Climate Neutral Shea Q&A

SECTION 1

Introduction to our project partners and definitions of terms

a. Who are FairClimateFund, and what is the role of South Pole?

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 CO2 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 CO2 before 2025.
Find out more at fairclimatefund.nl.

AAK engages with South Pole to independently verify and monitor the processes of claiming climate neutrality for products. South Pole's climate-neutral labels align with the latest findings of climate science and adhere to the best-practice reporting guidance from the Science Based Targets initiative (SBTi), the Greenhouse Gas Protocol (GHG protocol), and PAS 2060, the leading international standard for demonstrating carbon neutrality. The "Climate Neutral Product" label indicates that a company's products, or one of their products, is being reviewed, amended to lower emissions, and is currently climate neutral.
Find out more at southpole.com.

b. Carbon offsetting vs carbon insetting

Carbon offsetting is the widely used practice of companies or individuals compensating for carbon dioxide (CO2) emissions arising from their activities by participating in schemes designed to make equivalent reductions of CO2 in the atmosphere. Offsetting can be through direct funding of projects, such as tree planting, or buying carbon credits generated by CO2-reducing projects. There is no requirement for the CO2-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 uses the carbon credits generated by the FairClimateFund project to offset emissions in our shea supply chain. Although the project operates in the same region as our shea supply base and benefits local communities, the intervention does not happen directly within our value chain. However, plans are underway to bring it into Kolo Nafaso (see Section 5f).

c. *Carbon neutrality vs climate neutrality*

Carbon neutrality generally refers to calculating a company or product's overall CO2 emissions and compensating through offset schemes or carbon credits that avoid, store, or remove an equal amount of CO2 from the atmosphere. There is no long-term requirement to reduce the amount of CO2 produced.

In comparison, climate neutrality extends to all greenhouse gas emissions, including those beyond CO2. More importantly, it combines an organization's need to compensate for its carbon footprint with establishing clearly defined long-term reduction measures and offsetting only unavoidable emissions.

South Pole has verified LIPEX® SheaSoft TR™, LIPEX® SheaLiquid TR™, and LIPEX® Shea as climate-neutral products. South Pole and Fair Climate Fund, the partner we work with to generate carbon credits in the shea supply region, both require evidence of a rigorous and transparent internal emissions reduction program, separate and in addition to offsetting. For example, AAK has invested in generating renewable energy from shea meal, a side stream from shea butter production, at our main processing plant in Aarhus, Denmark, which will save up to 90% of CO2 emissions at the processing stage compared to buying electricity from the national grid.

d. *Net zero*

Net zero refers to a state in which the greenhouse gases going into the atmosphere are balanced by removal out of the atmosphere. And 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 need to 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, for reaching 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. AAK is committed to the SBTi and publishes progress in the annual sustainability report.

e. *Climate positive*

Climate-positive is the next step up from net zero and is the ultimate goal. For a company to be climate-positive, it has to save more greenhouse gas emissions than it produces.

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 CO2 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 then buys the carbon credits issued to compensate for the emissions calculated at a product level. And by offsetting the emissions in this way, we can offer LIPEX® SheaSoft TR™, LIPEX® SheaLiquid TR™, and LIPEX® Shea as verified climate-neutral products to our customers.

b. *Why choose to offset rather than inset?*

AAK already funds carbon insetting initiatives, such as our cookstove and tree planting projects, which reduce CO2 emissions within our shea supply chain. But we need a combination of measures to achieve our SBTi to reduce internal emissions in line with the Paris Agreement. The purchase of high-quality carbon credits to offset emissions can play a critical role in accelerating the transition to net zero at a global level, but only when used together with actual science-based reductions in value chain emissions.

Although not directly within our value chain, the FairClimateFund project operates in one of our shea supply regions and uses the same cookstove training principles we apply within Kolo Nafaso. The long-term plan, already initiated, is to work with FairClimateFund to expand the project into our Kolo Nafaso supply chain.

c. *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 producer organizations (in this case, 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.

d. Are the carbon credits AAK buys issued in advance?

Yes, any certified CO2 savings by the households in Burkina Faso have already been generated and verified. So the issued carbon credits always represent actual savings.

e. 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. And South Pole climate-neutral product verification requires carbon credit retirement proof as part of the process.

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 three shea-based products in the personal care portfolio - LIPEX® SheaSoft TR™, LIPEX® SheaLiquid TR™, and LIPEX® Shea. The LCA follows the commonly accepted ISO 14040 methodology for LCAs and has been quality checked and approved by South Pole.

The LCA calculates all major emission contributors in the production of a shea-based emollient 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 CO2 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 not only reduce emissions but also help protect and preserve the shea parklands.

d. *Would there be any difference in how emissions are calculated if the project is taken into Kolo Nafaso?*

If we moved the project into Kolo Nafaso, we would have the potential to calculate emission savings generated during seasonal shea boiling separately for carbon insetting, as these directly impact our value chain. And this would be our ambition for the future, but we need the correct infrastructure and resources to implement this at scale. Therefore, in the short term, we would continue using the same methodology as the current project within Kolo Nafaso. So, generate carbon credits from emissions savings resulting from the daily cooking of family meals, which fall outside the value chain scope, and then purchase these for offsetting. The big difference would be ensuring the Fair Trade carbon credit premium beneficiaries are the women shea collectors we trade with directly, thereby increasing the Kolo Nafaso program's positive impacts on their families and communities.

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 for building 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 that 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 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. However, when developing our joint integrated project across Kolo Nafaso, we plan to mitigate the risk by introducing the project into Ghana or Ivory Coast (see below).

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

In 2022, AAK and FairClimateFund started work on establishing a co-development project lasting a minimum of five years. In the first three years of the project, AAK will purchase needed carbon credits from the existing FairClimateFund project in Burkina Faso while investing in the expansion of cookstove training and certification of carbon credits to Kolo Nafaso communities within Ghana or Ivory Coast.

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 life beyond reducing CO2 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 follows strict rules about communicating offsetting projects aligned with the verifying body: South Pole must approve all AAK communication around our climate-neutral shea-based products, for example.
- Climate neutral is not the final ambition but a step on the journey to net zero (see Section 1c): AAK and FairClimateFund are committed to further investigating interventions supporting greenhouse gas removals in the

sourcing region that actively benefit local communities and ecosystems. We will update our communication once we have confirmed plans.

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

Yes. Customers buying one of our verified climate-neutral ingredients can use the offset emissions to claim against their scope 3 reporting according to PAS 2060 (a specification detailing how to demonstrate climate neutrality produced and published by the British Standards Institution). However, each customer is responsible for providing transparency in their emission reporting and reliably and independently assessing their company or product's environmental footprint.

When calculating their company or product's carbon footprint, customers must enter the CO2 emissions of all products they buy from their suppliers under scope 3. If they purchased one of our climate-neutral certified products, the CO2 emissions would be zero because we have already offset these with Fair Trade and Gold Standard carbon credits. So, for example, if a customer wants to claim climate neutrality on their brand or products, our AAK climate-neutral shea ingredients would reduce the number of emissions they would need to compensate for in the final calculation.

If customers want to communicate on pack or in marketing material that a consumer product 'contains climate-neutral shea', that would be acceptable if the only shea ingredient was one or a combination of our AAK climate-neutral products. Customers can only use the South Pole climate-neutral product stamp if the end consumer product has been fully compensated and verified by South Pole. The individual customer is responsible for taking the appropriate action and approaching South Pole.

c. *How can you claim climate neutrality when you are still emitting carbon in your supply chain?*

Farming methods account for 80% of all agricultural supply chain emissions, which CO2 reduction projects alone cannot eliminate. Therefore, we are working with a balancing system – saving additional emissions elsewhere while reducing overall supply chain emissions at every stage and ultimately reducing the environmental footprint of our products over time.

A carbon credit system is a way to finance and scale well-functioning emission reduction interventions (such as improved cookstoves) and document their impact using the most reliable method possible.

A range of carbon credit projects is currently on the market, some excellent and others not. At AAK, we aim to support projects as close as possible to our supply chain origin to benefit local people and the landscape.

The climate-neutral claim is a temporary step on our journey. Ideally, a supply chain does not only have a neutral footprint but a positive one. But finding the best ways to achieve this ambition is challenging. Climate neutrality claims allow us to account for interventions that work well at a global level, but do not technically save emissions within our supply chain, at least for now.

d. Is it not unambitious to only go for climate neutral? Why not aim for a positive impact?

Yes. Ideally, our ultimate goal is to be climate-positive (see Section 1d). However, achieving climate neutrality is the first step on the journey. It ensures we have a tried and tested intervention to work with (the improved cookstoves), a trustworthy method of registering the carbon savings and credits, and a separate internal emissions reduction program in addition to offsetting. Furthermore, within Kolo Nafaso, we have a robust infrastructure, committed partners, and enough interested communities to scale this project within our shea supply chain relatively quickly.

Achieving a climate-positive supply chain requires looking beyond cookstoves and toward regenerative agriculture or landscape and ecosystem restoration projects. But implementation presents an immense challenge, not least for trustworthy claiming. Nevertheless, AAK and FairClimateFund plan to explore intervention opportunities to support this approach within the shea belt in the long term.

e. 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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