Viresco Solutions
End-to-end sustainability

High Level Framing: What is Insetting and What Role Can it Play?

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What’s Your Definition of Insetting?

Is It:

1. Buying carbon credits that are related to a Corporate’s Sector (eg. within the Food and Ag Sector)?
2. Buying carbon credits within a Corporate’s Value Chain?
3. Investing in emission reduction/removals within a Corporate’s inventory?
4. Other?

Many Pseudonyms - “Scope 3 Action”; “Value Chain Mitigation Interventions”; “Verified Scope 3 Climate Impacts”; “Market Based Approaches in Supply Chains” the list goes on….

Insetting – No Standardized Definition and Application

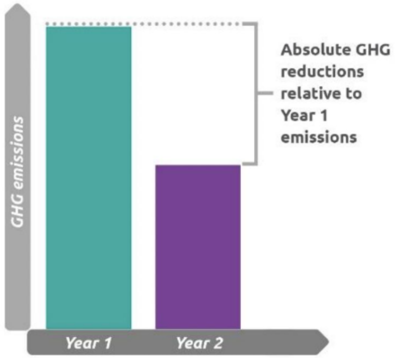
Key Challenge – Interfacing Intervention Accounting with Inventory Reporting to Safeguard Credibility towards Claims

GREENHOUSE GAS PROTOCOL

Chapter 11, Section 11.1

Comparison of inventory and intervention accounting methods

To understand and evaluate system-wide impacts, companies should use intervention accounting methods (also known as project accounting methods). A comparison between the inventory method and the intervention method is shown below:

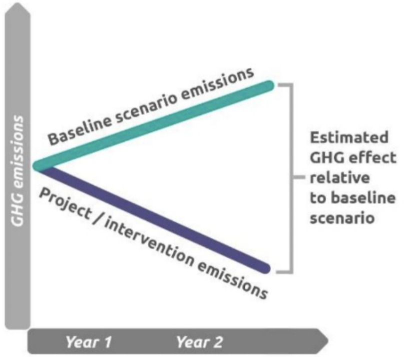


Inventory method

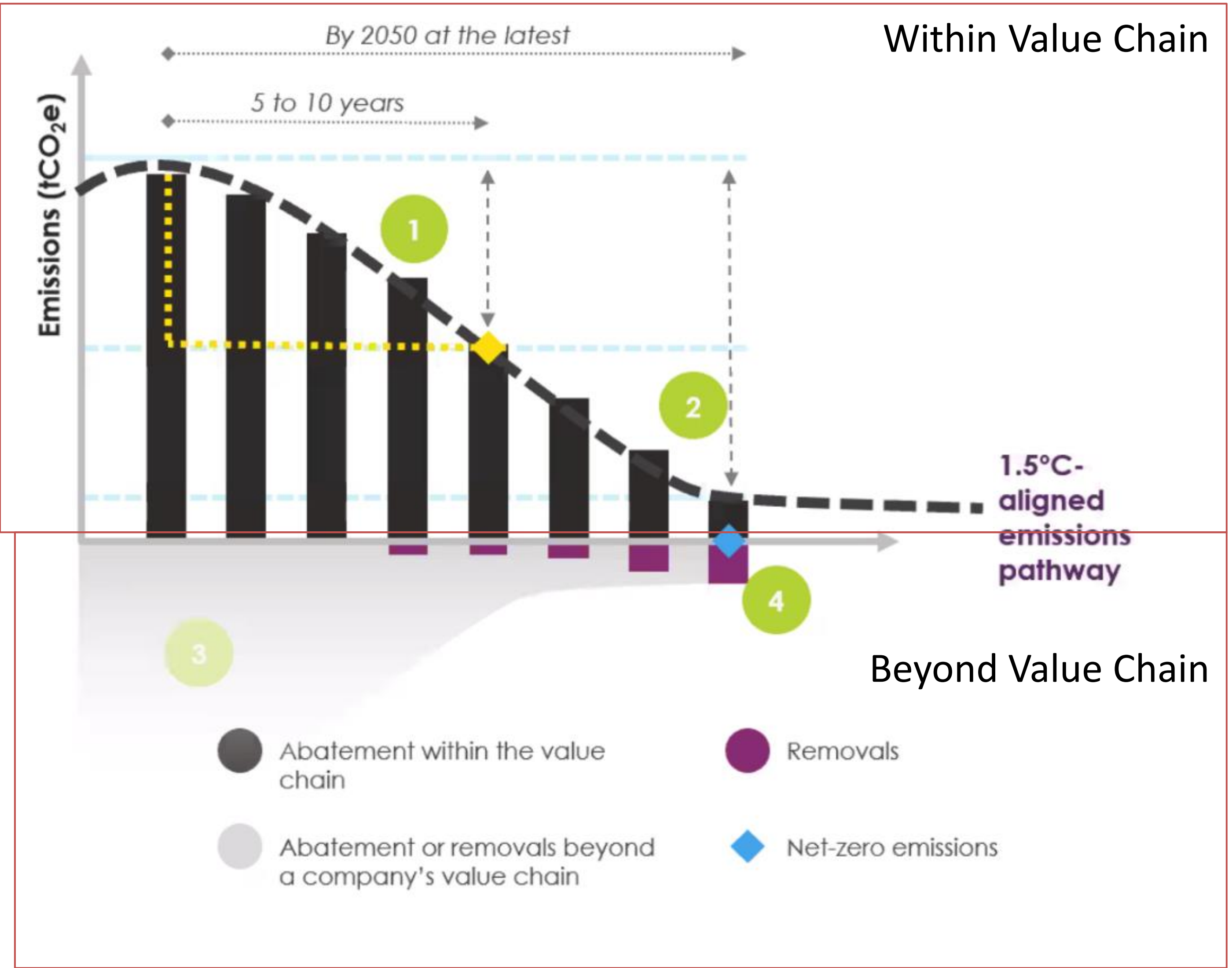
Tracks GHG emissions and removals within a defined inventory boundary over time relative to a historical base year. Inventory accounting methods do not capture all climate impacts from company activities, since impacts can occur outside of the inventory boundary.

Intervention/project method

Estimates the systemwide impacts of actions relative to counterfactual baseline scenarios. These methods assess the GHG impacts of an action compared to the conditions most likely to occur in the absence of the action.



SBTi/VCMii – Credibly Claiming in Journey towards Net Zero – Delineates Within vs Beyond Value Chain Emissions



1 **To set near-term science-based targets:**
5-10 year emission reduction targets in line with 1.5°C pathways

2 **To set long-term science-based targets:**
Target to reduce emissions to a residual level in line with 1.5°C scenarios by no later than 2050

3 **Beyond value chain mitigation:**
In the transformation to net-zero, companies should take action to mitigate emissions beyond their value chains. For example, purchasing high-quality, jurisdictional REDD+ credits or investing in direct air capture (DAC) and geologic storage

4 **Neutralization of residual emissions:**
GHGs released into the atmosphere when the company has achieved their long-term SBT must be counterbalanced through the permanent removal and storage of carbon from the atmosphere

Required ~~Recommended~~ Now required

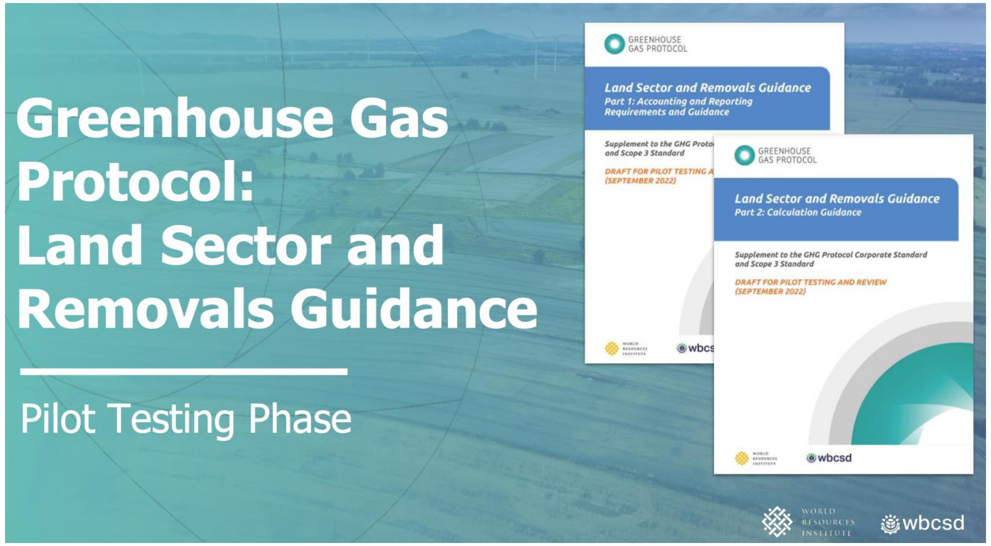
Box 13.1 Insets and scope 3 accounting

This Guidance explains how to account for scope 3 emissions and removals in the context of a company's GHG inventory. For companies reporting a scope 1, 2, and 3 inventory and also purchasing or retiring inset credits, there is an inherent overlap and double counting between an activity counted as an inset and the same activity accounted for as an improvement in the scope 3 inventory.[127]

Companies should therefore account for scope 3 emissions and removals through an inventory accounting approach – following the other chapters in this Guidance– rather than using a crediting approach. Under the inventory accounting approach, a mitigation action in the value chain is accounted for in the scope 3 inventory either as a reduction in scope 3 emissions or increase in scope 3 removals. To enable actions to be reflected in the scope 3 inventory, companies should collect primary data where possible to enable improvements from actions in the value chain to be reflected in the data and methods used to calculate scope 3 emissions (further described in chapter 16). For examples of actions to reduce scope 3 emissions (and increase scope 3 removals if relevant) in a GHG inventory, see chapter 11 (table 11.1) and the *Scope 3 Standard* (chapter 9).

Within an inventory accounting approach, companies that work with value chain partners to achieve GHG reductions or removals can choose to purchase and retire inset credits from suppliers or other value chain partners, or enter into other contractual agreements to ensure that unique claims to the GHG reductions or removals from activities in the value chain will not be sold/transferred to third parties via credits. Doing so can ensure that the reporting company and value chain partners will account for the benefit in their scope 1, scope 2 and scope 3 inventory and targets (using inventory methods), without risk of double counting. In this case, credits are not deducted or subtracted from the accounting, but used as a contractual mechanism for tracking, verification, and quality control as part of scope 3 inventory accounting, and to ensure the rights to reductions or removals are not transferred to third parties (e.g., as an offset used toward compensation targets). Doing so can also serve as a financing mechanism for the reporting company to help finance emission reductions or removals in the value chain, while accounting for the impacts in an inventory approach. Such credits cannot be used toward compensation targets.

Inset credits cannot therefore be used to adjust scope 3 emissions or removals (e.g., by subtracting credits from reported emissions), but can be used as a tool for ensuring that actions in the value chain are properly accounted for in the scope 3 inventory using an inventory accounting approach.



WRI's reticence on market-based approaches in Inventory Accounting:

"Inset credits therefore cannot be used to adjust Scope 3 ERRs but can be used as a tool for ensuring that actions in the value chain are properly accounted for in the Scope 3 inventory using an Inventory Accounting Approach"

Hence – Inset credits are decoupled from the inventory accounting for reporting.

Hot Off the Press

Convergence: How do we align with standards and advance Market Based Mechanisms

- During the process we have aligned with SBTi FLAG Guidance and draft Land Sector and Removals Guidance
  - *How can Value Chain Interventions support companies to achieve FLAG targets?*
  - *How can the Value Chain Intervention approach support the sourcing region concept in the draft LSRG with the right safeguards?*

As VCI, our priority is to enable solutions that can contribute to operationalize standards…

…and to create a space where implementation and best practice drive solutions.

ValueChange

Look inside

What Counts for SBTI – the Million Dollar Question?

SCIENCE BASED TARGETS

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How it works Set a target Companies taking action Sector guidance Resources

Does the SBTi accept all approaches to reducing emissions?

The SBTi requires that companies set targets based on emission reductions through direct action within their own boundaries or their value chains.

Offsets are only considered to be an option for companies wanting to finance additional emission reductions beyond their science-based target (SBT) or net-zero target.

Avoided emissions are also not counted towards SBTs.

Regarding insetting, further work is required to standardize the definition of insetting projects and to develop a clear accounting methodology. For these reasons, the SBTi will assess insetting projects on a case-by-case basis during the validation process and may not approve their use.

Renewable energy instruments such as renewable energy certificates (RECs) should only be used to meet reductions of scope 2 emissions using the market based approach. Please see the GHG Protocol Scope 2 Guidance for further guidance on scope 2 accounting.

SBTI CRITERIA

VCI can contribute to the future of SBTi Scope 3 standard

The review of SBTi's scope 3 guidance began in 2022 and will be ongoing throughout 2023.

Goal is to provide clarity about how different types of intervention can be used in the delivery of value chain decarbonization targets in a robust and transparent way.

Extra Slides

High level timeline we see to prepare for 2023

SustainCERT's VCI is looking ahead to give you a heads up where needed, allowing for collaboration in anticipation of challenges