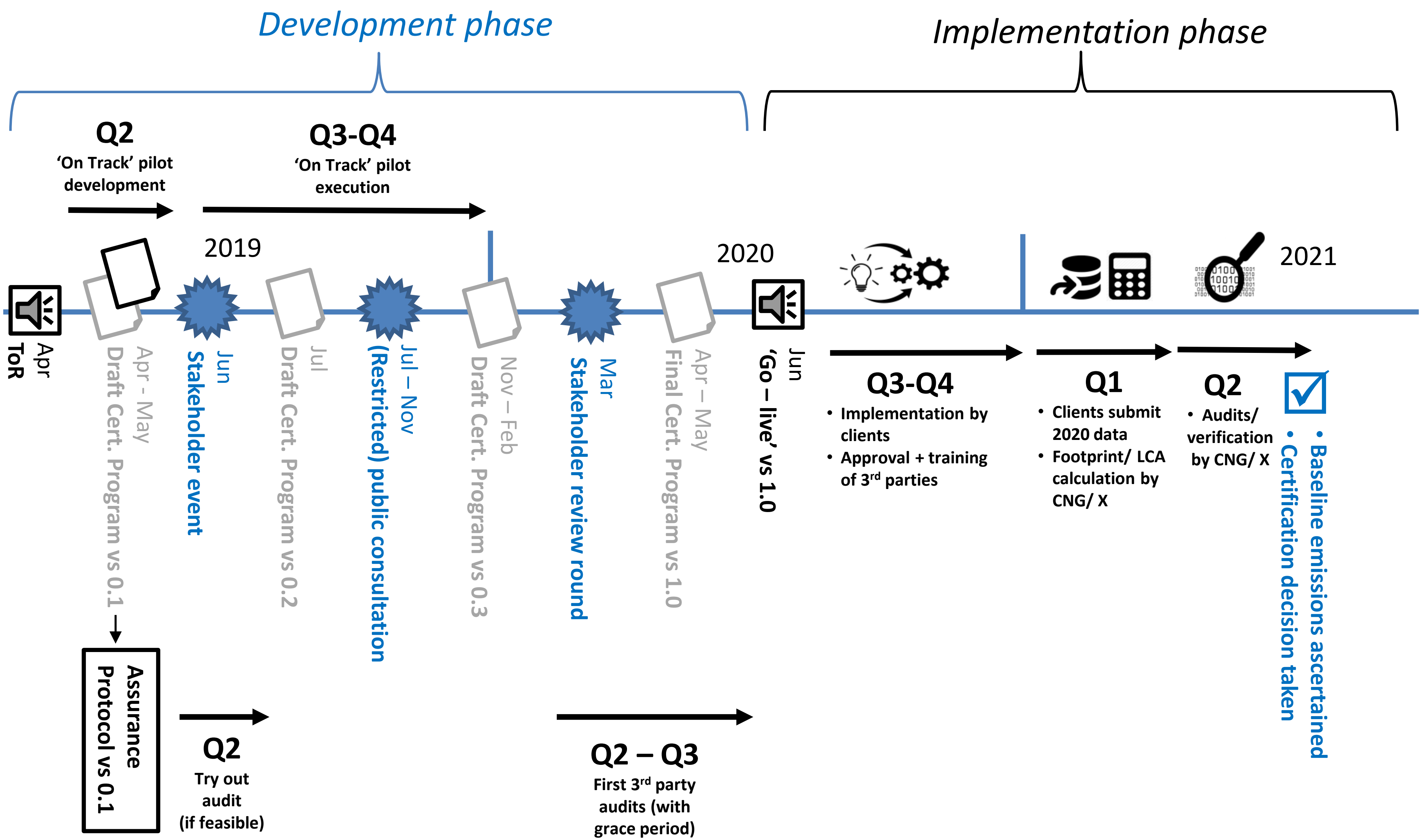


Through stakeholder consultation, we collectively decide where to 'put the bar', so that the program:

1. is distinctive and actually making a difference,
2. and can upscale rapidly…
3. and, does what is promises to do…
4. and, is financially feasible for clients, external parties and CNG to commit to.

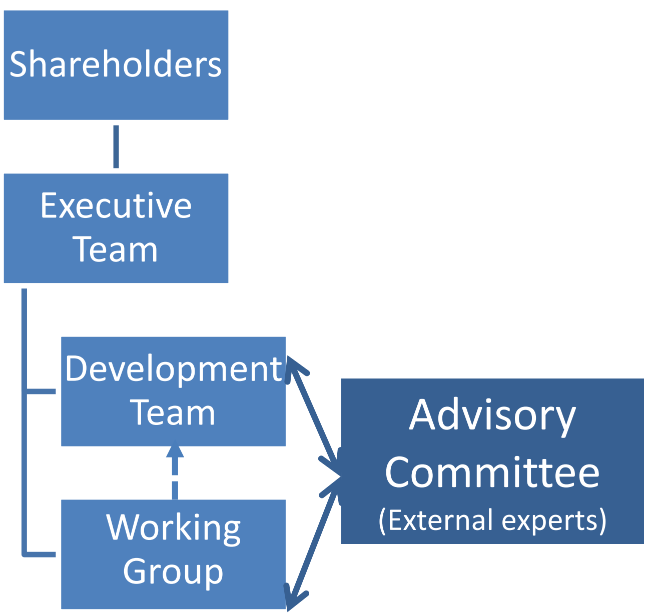
Roadmap Certification Program

Draft – vs June 2019



Advisory Committee

An independent **steering body**, representing the different **stakeholder categories**, overseeing the **development process and implementation** of the CNG Certification Program



Seat	Stakeholder Role	Stakeholder Category	Conditions	Voting right
1	CNG – Executive Team	Category 1: Stakeholder Body	CNG Executive Team Member	**No**
2	CNG - Shareholder	Category 1: Stakeholder Body	CNG Shareholder Representative	Yes
3	Client - Product	Category 2: Key Stakeholder	CNG client, certified for scope 'product'	Yes
4	Client - Organisation	Category 2: Key Stakeholder	CNG client, certified for scope 'organisation'	Yes
5	Certification Body	Category 3: Key Content Resource	Acknowledged by CNG to conduct audits	Yes
6	Governmental/ Regulatory body	Category 3: Key Content Resource	Overarching entity that defines (inter)national regulation that CNG shall comply with	Yes
7	NGO	Category 3: Key Content Resource	Active in energy management, climate change or environmental issues	Yes
8	Other (e.g. Consulting Firm, Service Provider, University, Research Institute	Category 4: Appreciated Stakeholder	Providing 3rd party services to CNG's Certification Program	Yes

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3.

Proposition – Reduction

Describes CNG’s position on (internal and external) GHG emission reductions

Objective

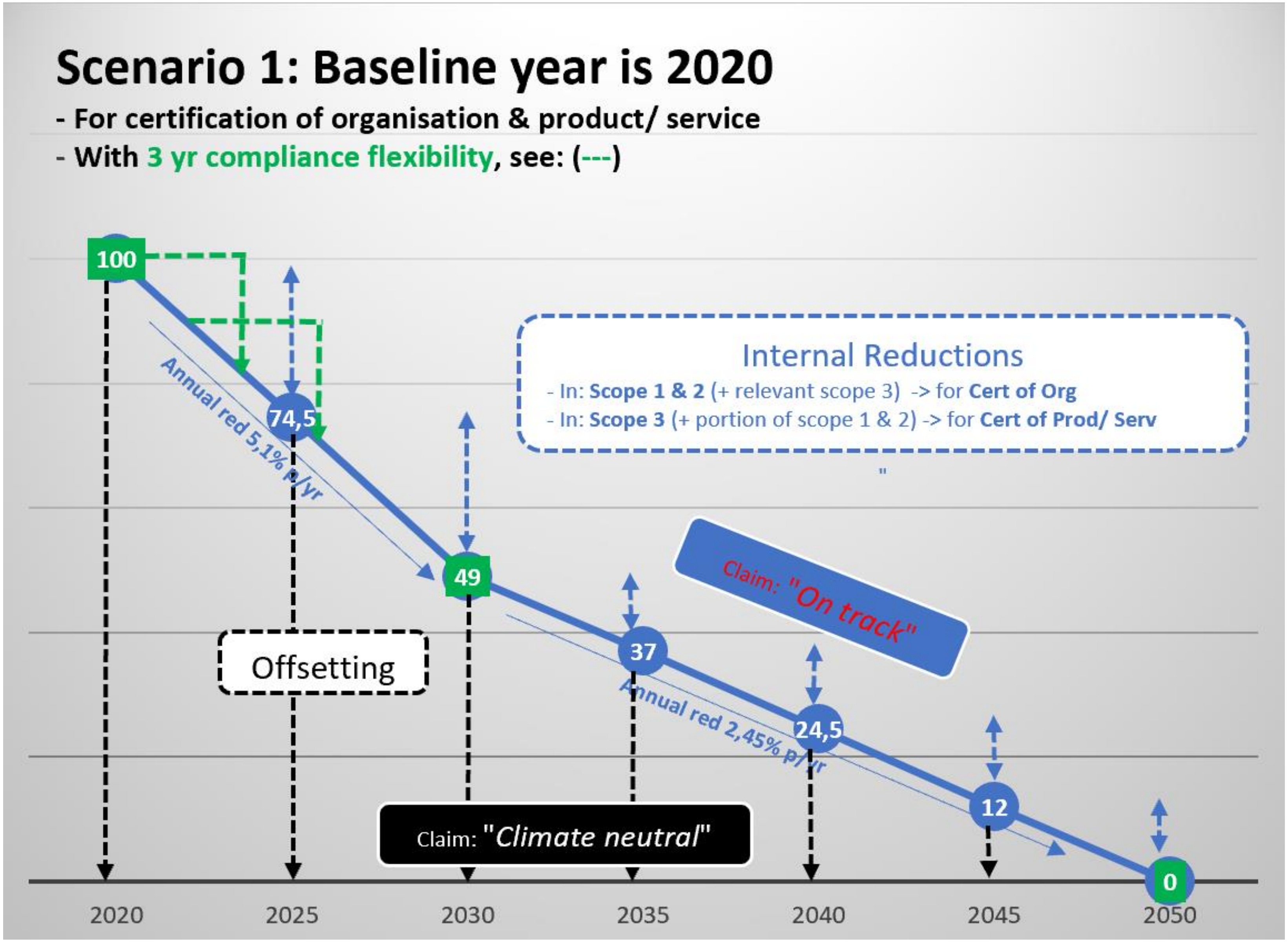
- **‘On Track’ program** challenges corporates to ‘**act in line with Paris Targets, with focus on internal reduction**’, so that the **CNG claim really represents a certain level of ambitiousness.**
- (A certain degree of) **internal reduction** is therefore encouraged and enforced through the CNG Standard.
- CNG will launch an ‘**On Track Program’** that helps clients to reduce internally.

Incentives for internal reduction:

- Market will partly regulate itself: **cost of emitting and offsetting will go up** most likely. Spent on iternal reduction instead of external reduction.
- **(Long-term) additional benefits**, such as lower operational costs, efficient use of resources, spur innovation, access to finance/ subsidies, etc.
- Reward clients that reduce internally more than required as ‘good performers’ (**lower audit frequency and intensity**).

3.3	De doelstelling wordt extern gecommuniceerd, bijvoorbeeld in het jaarverslag of op de website.	Alle
4	Reductie van CO_2-voetafdruk tot 0	
	Interne reductie	
4.1	De organisatie is actief bezig met CO_2-reductie.	Alle
4.2	De organisatie heeft een plan van aanpak vastgesteld dat leidt tot minder CO_2-uitstoot binnen de grenzen. Dit plan heeft milestones, budget en de verantwoordelijkheden zijn gedefinieerd.	Alle
4.3	Op jaarlijkse basis wordt voortgang in de uitvoering gerapporteerd. Beoordeling op basis van inspanning, niet van resultaat.	Alle
	Externe reductie	
4.4	De organisatie kan aantonen dat de resterende CO_2-voetafdruk voor het gekozen jaar tot nul is teruggebracht door externe reductie (compensatie) via VER projecten.	Alle

Summary



Scenario 1: Baseline year is 2020
- For certification of organisation & product/ service
- With 3 yr compliance flexibility, see: (---)
100
74,5
49
37
24,5
12
0
Annual red 5,1% p/yr
Annual red 2,45% p/yr
Internal Reductions
- In: Scope 1 & 2 (+ relevant scope 3) -> for Cert of Org
- In: Scope 3 (+ portion of scope 1 & 2) -> for Cert of Prod/ Serv
Claim: "On track"
Offsetting
Claim: "Climate neutral"
2020
2025
2030
2035
2040
2045
2050

How will it work? (1)

1 **First year of certification (t=0):** The total number of annual GHG emissions is calculated and validated => ‘***baseline year***’ and ‘***baseline footprint/ LCA***’ are ascertained.

NOTE: *Earlier year may become the baseline, if credible footprint or already achieved reductions can be demonstrated.*

Which emissions to include in the baseline footprint/ LCA calculation?

Option 1: Certification of the Organisation	**Option 2:** Certification of a Product (or Service)
All emissions that resulted from the organisation’s **own organisational activities:** • total of GHG scope 1 + 2 + • relevant GHG scope 3 emissions (e.g. business commuting, business flights, packaging)	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: • GHG scope 3, for that product/ service only + • the corresponding portion of GHG scope 1 + 2
FOR STAKEHOLDER INPUT: ✓ ‘**40% scope 3 rule**’, in line with the Science Based Targets ✓ all sites, locations and **sub-contractors** to be included	**FOR STAKEHOLDER INPUT:** ✓ ‘**80% materiality rule**’ for complex supply chains with many tiers and ingredients ✓ ‘**Mass Balance approach**’, in case origin is unknown.

How will it work? (2)

2 **By 2030,** 49% internal reduction needs to be achieved (compared to the baseline)

By 2050, remaining 51% (thus totalling to 100%) needs to be achieved

=> An *'**annual reduction target**'* can be calculated:

- Between baseline year - 2030: $Annual\ reduction\ target = \frac{49\%}{(2030-baseline\ year)}$ = $\frac{100\%}{Y\ years}$ = *X %*
- Between 2031 - 2050: $Annual\ reduction\ target = \frac{51\%}{(2050-2031)}$ = $\frac{51\%}{20\ years}$ = *Y %*

***NOTE:** Annual reduction target is always expressed as a ratio of e.g. FTE, production volume, sales volume, etc): original baseline footprint/ LCA can be adjusted in a certain year, e.g. due to company growth.*

How will it work? (3)

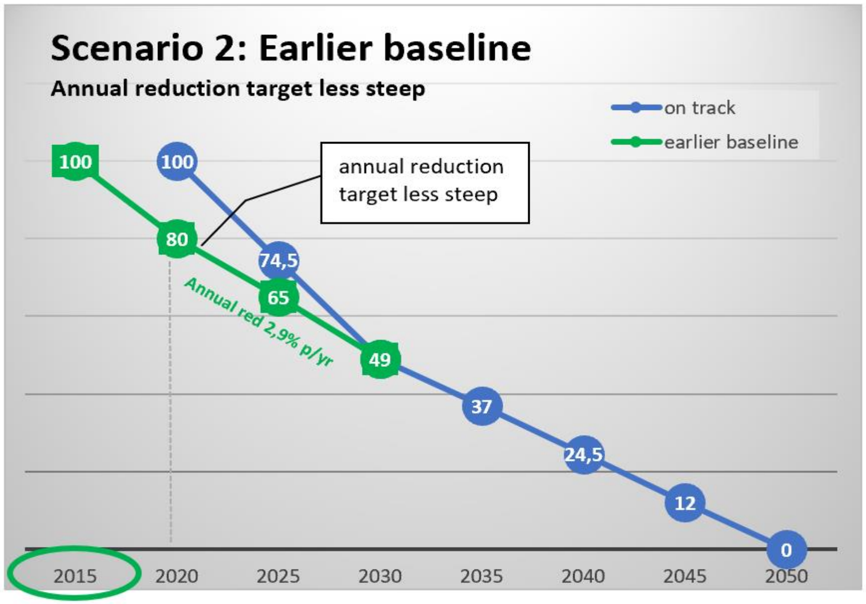
3 **All interim years:** new footprint/ LCA calculation is made, that demonstrates compliance with annual reduction target. If achieved,

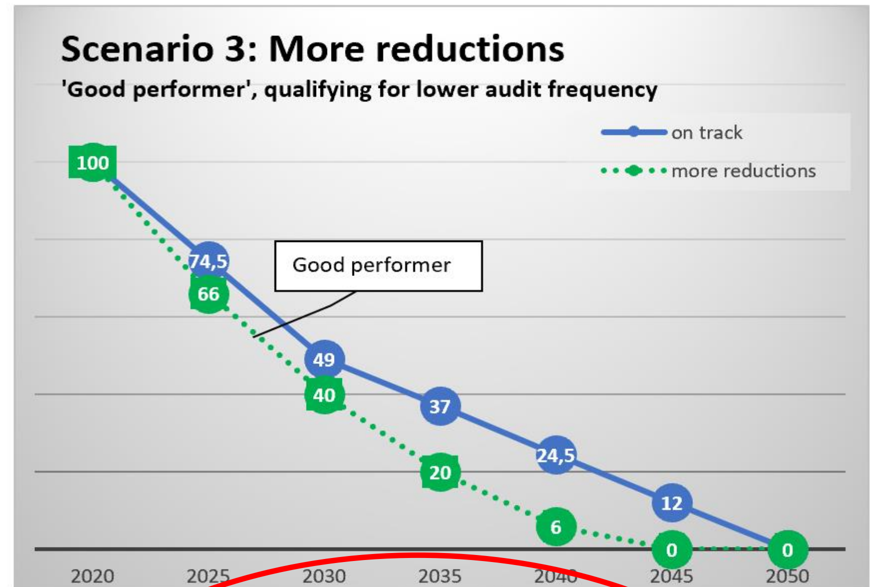
NOTE: *'Compliance flexibility rule': To facilitate compliance, clients are given a 3-years-period to demonstrate internal reduction results. After these 3 years, the required reductions has accumulated for 3 years, meaning 3 * annual reduction target needs to be achieved .*

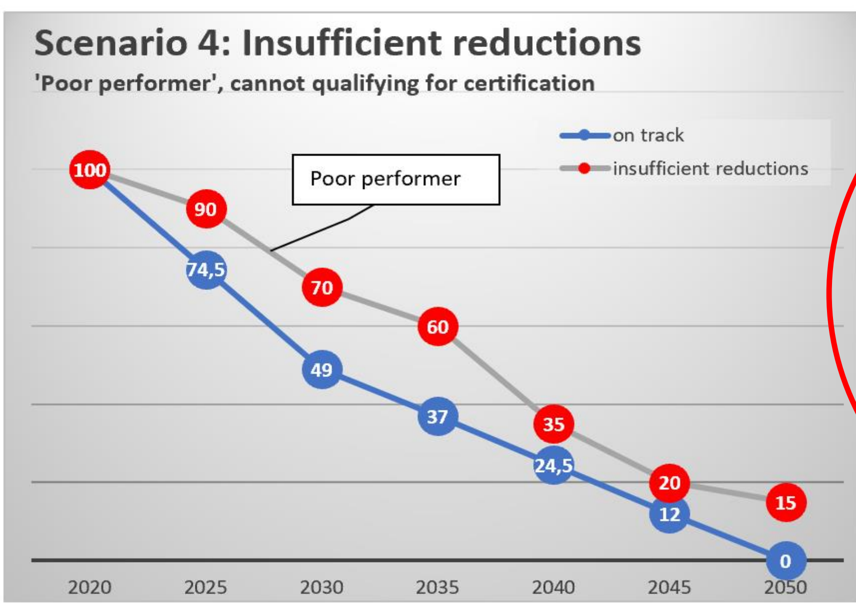
How to reduce, in order to be permitted to make claims?

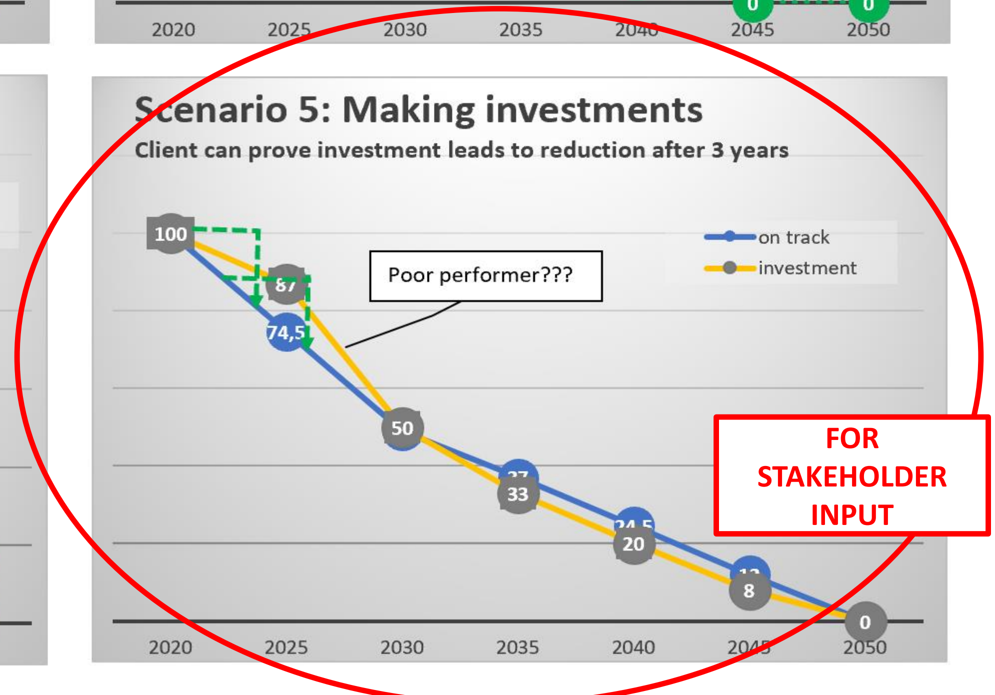
	Option 1: **Certification of the Organisation**	Option 2: **Certification of a Product (or Service)**
Claim - option A: **'On Track'**	**1A**: (FOR STAKEHOLDER INPUT) • Internal Scope 1 + 2 + relevant scope 3 reductions	**2A:** not permitted
Claim - option B: **'Climate Neutral'**	**1B:** • More internal 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

But, reality is different….









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Proposition – Insetting

Describes CNG's view as to how insetting can be used for product certification

The context and proposition

- Risk of double-counting and illegitimate claiming. Discussion on insetting still going on, expected to be finalised after COP25.
- ICROA is currently drafting ‘Insetting Guidelines’. CNG is a member of ICROA’s Insetting Taskforce.

CNG’s proposition - for product certification only:

- 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, import, (re-)packaging, transport and/ or retail) that leads to **a direct (proven) GHG reduction**.
- This achieved reduction in the supply chain 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’.

Conditions for client's LCA calculation

- The product's emissions are calculated following **credible LCA calculation methods** (e.g. ISO 14040 & 14044, GHG Product Life Cycle Standard and Corporate Standard).

- The client creates a '**supply chain map**', and estimates all major and minor ingredients and supply chain emitters
  - ✓ Emissions caused by minor ingredients and/ or minor emitters may be excluded from the LCA calculation (for a maximum of 20%, see **'80% materiality rule**'),
  - ✓ If unknown origins, a **Mass Balance approach** is permitted (client makes certain investments, for which in turn may make claims for a proportional amount corresponding with the investment; however to compensate, an additional X% is added to the emissions.

- The **LCA is verified** by eligible, independent Certification Bodies as part of the overall verification and certification process.

Conditions for insetting projects (1)

- Client invests in the development of an emission reduction project (or initiative) at any location where a supply chain activity of the **certified product** takes place.

- Project can be initiated/ owned by client itself, suppliers or partners, 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 principles of **Additionality, Uniqueness, Measurability and Verifiability**

Conditions for insetting projects (2)

- 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.

- The investment location (project) is part of the scope of the client's audit and thus can be audited physically (see rules in Assurance Protocol)

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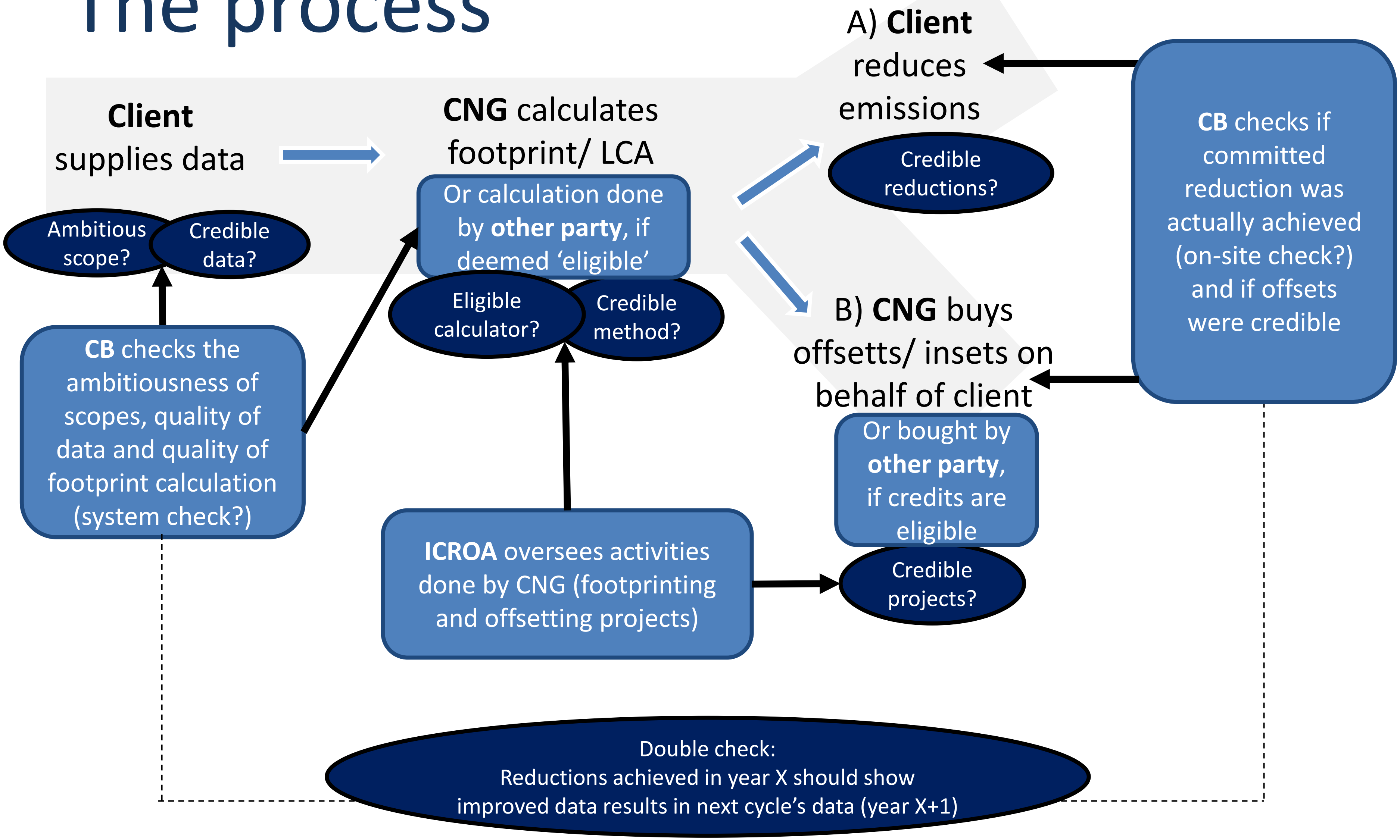
Assurance Protocol

Describes the processes and procedures related the verification and certification process

The process



= Process flow

= Check by independent 3rd party

= Measures implemented in the process to mitigate the chance for (potentially perceived) Conflicts of Interests (CoIs)

Outsource to CBs

For impartiality reasons, clear separation between scheme owner and verifier.

Two reviews:

1. Review <u>method/ tool</u> + <u>data input</u> of **footprint/ LCA calculation**;
2. Review of **implementation,** i.e.
   - reduction targets achieved?
   - credible credits bought?

CB	Headquarter	Background
DNV·GL	Norway	Organisation footprint
NEPCon	Denmark (Estonia)	Developed similar standard
ECOCERT	France	Project verification

- **Level playing field:** client can choose preferred CB.
- CB can decide for **suspension/ non-certification.**
- **Scheme owner does not interfere** in price setting or certification decision, (assurance protocol provides rules).
- **Cost of audit** similar to current program (+ with additions due to new requirements).
- Auditors are **based in the country**/ region where audit takes place, to keep costs low.
- CB may **not provide technical advise** nor tell the client how to become compliant advise (CoI).
- Stringent **Eligibility criteria** for CBs, auditors and certifiers (and FCs).
- Stringent '**Oversight Mechanism**' to assure good and consistent performance, e.g. through accreditation, peer review, CB monitoring program, or evidence through data.

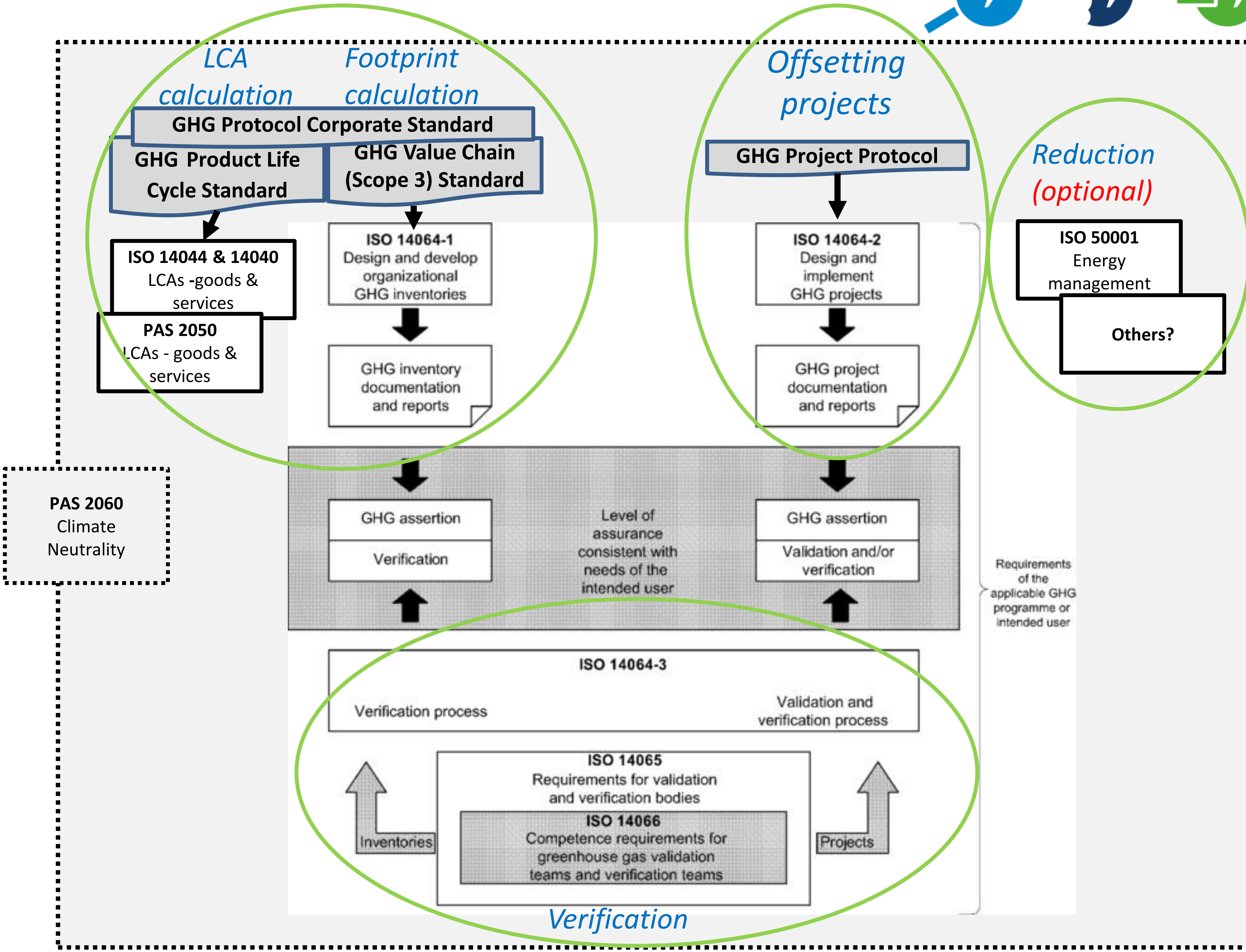
Audit frequency and intensity: desk review vs on-site audit

- **New clients:** 1st year, or after suspension/ non-certification: on-site audit.
- **Small volume clients:** baseline footprint <1000MT -> desk review, except for 1st year.
- **Certified clients:** clients in year 2, 3, etc -> every three years: on-site audit (in line with 'compliance flexibility rule'), other years: desk-review.
- **Good performers:** no major + minor NCs OR reduced more than required in past two years in a row, may decide to skip audit one year.

Audit duration and audit fee calculation

- **Audit fee:** audit preps time + actual audit (on-site or desk-review), report-writing + travel time, against a 'daily auditor rate'.
- Different '**daily auditor rates'**, depending on experience and home-location.
- Reduced audit time if: **self-assessmen**t is done by client, or in case of **desk review**.
- For **certification of products**, audit time depends on the complexity of the product's supply chain.

Relevant norms and schemes



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Exercise in sub-groups

Explanation of the exercise

- **Objective:** to get your input on some major outstanding questions.
- Role of CNG facilitatir: cannot steer the discussion, but will facilitate, take minutes, and input group's final answer.

	Group 1	Group 2	Group 3	Group 4	Group 5
Questions to answer	**Q1 + Q2**	**Q3 + Q4**	**Q5a+b**	**Q6 + Q7**	**Q8 + Q9**
CNG Moderator	Martijn	Leonardo	Mark	Arjen	Rene
1	Asito	Navigant	IDH	Ahold	Weleda
2	Smarttrackers	Van Zelst	Neuteboom	Ecocert	Polycon
3	SMG Groep	FAO	SIM Supply	NEPCon	Brabant Water
4			Hesselink Coffee		

- **All program documents:** see link in mail of Thursday 20th of June (section 4)
  https://www.climateneutralgroup.com/en/cng-certification-program-development-process/ -> scroll down

- **Exercise – questions and answers:**
  https://www.climateneutralgroup.com/en/cng-certification-stakeholder-consultation-round-1/

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Wrap up

Recap of the exercise

Many more opportunities to provide detailed feedback,

but for now…

1. Any major conclusions you wish to share?
2. Any major concerns or any other suggestions for CNG?

What’s next?

- Feedback received today will be included in **new versions**.
- **Online stakeholder consultation** round: August – October.
- For questions, please contact: certification@climateneutralgroup.com

- Audit season in Q2-2020: against **current KNG Standard** vs 2.0 + **Assurance Protocol** (by CBs).
- New standard goes live in June 2020, meaning nearly 1 year implementation period.
- Audit season in Q2-2021: against **new CNG Standard**

To conclude…

Stakeholders interested in joining the Advisory Committee?

Clients interested in acting as ‘Ambassadors’?

- Did we meet your expectations? Was this event useful?
- We share minutes + presentation slides afterwards
- Don’t forget to score our current program + our future program!
- Any objections sharing contact details or pictures?

8.

Other

Work out the finances

A	Certification fees	
1	**Audit fee**	For verification, depending on emission volume
2	**Program fee**	For logo approval and claims use, depending on emission volume

B	Implementation fees	
3	**Consultancy fee (optional)**	For technical advise, determined on case-by-case basis
4	**Offsetting fee (optional)**	For credits, x amount per purchased CER/ VER
5	**Insetting fee (optional)**	For development of insetting activities/ projects

C	Additional/ optional fees	
6	**First Movers fee (TBD)**	For ‘First Movers’ or ‘Elite Members’ only
7	**CB fee (TBD)**	For CB approval/ accreditation and training

General benefits of certification

Allows organisations to use the seal and/or make a claim, to….

1. Get formal recognition and reward for all the (calculation/ offsetting/ reduction) investments and efforts made (just a logical 'next step' for a relatively low fee)
2. Distinct yourself from competitors by showcasing your 'doing good's' / be ahead of competitors (seal = competitive advantage) **-> business grows!**
3. Attract additional access to finance (or subsidies), as a result of excellent performance -> **additional income sources!**
4. Increase investor/ stakeholder confidence, through credible verification of achievements
5. Inform (potential) consumers about climate issues in general

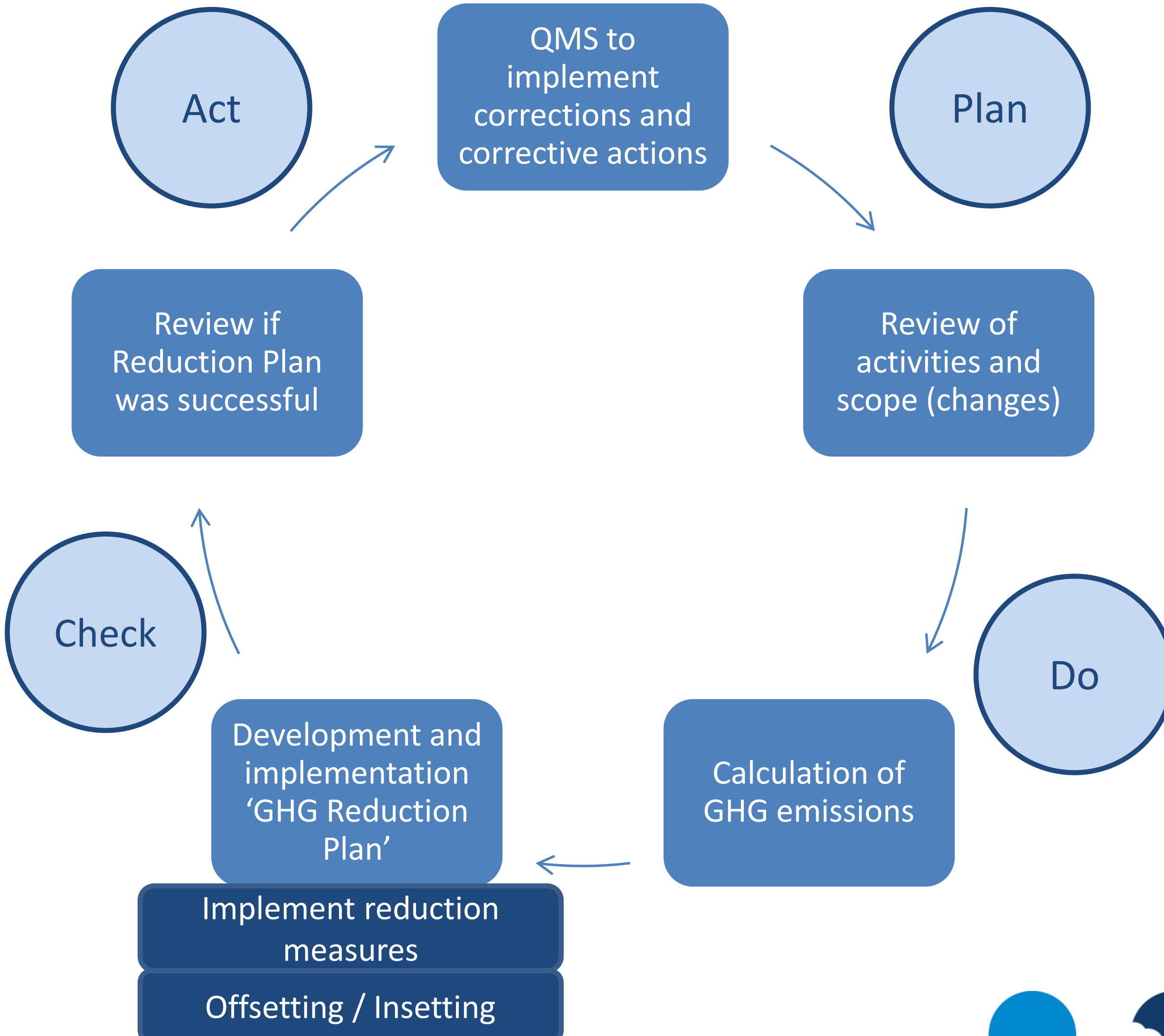
But also a 'management tool' that helps organisations to…

6. Make positive contributions to climate change (i.e. as part of their CSR program)
7. Increase business efficiency / profitability by organising operations differently (e.g. lower energy costs, material savings, etc) **-> costs go down!**
8. Get prepared for or staying ahead of regulatory changes
9. Spur ambition for company innovation

Additional incentives, CNG wants to develop:

10. When compliant, access to certain financial advantages, e.g. partnership with donors, governmental subsidies, etc **-> additional sources of income!**
11. Create links with other schemes: carbon neutrality is requirement under their certification program and CNG standard is recognised as such

Encouragement of improvement



GHG scopes 1, 2, 3

THANK YOU!

For questions, please contact us at:
certification@climateneutralgroup.com