



Proposition Paper: Insetting Criteria

For the new CNG Standard

(DRAFT RELEASE - vs 0.2 - July 2019)

1. Introduction

Insetting has evolved from the concept of offsetting, whereby corporates purchase offset credits (generated

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 has been developed by CNG and includes an **updated proposal** for **Insetting Criteria**, which we envision becoming a key element of the new CNG Standard (for certification of a product).
- Input received from stakeholders during the Stakeholder Event (which took place on the 25th of June, 2019) is incorporated in this updated version. Major changes, as compared to the first version of this document, are listed in the 'Changes Document'.
- Key stakeholders are invited to provide their feedback on this second proposal, through a formal **Online Consultation Round (open from September 15th to November 24th, 2019)**. This feedback will be incorporated in the development process for the CNG Standard criteria. CNG strives for criteria that are practical and realisable, but also sufficiently ambitious to make an impact.
- This proposal is in accordance with the '**ICROA Insetting Recommended Practice Guidance**' (vs. June 2019), which was, at the time of writing this document, still under development.
- This document is publicly available for free (from the CNG website) in English (official and binding version) and Dutch.



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through eligible¹ 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, such offsetting projects offer additional socio-economic and environmental co-benefits to local communities.

Insetting typically provides for the same reduction of GHG emissions, but the differences are that: 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 between how insetting is defined and what is recognised as international best practice (i.e. what the credibility and additionality criteria should be). Certainty is needed so that insetting can be used for corporates' climate neutrality claims post-2020. (Inter)national insetting and offsetting regulations for the voluntary market are expected to change after COP25 in Santiago. For this reason, 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 by ICROA's Code of Practice and actively contributes to the development of ICROA's Insetting Guidelines as input for COP25.

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

FOR STAKEHOLDER INPUT:

- **Q-IC-01:** Are CNG clients who are certified for their organisation interested in insetting in their supply chains, if that would allow them to bring their own GHG scope 1 and 2 emissions down so that they can meet their internal reduction target (see '*Proposition Paper – Reduction Criteria*')?

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

When a CNG client wishes to get a certain product in its product portfolio certified, the emissions caused throughout the supply chain to produce and deliver that 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, and (optionally) delivery and disposal of that particular product or service, i.e. from Cradle-to-Gate/Shelf/Grave². In practice, this accounts to the client's scope 3 emissions (for that particular

NOTE: A more detailed explanation on the footprint calculation of a product, as well as more details on the GHG scopes 1, 2 and 3, can be found in the '*Proposition Paper – Reduction Criteria*'.

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

² Depends on what was agreed with Footprint Calculator, as part of the scope and boundaries definition process, see Assurance Protocol.



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product only), plus a corresponding portion of the client's own scope 1 and 2 emissions³ that occurred during the client's activities related to that product.

If, according to 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, import, (re-)packaging, transport retail and/or disposal) 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 product's emissions footprint, which (when net zero) entitles the client 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:

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| Footprint calculation principles for products | <p>The product's emissions shall be calculated following credible footprint calculation methods⁴ (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.</p> <p>Supply chains are, however, complex and ingredients' origins are not always known or traceable, therefore CNG allows for a certain degree of flexibility versus accuracy for the product's footprint calculation. The CNG Certification Program therefore allows clients to choose from four footprint and compliance options (described in detail in Section 4 of the '<i>Proposition Paper – Reduction Criteria</i>'), namely:</p> <ul style="list-style-type: none"> • OPTION 1 - '80% Materiality Approach' • OPTION 2 - 'Tier Approach' • OPTION 3 - 'Mass Balance Approach' • OPTION 4 - 'Gradual Improvement Approach' |
|--|---|

3.2 For insetting projects:

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|-----------------------------------|--|
| Type of investment | <p>The corporate (CNG client) invests in an emission reduction project (or initiative) within the perimeter of the supply chain of the <u>certified product</u> (i.e. the product for which the client wishes to receive 'product certification').</p> <p>Thus not: within the supply chain of another (non-certified) product of the client's portfolio. However, if the supply chain is unknown, the Mass Balance Approach may apply, see above.</p> |
| Location of the investment | <p>At any location where a supply chain activity takes place, e.g. raw material production, product transformation or transportation.</p> <p>Thus not: an activity that takes place within the supply chain's sphere of influence and/or within communities of the supply chain.</p> |
| Timing of the | Two possibilities: |

³ The '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.

⁴ 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)



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| <p>investment</p> | <ol style="list-style-type: none"> 1. <i>Ex ante investment approach – the investment is made before the actual reduction is achieved:</i> The CNG client transfers a lump sum to the project owner, so that the project can be developed or initiated. Once the project results in emission reductions, these reductions are converted to ‘reduction units’ which are then transferred to the client, for the corresponding amount of the lump sum, so that the client can claim these reduction units for its own reduction needs -> this possibility can be used if external finance would be needed in order to start a project. 2. <i>Ex post credit approach – the investment is made after the actual reduction is achieved:</i> Another party has invested/initiated the project, which has resulted in additional emission reductions. Likewise, these additional reductions are quantified, converted to ‘reduction units’ (‘credits’) and registered. Depending on the client’s needs to reduce, the client purchases these credits, and by doing so, facilitates the continuation of the project -> similar to offsetting, but with the additional benefit that client invests directly in its own supply chain. |
| <p>Project initiation</p> | <p>Projects are developed/initiated by a project initiator/owner, which can be the CNG client itself, suppliers or partners of the product’s supply chain, external third 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 owner can provide evidence of / adhere to the following principles:</p> <ol style="list-style-type: none"> 1. Additionality: the reductions would not have been achieved if the investment had not been made (<i>evidence needs to be provided</i>); 2. Uniqueness: the reductions are only counted and claimed once (Thus: if the reductions need to be added to nations NDCs, then they cannot also be claimed by the CNG client) (<i>evidence needs to be provided</i>); 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 method and calculation used for the conversion of reductions (achieved at the investment location) into ‘reduction units’ can be verified and evidence can be shown by the project owner. |
| <p>Project design and implementation</p> | <p>Like regular offsetting projects, eligible insetting projects shall be based on the GHG Project Protocol and ISO 14064-2:2019, which requires that:</p> <ol style="list-style-type: none"> 1. first a project plan with estimated emission reductions shall be developed and validated by an eligible Certification Body (CB) for correctness, and; 2. once implemented, the actual reductions are made quantifiable, booked in a registry to prevent double claiming, and verified by the same CB. |
| <p>Project validation and verification</p> | <p>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.</p> |



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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 that aims 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 e.g. 'Mass Balance Approach', see Section 3.1):

- *Example 3:* A coffee climate smart coffee project that promotes different use of pesticides and fertilizers, in a way which is proven 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.