Climate Compensated Shea Q&A

SECTION 1

Introduction to our project partner and definitions of frequently used terms.

a. Who is FairClimateFund?

FairClimateFund is the ethical carbon project developer AAK has chosen as a partner. It uses the Voluntary Carbon Market to finance projects and Sustainable Development Goal (SDG) impacts, supporting individual households, farmers, and communities to adapt to climate change. All projects are certified according to the quality marks of one or more of the following standards - Verified Carbon Standard (VCS), Plan Vivo, Gold Standard, and Fairtrade Climate Standard.

FairClimateFund aims for a fair climate: a world in which those who contribute most to climate change invest in CO_2 reduction projects that benefit people most vulnerable to the effects of climate change. The goal is to work with partners to provide cleaner cooking solutions for half a million people and to plant half a million trees to reduce a million tons of CO_2 before 2025.
Find out more at fairclimatefund.nl.

b. Net zero

Net zero refers to a state in which the greenhouse gases going into the atmosphere are balanced by removal from the atmosphere. And this is the internationally agreed-upon goal for mitigating global warming in the second half of the century. Under the 2015 Paris Agreement, governments agreed to make efforts to limit global warming to 1.5 °C. The Intergovernmental Panel on Climate Change (IPCC) subsequently concluded that global emissions must reach net zero by 2050 to give a reasonable chance of staying within 1.5 °C. Most countries have now set targets, or are committed to doing so, to reach net zero emissions on this timescale.

The Science Based Targets initiative (SBTi) helps companies set emission reduction targets in line with the Paris Agreement goals and the ambition to achieve net zero by 2050. As of December 2023, the SBTi has approved our AAK climate change reduction ambitions, and we will publish our progress in the annual sustainability report.

c. Carbon offsetting vs carbon insetting

Carbon offsetting is the widely used practice of companies or individuals compensating for carbon dioxide (CO_2) emissions arising from their activities by participating in schemes designed to make equivalent reductions of CO_2 in the atmosphere. Offsetting can be done by directly funding projects, such as tree planting or buying carbon credits generated by CO_2-reducing projects. There is no requirement for the CO_2-reducing scheme and the source of the actual emissions to be connected.

Carbon insetting operates on a similar principle of compensation for emissions but with one crucial difference. It brings the carbon reduction process in-house, which means companies invest in carbon reduction or removal projects within their own supply chains instead of buying carbon credits from unrelated third parties. So, companies take steps to directly reduce their carbon footprint and positively impact the communities, landscapes, and ecosystems associated with the value chain.

AAK funds both insetting and offsetting initiatives to reduce and compensate for CO_2 emissions.

d. Climate compensated

We use this term to describe the shea-based products where we have offset unavoidable emissions with Gold Standard and Fairtrade carbon credits generated by a FairClimateFund cookstove project in Burkina Faso that funds climate action in the shea supply base.

SECTION 2
Generating and verifying the carbon credits

a. How are the carbon credits generated?

AAK has partnered with FairClimateFund to generate Fairtrade and Gold Standard carbon credits from their Birds, Bees, and Business project in Burkina Faso, one of our shea supply regions.

The project reduces CO_2 emissions by training women shea collectors to build and use safer, more energy-efficient cookstoves - the same principle as our cookstove project in Kolo Nafaso. FairClimateFund offsets emissions from the new cookstoves by issuing Fairtrade and Gold Standard carbon credits. Local communities benefit from the carbon credit premium, which goes back to the women's cooperatives in Burkina Faso for climate adaptation measures.

AAK buys the carbon credits issued to offset the emissions calculated at a product level. In this way, we can offer LIPEX® SheaSoft TR™, LIPEX® SheaLiquid TR™, LIPEX® SheaLuxe TR™, and LIPEX® Shea as climate-compensated products to our customers.

b. Does Fairtrade and Gold Standard mean two separately verified systems of carbon credits?

No. A Fairtrade and Gold standard carbon credit is a single unit that meets the criteria set by both bodies. Fairtrade Climate Standard is an add-on to Gold Standard verified emissions reductions (VERs) and the result of a strategic partnership between Gold Standard and Fairtrade International to support smallholder farmers in their fight against climate change. The Fairtrade Climate Standard add-on means that the women's cooperatives in Burkina Faso have rights to the carbon credits, meet Fairtrade eligibility criteria, and achieve the minimum price to cover the average cost of setting up a sustainable carbon project and a premium to finance climate resilience and adaptation projects in the project communities.

c. *Are the carbon credits AAK buys issued in advance?*

Yes, any certified CO_2 savings by the households in Burkina Faso have already been generated and verified. So, the issued carbon credits always represent actual savings.

d. *How can AAK be sure the same carbon credit isn't offset twice?*

Safeguarding against double counting or two separate entities claiming the same carbon credit is a crucial quality marker in carbon offset projects. Gold Standard has set specific guidelines on double counting. Furthermore, all credits are issued, tracked, sold, attributed to the buyer (in this case, AAK), and retired through the Gold Standard Impact Registry, with open and accessible documentation of the whole lifecycle.

SECTION 3

Calculating the offsetting and emissions

a. *How do you calculate the shea footprint to know how much to offset?*

AAK has conducted a Life Cycle Assessment (LCA) of four shea-based products in the personal care portfolio - LIPEX® SheaSoft TR™, LIPEX® SheaLiquid TR™, LIPEX® SheaLuxe TR™, and LIPEX® Shea. The LCA follows the ISO 14040/4 methodology.

The LCA calculates all major emission contributors in the production of a shea-based emollient from cradle to AAK's gate and includes:

- Growing of the raw material – the shea kernel
- First processing at a village level – boiling, drying, deshelling
- Transportation – within West Africa, from West Africa to Aarhus, Denmark, and from Denmark to Sweden
- Crushing
- Refining
- Packaging material

The parameters measured give a CO_2 equivalent emitted per kilogram of product produced. This number, multiplied by the volume we sell to our customers, confirms the number of credits we need to offset the emissions for the three products. One carbon credit equals one metric ton of greenhouse gases removed from the atmosphere.

b. *What happens if sales volumes increase or decrease?*

We have calculated the number of carbon credits needed based on projected sales volumes, which we will review annually in February. If there is a shortfall of credits, we will purchase the additional amount required, and if there is a surplus, we will roll these into the balance for next year.

c. *How do you calculate the carbon emission reduction from the stoves, the basis for the carbon credits?*

Our partner, FairClimateFund, conducts a standardized Kitchen Performance Test (KPT) as one of the first steps to validate a new project setup. Mandated for all projects on the Gold Standard registry, the KPT is conducted in a real-world setting and more accurately reflects the performance of the improved stoves under typical local cooking practices than lab-based tests.

The KPT is a prolonged test carried out with the willing cooperation of individual families. It uses the daily cooking of household meals to calculate emission reductions provided by the improved stoves compared to traditional open fires. These calculations form the basis for the carbon credits issued.

As wood is the primary energy source in our project area, the methodology also calculates the amount of firewood harvested unsustainably, a factor called the fraction of non-renewable biomass (fNRB). Although we generally consider trees a renewable biomass energy source, shea trees are classified as non-renewable in the project region as they grow so slowly. Therefore, by saving on firewood, the stoves reduce emissions and help protect and preserve the shea parklands.

SECTION 4

Cookstove project rationale

a. *Why did AAK choose a cookstove project to compensate carbon emission of the shea-based products?*

AAK has many years of experience training our Kolo Nafaso women's groups to build energy-efficient cookstoves for cooking family meals and shea boiling. As a result, we have witnessed first-hand the substantial benefits of improved cookstoves in reducing:

- Energy consumption: a cookstove is 2,5 times more efficient than a traditional three-stone open fire.
- The amount of firewood needed to cook and boil shea: the improved cookstoves require less firewood, minimizing pressure on natural resources and the time spent by the women collecting it.
- Smoke inhalation: improving health and safety for all the family.
- Risk of burns: the improved cookstoves contain the fire and provide a more stable base for cooking pots.

In addition, the construction method uses freely available raw materials, such as termite soil, straw, clay, and cow dung, which allows the women to replicate the stoves easily.

b. *Are there any environmental downsides to using local raw materials to build the cookstoves?*

No. There is no evidence of any environmental downsides. Using local raw materials, such as termite soil, straw, clay, and cow dung, is standard practice for building houses in the region. And because the cookstoves use the same

freely available material, it increases community-building capacity and amplifies the positive impact.

c. *How do you know the cookstoves are used and maintained by the women?*

An annual survey verifies the quality and use of the cookstoves in the FairClimateFund project as part of the Gold Standard auditing requirement.

During the training, the women learn to mix the building material and construct stoves around existing pots to regulate sizes and minimize changes to their cooking routines. Reducing behavioral change helps them adapt easily and quickly to the new stoves.

From our Kolo Nafaso experience, we know the improved cookstoves have high uptake and retention rates (+92% of women stated in an external study from 2019 that they still use theirs after many months and years).

d. *Is there a risk that the construction of stoves includes violations of labor rights or the rights of children?*

No. The cookstove construction does not involve third-party industrial processes or supplies and does not pose any risk of physical danger. The cookstoves are hand-built, and the women within the community receive the initial training. Therefore, children can be present if they are under school age or if the training takes place outside school hours.

e. *How are you securing the stove project in a politically volatile context in Burkina Faso?*

AAK and FairClimateFund are very experienced in managing the politically volatile context of Burkina Faso. And our partners on the ground are well-versed in how to keep working in the local environment while adhering to strict safety procedures.

f. *What is the next step for the carbon credit project?*

The Personal Care team is currently driving this project for focus shea products. However, with our corporate SBTi targets approved, AAK is officially committed to monitoring and reducing climate change emissions in the coming years. The company's priority will be implementing reduction measures within all supply chains and ultimately offsetting the unavoidable fraction of the impact in the most effective and transparent way. Therefore, the corporate CSR team will take over the lead and consider the next steps for this project in the broader landscape context.

SECTION 5

Controversies around carbon credits

a. *Who benefits more? The people building the cookstoves or the large organizations who save tax and brand themselves as sustainable to gain market advantage and increased business.*

This question is a sensitive, complex, and important one to address. And the answer is highly dependent on the interventions used and how companies manage claims. In our case, we apply the following criteria to ensure people and communities benefit at least as much as we do:

- The intervention makes sense to people and adds value to their everyday lives beyond reducing CO_2 emissions. The improved stoves reduce smoke inhalation and burns, minimize the firewood needed, save money or time, and cook food faster. We know from our Kolo Nafaso experience that the cookstoves are appreciated, with 94.5% of women interviewed in a 2019 survey stating that they are satisfied with the improved cookstoves.
- The people generating emission reductions are rewarded. The credits generated by the FairClimateFund project and purchased by AAK are Fair Trade and Gold Standard certified. And the Fairtrade premium is paid into a fund for communities to invest in local climate adaptation measures. Furthermore, the women participating in the project have access to a micro-finance system that allows them to invest in income-generating activities.
- The organization follows high-standard carbon credit methodologies: the carbon credits we purchase are Fairtrade and Gold Standard.
- In addition to carbon offsetting, the organization also sets clear and time-bound reduction targets: AAK has set SBTi targets to reduce our supply chain-related emissions by 30% by 2030, outlined in our annual Sustainability Report.
- The organization is transparent about the methodology. AAK details this in the Climate Compensated Shea Statement.

b. *Can your customers that buy climate-compensated shea claim on it or use it to reach their scope 3 emissions targets?*

No. Although our climate-compensated shea is assurance that we are taking positive action that benefits local communities and their environment, the latest Science Based Targets Criteria and Recommendations state that the use of carbon credits must not be counted as emission reductions toward the progress of companies' near-term science-based targets.

The European Commission's new Green Claims Directive has yet to be finalized, but the aim is to prevent companies from making unclear or unsubstantiated environmental claims and protect consumers from greenwashing. Until the outcome is published, we would not recommend customers use climate-related claims on end consumer products, but this is the responsibility of individual customers.

c. *Isn't the use of carbon credits greenwashing?*

Carbon offsetting has a controversial reputation because companies and individuals can buy carbon credits to compensate for their emissions without taking any steps to reduce the root cause. It means the wealthier members of society can pay someone else, usually from the world's poorest regions, to cut their emissions so they don't have to change their behavior.

However, this only applies to a tiny minority. When used correctly and with a commitment to actual science-based reductions in value chain emissions, carbon credits are a valuable tool to offset unavoidable scope 1 and scope 3 emissions. In addition, they must be verified and issued under one of the top registries, such as Verified Carbon Standard (VCS) or Gold Standard.

AAK has agreed on an absolute emissions reduction target alongside carbon offsetting with a commitment to assess our supply chain environmental footprint yearly and show evidence of actual carbon savings. AAK has set a Scope 3 reduction target in line with the Science Based Target initiative (SBTi) and pledged to reduce our supply chain emissions by 30% in 2030 versus a 2019 base year. This commitment will change 'business-as-usual' practices in the supply chain and require long-term innovation toward decarbonizing our supply chain.

Sources:

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