

Scoping Document for Study on Incentivizing Measures in the Supply Chain that Promote Resource Efficiency and Sustainable Development

About The Gold Standard Foundation

The Gold Standard is an award winning certification standard for carbon mitigation projects and is recognised internationally as the benchmark for quality and rigour in both the compliance and voluntary carbon markets. The Gold Standard certifies renewable energy, energy efficiency, waste management and land use & forest carbon projects to ensure that they all demonstrate greenhouse gas (GHG) reductions and sustainable development benefits in local communities that are measured, reported and verified.

Gold Standard projects must adhere to a stringent and transparent set of criteria developed by the GS Secretariat, overseen by an independent Technical Advisory Committee and verified by accredited independent auditors. The certification process uniquely requires the involvement of local stakeholders and NGOs.

Background

As the Gold Standard scales-up its climate impact it is exploring how it might become involved in wider private sector efforts in sustainable supply chains, including the potential to certify products in relation to their environmental and social impacts.

At the same time, The Gold Standard has been approached in relation to a methodology that would quantify carbon savings and other environmental benefits in a manufacturing process for a lower carbon footprint coating material for use in beverage and food packaging.

The proposed methodology deals with the reduction in energy associated with the production of one or more of the raw materials used in the formulation of the coating. Whilst of significant interest the project is not currently covered under The Gold Standard's existing schemes because the emission reductions take place indirectly in the wider supply chain (i.e. the emission reductions actually happen upstream of the lower carbon footprint coating production facility). Although approved methodologies for indirect carbon offset projects currently exist, additional methodologies will need to be developed to handle such supply chain projects.

As a result, discussions have begun on allowing an extension of The Gold Standard Foundation's current scope – extending it to the certification and labelling of products like lower footprint coating material. Product certification by The Gold Standard would signal to customers that a product delivers climate and sustainable development outcomes.

Using the same lower footprint coating material as an example, an alternate option to product labeling would be the potential crediting of Scope 3 GHG emission reductions in a robust, accurate and rigorous manner, including reductions in emissions due to the replacement of high GHG intensive raw materials with low GHG intensive raw materials.

Proposed Study

The Gold Standard proposes to research and assess various possible approaches to incentivize resource efficiency and sustainable development in supply chains.

Potential Approach 1. *A GHG accounting and carbon credits based approach with assessment of Sustainable Development co-benefits*

This approach will be in line with current Gold Standard practice – i.e. to issue carbon credits against emission reductions in projects that meet Gold Standard requirements. Under this approach, a baseline and monitoring methodology will have to be designed. The methodology will need to be robust enough to be applicable to both small and large-scale projects, and must ensure that the emission reductions that happen upstream of the product formulation or manufacturing plant can be quantified and monitored accurately.

Two specific matters associated with such an approach that would need to be addressed in a robust and reliable manner are double counting and baseline emissions determination:

- a. This approach could result in the double counting of emission reductions, however there are existing accounting methods available and already used widely that could adequately address this matter. They could also be further developed if required. The ownership of the emission reductions resulting from these projects/activities is a key issue which must be addressed.
- b. There may also be great challenges in determining baseline emissions of a product/process due to commercial dynamics in supply chains, product development cycles and policy uncertainty around the potential implementation of cap and trade mechanisms that may include the baseline sector/plant. Again, a robust and rigorous model is needed to handle the situation where, for instance, the emission reductions are due to a change in one of the chemical raw material components of a formulated product and where the baseline raw material component is produced in petrochemical plants in various geographical locations.

Potential Approach 2. *Product labeling where The Gold Standard will assess the carbon reduction and Sustainable Development benefits associated with efficiencies achieved in the production of a specific product.*

Such an approach will, in many cases, be driven by product buyers. In the case of a consumer product, for example, a consumer product company would incentivize an initiative taken by a supply chain manufacturer by giving preferential treatment to the supplier by buying the product at a premium or prioritizing the supplier who is taking the initiative over his peers. The product buyer can thus claim that their supply chain is energy efficient and claim sustainable development benefits as part of their CSR reporting and/or report the improved energy/carbon performance (and the associated SD benefits). This approach may be less appropriate in B2B situations.

Feedback Requested

The Gold Standard invites feedback from stakeholders on the approaches outlined above and/or other possible ways to incentivize activities that reduce GHG emissions in supply chains. The Gold Standard welcomes specific feedback on the pros and cons of any potential approaches together with ideas on how specific matters raised may be satisfactorily addressed.

There is a tremendous opportunity to incentivize supply chain improvements and thereby support and accelerate the adoption of lower carbon and more sustainable products. We look forward to, and encourage, the input of our stakeholder in this important area in order to develop approaches that can be adopted to address this opportunity in a responsible, rigorous and acceptable manner for the greater benefit of the environment and future sustainable development.