

Climate Neutral Design Principles

To create climate neutral innovations that will be seen as highly credible...

I. Climate Neutral Market Innovations are designed to:

- A. *Create new powerful choices for consumers, employees and companies:* individuals and organizations can choose to invest in *Climate Neutral* products and services to offset their climate impacts as an optional, voluntary investment
- these transactions can be facilitated at any point of purchase—through any companies, NGO’s or other organizations with whom they are affiliated
- B. *Create new Climate Neutral products:* *Climate Neutral* products or services are determined to completely offset the greenhouse gases generated across each stage of their life-cycle—including the sourcing of its materials, its manufacturing or production, its distribution, use, and ultimate end-of-life disposition.
- *Climate Neutral* warranties would apply to products such as cars or appliances (which consume a lot of energy /fuel during use or have ambiguous lifetime durations) to cover the majority of emissions from both manufacturing and use (e.g. 60,000 miles for cars)
- C. *Empower new Climate Neutral Enterprises:* a company can choose to become a *Climate Neutral* enterprise by offsetting the climate impacts of its internal operations across critical areas, including manufacturing, administration, transport of product to customers etc
- a Network “metrics system” paper is available to outline and help estimate these enterprise emissions
 - companies can also offset individual components of its internal operations—approaching *Climate Neutral* certification through a series of incremental steps—to create a series of “ramp-up” options which nonetheless maintain the integrity of the brand
- D. *Maintain Credibility and Integrity of the Climate Neutral Brand:* products or projects which would, in the view of the Network’s board, undermine the credibility of the initiative or the integrity of the *Climate Neutral* brand – due to inconsistencies with the purpose of the trademark/organization for example – may be refused the *Climate Neutral* mark.
- the board reserves the right to refuse accreditation to any application that it concludes is not in the best interests of the brand. “*Climate Neutral* hummers”, for example, could pose such integrity problems!
- E. *Reward early movers:* given pending legislation regarding early action crediting, the Network reserves the right to refine these principles further at a later date to ensure that companies’ early *Climate Neutral* commitments would not be undermined by any future regulatory requirements.
- a *Climate Neutral* enterprise might therefore be able to draw upon its *Climate Neutral* investments to assure its compliance with new regulatory systems; *Climate Neutral*

investments made way in excess of these compliance requirements would not be available to enable other companies to increase their emissions since they would be permanently retired (see II-F below)

- a *Climate Neutral* enterprise should therefore be able to draw upon its *Climate Neutral* investments to assure compliance with new regulatory systems since our intentions are to go beyond compliance, provided future regulatory systems are designed accordingly
- reductions could be registered to protect companies' baselines in any future allocation system --but not to obtain saleable credits
- although the Network seeks to promote future regulatory compliance as a result of companies' *Climate Neutral* commitments, it cannot guarantee such compliance nor be held liable in any way for requirements or liabilities resulting from future regulatory systems

- F. *Encourage tax benefits*: the Network supports a proactive tax treatment for *Climate Neutral* investments such that companies or individuals could benefit from appropriate tax deductions as a result of their investments – for example, by retiring them through donations to a not-for-profit—since this could increase the value of the benefits received
- Companies seeking *Climate Neutral* certification understand, however, that the Network's cannot be liable for any future IRS rulings or interpretations in this regard.

II. *Climate Neutral portfolios are designed to:*

- A. *Be built upon a commitment toward internal energy efficiency gains*: as part of their *Climate Neutral* proposal, companies should be able to demonstrate an outstanding performance in reducing greenhouse gas emissions internally--before purchasing offsets—either as part of their new *Climate Neutral* portfolio or by pointing to past, current or future on-site reduction activities
- outstanding performance for internal reductions could be benchmarked by reference to companies outlined in books such as Romm's *Cool Companies* (Island Press) or Lovins' *Factor Four*
 - performance demonstrated via existing programs, policies promoting energy efficiency or via new internal reductions planned as part of their current climate neutral application
- B. *Reflect the principle sources of greenhouse gas emissions in the solutions they propose*. For example, if currently 60% of GHG emissions are globally attributable to fossil fuel, then, as a general rule, at least 60% of the portfolio needs to be focused on CO₂ reductions from fossil/energy sources—whether generated by on-site reductions or through offset purchases.
- similarly, only 10-20% to focus on forest sequestration
 - a diversified *Climate Neutral* portfolio can be built over a period of five years, based on an up-front management plan—to enable companies to achieve this diversity and still invest in sizeable projects
 - *Climate Neutral* certification is designed to ensure that reductions and offsets meet these criteria. However, companies are individually responsible for the performance of these *Climate Neutral* portfolios and the Network is in no way liable for any non-performing assets or liabilities arising

- C. *Create multiple benefits*: companies are encouraged to invest in offsets which confer multiple GHG savings to compound cost, community and climate benefits (e.g. methane capture which is then used to generate electricity since this has multiple benefits—methane and CO₂ displacement for fuels generation for local schools' use)
- D. *Foster experimental learning and innovation*: companies can voluntarily decide to invest up to 5% of their *Climate Neutral* portfolios in experimental offset areas (transport, land use planning etc. where carbon tons are “softer,” less quantifiable), in order to encourage on-going learning and innovation at the leading edge of the offset arena
- E. *Balance geographic interests*: to reduce investment risk, provide educational opportunities, and support the domestic infrastructure, companies are encouraged to dedicate a substantial majority – at least two-thirds – of their offset investments to domestic investments. The stronger the domestic investment, the more credible the program.
- exceptions can be made to reflect, for example, the European emphasis for domestic reductions that the UK might wish to establish, on an individual case-by-case basis
- F. *Avoid double counting*: offsets should be retired (since companies could otherwise trade permits and compromise *Climate Neutral* status by enabling more carbon to be emitted elsewhere), and cannot increase the US assigned amount.
- *Climate Neutral* offsets are retired in order for the enterprise or product to receive the *Climate Neutral* mark in perpetuity. The offsets cannot be traded but rather will create long-term permanent trusts to secure these climate gains for future generations
 - any project registered under JI/CDM cannot be used for *Climate Neutral* certification purposes since they would increase the US assigned amount
- G. *Be tradable only at the margin*: *Climate Neutral* investments could only be traded at the margin (rather than retired) if companies had voluntarily or otherwise invested in excess of their appropriate *Climate Neutral* requirements
- H. *Offset on more than a one-to-one ratio*: portfolios need to offset the carbon on more than a one-to-one ratio in order, at a minimum, to provide for attenuation/leakage
- discount factors for different offset projects should take account of cost/precision tradeoffs in the measuring and monitoring process
- I. *Be responsive and flexible to accommodate the variations in offsets' risks & returns*: carbon gains can be front-loaded subject to appropriate discount factors to reward 1) investments which offer greater security and 2) investments in advanced technologies which tackle the underlying consumption challenge to accelerate the introduction of products which dramatically reduce average climate emissions.
- given the present state of the market, all offsets can be front-loaded, subject to varying discount rates; “pay as you go” approaches are preferred as the market matures
 - discount factors should take account of quality variations with respect to through-time effects

- Ideally, advanced technology investments (including renewables, technology buy-down funds etc) might comprise, on a voluntary basis, at least 10% of the portfolio (onsite or offsite)

III. Climate Neutral Offset investment projects should:

- A. *Qualify every offset investment according to the following criteria:* each offset investment should be:
1. Transparent and verifiable
 2. Additional
 3. Measure, monitor, & verify reductions
 4. Minimize and compensate for potential leakage
 5. Establish contract enforcement and liability mechanisms (e.g. trusts, guarantees etc)
 6. Be technically sound
- B. *Reflect other desirable criteria in the overall portfolio of offset investments:* desirable criteria for at least some offset projects within the portfolio include:
1. Design for persistence and resilience—permanence
 2. Promote collateral benefits (including promotion of local acceptance, community benefits and participation)
 3. Promote innovation
 4. Be replicable