

ASI Chain of Custody (CoC) Standard – Public Consultation – FAQ

“Market Credits System” proposal – Section 11

October 2016 – Version 1

Background

The draft ASI Chain of Custody (CoC) Standard is open for public comment from October to December 2016. This FAQ aims to provide additional information and context on specific sections of the CoC Standard on which ASI is especially seeking feedback from stakeholders.

The FAQ's can be expanded to include new questions – please send yours to info@aluminium-stewardship.org

Don't forget to read the draft CoC Standards Guidance for more detail on how the CoC Standard is structured and could be implemented for this section. ASI welcomes your questions and comments.

Frequently Asked Questions

1. What is ASI trying to achieve through its CoC Standard?

ASI's certification program aims to drive uptake of standards that foster responsible production, sourcing and stewardship of aluminium by companies in the supply chain.

The ASI CoC Standard is used to connect assurance about business' practices under the ASI Performance Standard, to claims about aluminium and responsible sourcing.

By supporting supply of, and demand for, 'ASI Aluminium', commercial incentives for the implementation of responsible practices by businesses can be created. Thus it should be emphasised that the denotation of 'ASI Aluminium' is not an end in itself: it is a means towards a broader set of objectives to support responsible practices and achieve positive impacts in the aluminium value chain.

2. Wasn't the ASI CoC Standard going to be based on 'mass balance'?

Yes, the primary chain of custody model in the CoC Standard was and still is a 'Mass Balance' model.

Under the Mass Balance model:

- CoC Materials can be mixed with Non-CoC Material at any stage.

- Calculations of inputs vs outputs can be averaged over a period up to a year.
- Each successive entity in the supply chain handling CoC Material must be CoC Certified to maintain the chain of custody.

Figure 1 below illustrates what is required for a downstream user of aluminium, such as a consumer-facing brand, to be able to source ASI Aluminium as a physical supply under the Mass Balance system. As is shown, every step of the supply chain (that is, each entity and/or facility handling CoC Material) must be CoC Certified as per the CoC Standard. This requires each step to be part of an ASI Member and seek certification – against both the CoC Standard and also the ASI Performance Standard.

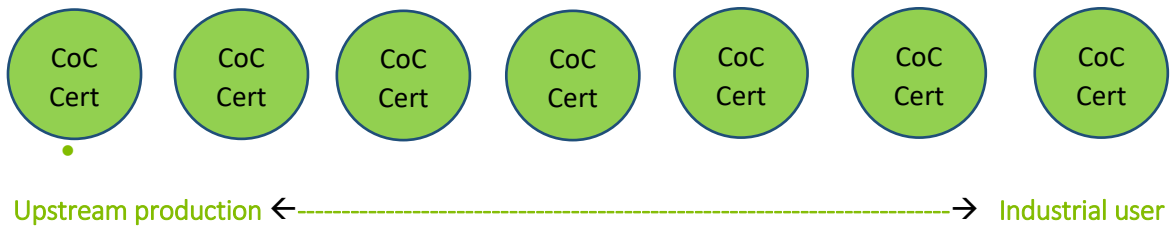


Figure 1 – idealised supply chain with CoC certification at each step

Note that under the Mass Balance model, ASI Aluminium is not physically segregated from non-ASI material, nor is a batch of material traceable to original sources. Claims about volumes of CoC Material are controlled through a series of material accounting processes implemented by each successive entity in the supply chain.

The ASI Mass Balance model is the only model that applies in all cases to material flows up to and including the Casthouse (for both primary and recycled flows).

3. Why has the ‘Market Credits’ model been proposed?

There are two common issues that new chain of custody programs encounter, particularly in their initial years:

- *Breaks in the chain, particularly in midstream-downstream parts of the supply chain:*
If there is a break in the chain of CoC Certified Entities at any stage, then the CoC status of the material ends and cannot reach the last Entity. This is illustrated in Figure 2 below. These kinds of scenarios, which will be very common particularly for longer or more complex supply chains, would mean that downstream users could not access the ASI CoC Standard until all their supply chain is certified.

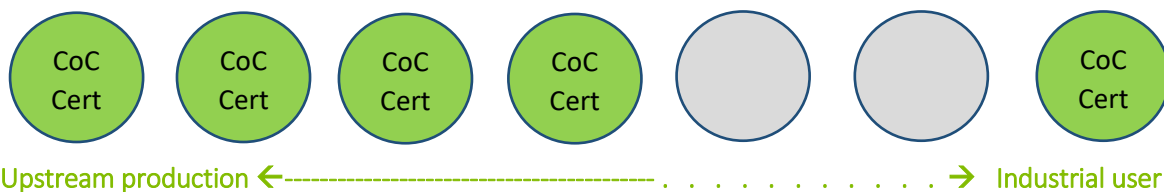


Figure 2 – breaks are a very common scenario

Common reasons for breaks in the chain include:

- 'Middle of the supply chain' companies may not see or receive value from an investment in ASI standards and so choose not to participate in the program, at least initially
 - Procurement departments may choose not to request ASI certification from suppliers and/or are concerned about restricted supplier choice
 - Even when suppliers do join down the track, it may take several years to invest in relevant systems and assurance so as to be in a position to supply ASI Aluminium through the CoC Standard.
- *Upstream supply usually exceeds downstream demand:*
Logically, upstream supply must first build before any product is available for downstream users to source. This means most programs experience a lag between expanding supply and demand, which can continue for many years. Given that ASI certification requires commitment by upstream producers, insufficient demand – or access – by users would affect the business model for certification uptake upstream.

For these reasons, the Market Credits model has been proposed as a parallel option to the Mass Balance model, for entities that come after the Casthouse (“Post-Casthouse”) in the aluminium supply chain. Its inclusion in the ASI CoC Standard would mean:

- Breaks in the chain do not restrict access to the CoC Standard and responsible sourcing claims for Post-Casthouse Entities
- Casthouses can allocate excess supply of physical ASI Aluminium – *which has been produced under the mass balance system up to and including the Casthouse* – as ASI Credits, thus helping to build longer term demand for physical ASI Aluminium as uptake in downstream supply chains increases
- Data on volumes of ASI Credits will be a lead indicator for future demand of physical ASI Aluminium – this will help justify internal investment in ASI certification by both producers and downstream users.

4. So what is the ‘Market Credits System’ in the draft ASI CoC Standard?

The Market Credits System allows excess ASI Aluminium produced by a CoC Certified Casthouse, which is not directly transferred to another *CoC Certified* Entity or Facility as CoC Material, to be allocated to a *CoC Certified* Post-Casthouse Entity as ‘ASI Credits’. ASI Credits are decoupled from the physical material and thus cannot be allocated back to products or otherwise claimed as ‘ASI Aluminium’. Their purpose is to support the responsible sourcing endeavours of Entities that cannot yet access the Mass Balance System under the CoC Standard.

For more detail please, read the CoC Standard and Guidance – section 11.

5. What claims could be made about ASI Credits?

ASI Credits only have one issuer (a *CoC Certified Entity*) and one purchaser (*CoC Certified Post-Casthouse Entity*), and are transferred in a single transaction. ASI Credits cannot be re-traded by the purchaser, and are not designed to become a tradeable instrument.

As they are a virtual allocation from a CoC Certified Casthouse, ASI Credits have been decoupled from physical aluminium. As a result, they cannot be allocated back to physical products by the purchaser. For example, this would *not* be permitted: “Our 5000kg of ASI Credits has been used in our beverage cans for Shaky Creek Ale”.

Instead, ASI Credits can be reported at the Entity level as an input that is part of a responsible sourcing strategy, but not associated with an output of products or referred to as ‘ASI Aluminium’. The ASI Claims Guide will apply to any public claims and representations about purchased ASI Credits.

6. Who might benefit from the proposed Market Credits model?

Downstream users benefit from earlier access to the ASI CoC Standard than if they had to wait for every step of their supply chain for aluminium to be CoC Certified first. The Market Credits system would enable them to purchase ‘ASI Credits’ from CoC Certified Casthouses, where available. The credits are allocated from physical ASI Aluminium that has been produced by the Casthouse under the Mass Balance model.

Casthouses will also benefit by being able to allocate excess supply of physical ASI Aluminium as ‘ASI Credits’ to interested downstream users. This creates a new market for their certification efforts, and also identifies future demand for physical ASI Aluminium, as CoC Certification grows over time.

7. Do any other standards programs use these kinds of models?

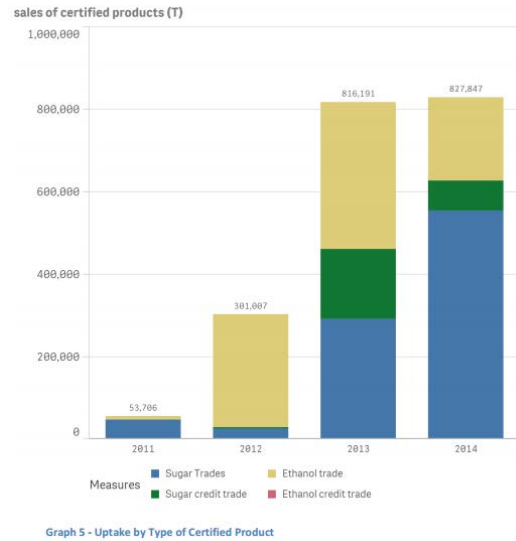
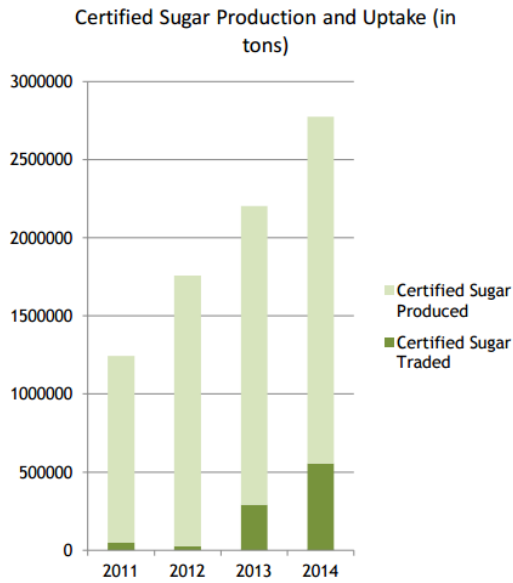
There are a wide range of standards programs that offer more than one CoC model. For example, Bonsucro, Fairtrade, Fairmined, Marine Stewardship Council (MSC), Roundtable for Responsible Soy (RTRS), Roundtable for Sustainable Palm Oil (RSPO), and Sustainable Agriculture Network (SAN) all offer multiple CoC approaches.

The following provides a brief summary of two standards systems that have implemented both mass balance and ‘credit’ type CoC systems.

- **Bonsucro:**

Bonsucro started CoC Certifications using a mass balance model in about 2009. However, in late 2012, the scheme introduced a credits trading model to try and help stimulate demand. These snips from the [Bonsucro 2016 Outcomes Report](#) illustrate the issues and concept:

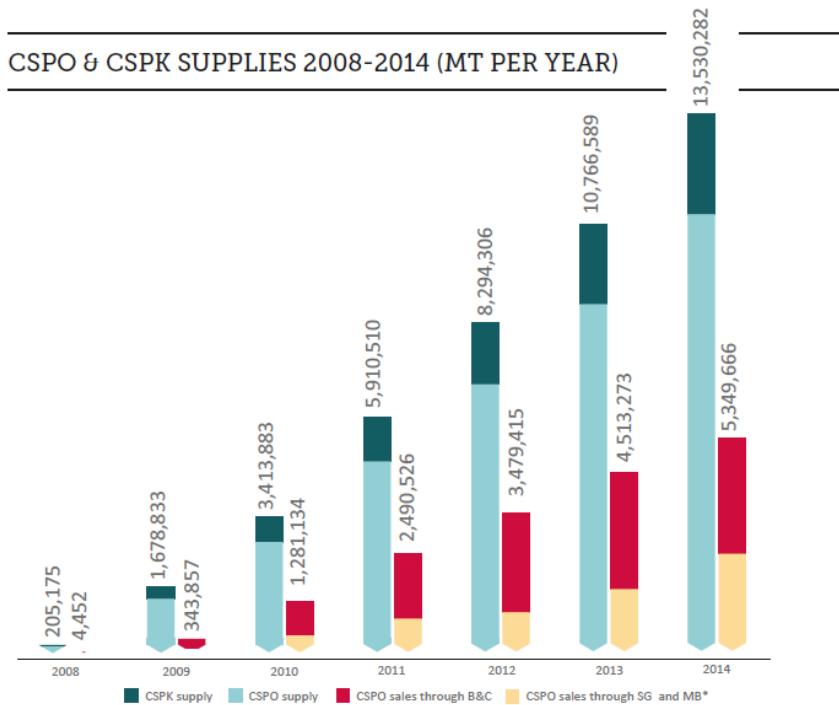
- Demand did not meet supply of certified sugar and in 2012 was deteriorating (left hand graph)
- According to Bonsucro, introduction of the credit trading system (right hand graph, green section representing ‘sugar credit trade’) allowed buyers to support producers’ efforts through purchases of credits, stimulating the demand side and creating new market links.



- **Roundtable for Sustainable Palm Oil (RSPO):**

RSPO's ['Growth Interpretation Narrative Report'](#) from May 2015 shows that the RSPO 'book and claim' (B&C) model (which is similar to a market credits system) has provided an important pathway to stimulating growth in demand for both mass balance (MB) and physical segregation (SG) models. The graph below shows that demand still does not meet supply of certified product (blue and green), but credits systems (shown in red) are helping to build demand for the mass balance model (beige) over time.

Note: CSPO = certified sustainable palm oil and CSPK = certified sustainable palm kernel.



*For information on Segregated (SG) & Mass Balance (MB) supply chains, visit www.rspo.org/certification/supply-chains

8. What are the risks of a 'Market Credits' system, and can they be managed?

The main risk identified in discussions to date has been the risk or potential perception of 'greenwashing': that is, companies making unsubstantiated or misleading claims about the sustainability benefits of a particular product or sourcing approach.

ASI's Standards and Guidance will be publicly available, and aims to be very clear on the rules for the Market Credits system (and the Mass Balance model, which arguably faces the same risk). In addition, as set out in section 12 of the CoC Standard, the ASI Claims Guide will govern companies' communications about ASI CoC Certification.

Sanctions for non-conformance with the Claims Guide or ASI Standards can be applied, including suspension or loss of certification. The [ASI Complaints Mechanism](#) is available for any stakeholder to raise a concern about such practices, which will be investigated.

9. Couldn't ASI launch its program with just the mass balance system and then introduce a 'market credits' type system at a later time if it's needed?

It can be readily anticipated that there will be scale and uptake challenges in the early years of ASI's certification program that could make it difficult for downstream users to access ASI Aluminium under only a Mass Balance model. As this risk has already been identified, ASI carries a responsibility to design ways that can address it so as to achieve its longer-term mission.

Adding new approaches later in the context of a failing system can be disruptive, confusing to participants, and potentially undermine confidence in the long-term success of the initiative. Reviews of other standards programs show both the implementation of multiple CoC models, and that a mix of models can support growth of the program overall.

10. I run a Casthouse and I'm not sure if I would want to supply 'Market Credits' to indirect customers – would I have to?

It is completely up to individual Casthouses whether they would supply ASI Credits. Factors to consider could include:

- Demand for their physical ASI Aluminium
- Relationships with customers
- Price incentives

11. I'm a downstream user of aluminium and would prefer to buy physical ASI aluminium – what are my options?

Most downstream users would prefer to buy physical ASI Aluminium, and if it is available from a direct supplier then this would be the straightforward choice.

However in situations where this is not possible, buying ASI Credits is a concrete way to support responsible production and show commitment to responsible sourcing of aluminium, while encouraging suppliers, and their suppliers, to become CoC Certified over time.

12. How would ASI monitor effectiveness of the two proposed systems after the launch of the program?

ASI will have a Monitoring and Evaluation (M&E) program that assesses the effectiveness of its standards and program against the ASI 'Theory of Change'. Through collection of annual data on flows of both physical ASI Aluminium and ASI Credits, ASI will be able to map aggregate supply and demand, and track relative uptake under both models over time.

This M&E program will inform ASI's ongoing efforts to best support the uptake of responsible production, sourcing and stewardship practices, and will be taken into account for each 5-yearly revision of ASI's Standards.

The ASI Standards Committee is seeking feedback on the Market Credits section in the draft ASI CoC Standard. In particular, the Committee would like to hear your views on:

- What are the specific potential risks and/or benefits of this type of approach, from your perspective as a company or stakeholder organisation?
- Are the current criteria sufficient to control these risks and/or provide sufficient benefit?
- If not, do you have suggestions for how the risks could be better addressed and/or the benefits further supported?