

Insetting and Scope 3 climate action:

applying and accounting for Natural Climate Solutions (NCS) in land sector value chains

We must act now to stay within 1.5°C of global warming and avoid catastrophic climate change by drastically reducing our emissions this decade and reaching Net Zero by 2050.¹ A key part of this effort lies in decarbonizing the Agriculture, Food and Other Land Use sector (AFOLU), which accounts for approximately 22% of all global GHG emissions at present.² For this purpose, nature-based solutions addressing climate change – or Natural Climate Solutions (NCS) – are the best-understood and most cost-effective approaches available.³

NCS activities include a number of crucial climate mitigation interventions highlighted in the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report, such as the conservation, improved management, and restoration of forests and other ecosystems as well as improved and sustainable crop and livestock management.⁴ Corporate support for these actions, from direct finance to capacity building, can play a pivotal role in addressing nature loss and inequality while accelerating the transition to Net Zero.

Historically, NCS have been applied by a wide range of companies for mitigation outside of their value chains – for example, through the purchase and retirement of NCS carbon credits. However, “insetting” has emerged in recent years as a key mechanism for AFOLU sector companies to achieve their climate goals by implementing NCS within their value chains as part of decarbonization efforts. To support companies in accounting for these activities, the Greenhouse Gas (GHG) Protocol is currently developing the new [Land Sector and Removals Guidance](#), which contains frameworks for reporting emissions and carbon removals from AFOLU sector activities – including insetting.

The objective of this report is to outline the importance of a shared understanding of insetting, explore the proposed accounting structure in the draft GHG Protocol guidance and highlight the business case for credible insets that deliver genuine positive impact. As the GHG Protocol carries out pilot testing and proceeds to finalize its guidance, we invite companies and other stakeholders to take this opportunity to support the development of a credible, practical approach to accounting for insets.



Existing definitions of insetting

Several initiatives have presented definitions of insetting, such as the International Carbon Reduction and Offset Alliance (ICROA), International Platform for Insetting (IPI) and Race to Zero (RtZ). The definitions typically differ based on two factors: whether they allow

“insetting” to include activities around the value chain or only within it, and whether or not the activity is certified (i.e. generating carbon credits, such as for the voluntary carbon market). For example, the IPI allows insets from within and around the value chain, and recommends

certification but does not require it; the draft GHG Protocol guidance, however, positions insetting within the value chain only and requires certification for all insets. A map of the four organizations’ definitions, based on these two criteria, is shown below.

Figure 1: Map of insetting positions from key initiatives



Accounting for insets: key factors in the GHG Protocol draft

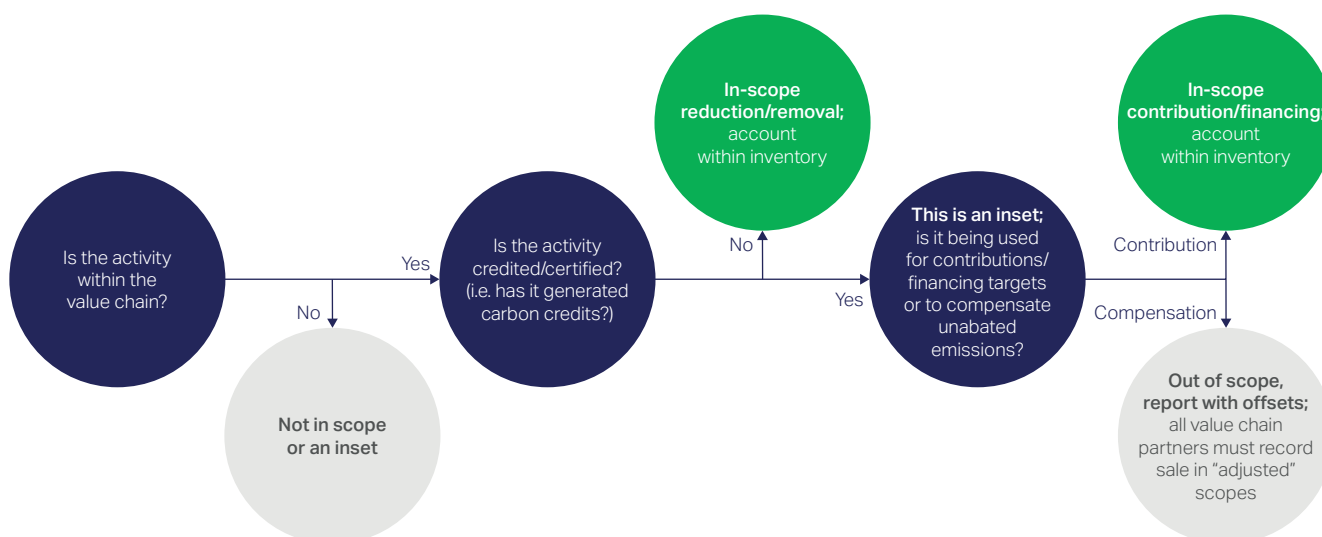
As a result of the different inseting definitions and requirements that have evolved in this emerging space, companies often lack a clear sense of how inseting can support them to reach the goals outlined in their climate strategies. The GHG Protocol draft guidance presents four key characteristics that define what they consider an inset and how these are reflected in a company's carbon accounting.

Table 1: Key characteristics of insets in the GHG Protocol draft guidance

Characteristic	Draft position from GHG Protocol guidance
Definition of the value chain boundary: where is the line drawn between which activities count within scopes 1 and 3 and which do not?	For insets, only activities within the value chain (not adjacent to it) will count ; where primary data is not yet available, companies may be able to consider broader sourcing regions as part of their value chain
In-scope reductions/removals and insets: what is the difference (and overlap) between these activities and the relevant accounting practices?	Insets are in-scope reductions/removals that have been credited (i.e. verified to a voluntary carbon standard).
Contribution vs compensation: how does the type and use of credit for in-value chain emission reductions/removals affect its accounting?	The draft GHG Protocol guidance recognizes two types of credits: credits used to verify impacts from financial contributions within the value chain (which can be counted in corporate scopes 1/2/3) and credits used by companies to compensate for unabated emissions (accounted outside of the scopes to avoid double-counting)
Adjusted scopes and accounting for progress toward targets: what do "adjusted" scopes record?	The concept of "adjusted scopes" is introduced in this draft guidance. Adjusted scopes are designed to mirror the company inventory and take into account any credits sold ; companies should use their adjusted scopes when tracking progress toward climate targets

How a company can account for insets generated within their value chain is depicted as a decision tree below:

Figure 2: Decision tree representation of identifying and accounting for insets under draft GHG Protocol guidance



The GHG Protocol has defined insets this way to maintain the integrity of corporate inventory accounting while incentivizing the use of high-quality insets. In line with the mitigation hierarchy, decarbonization within the value chain is the priority. Companies can assure the quality of these in-scope reductions or removals by creating inset credits, which are reflected within the corporate inventory when used against contribution or financing targets. This approach will likely influence the position of other organizations on accounting for insets, such as the Science Based Targets Initiative (SBTi) and their Food, Land and Agriculture guidance.

Business case for insetting

Insets, including those using NCS, provide a valuable tool for businesses in the AFOLU sector to decarbonize their value chains. Doing so will contribute significantly toward achieving Net Zero, as outlined by the World Economic Forum in their 2021 paper on supply chain opportunities for climate action.⁵ However, insetting activities are complex and costly, requiring transparent and consistent supply chains or long-term offtake agreements, additional resources to engage with suppliers and partners over time, analyses to identify the

most appropriate actions and feasibility assessments prior to implementation. In addition to this, the GHG Protocol's position on crediting insets will likely increase their cost to companies further.

The business case for undertaking insetting therefore depends on effective strategic integration of climate, nature, inequality and resilience targets (among others) and the recognition of the full range of positive impacts from activities such as NCS. Making these investments offers companies

the opportunity to deliver against their climate targets, manage the impact of external credit buyers on their value chain's capacity for decarbonization, secure long-term sourcing under a changing climate by providing adaptation services, increase supplier resilience and demonstrate positive impact on climate, nature and people to consumers. As companies step up ambition and action driving toward Net Zero, the business case for insetting as a central part of AFOLU sector decarbonization strategies will grow even stronger.

The way forward

There is a clear need for a uniform definition of insetting, one that enables companies to take action within their value chains and report this within their corporate inventory accounting.

The draft GHG Protocol guidance presents a framework for doing so. Their approach positions insets as credited activities taking place within the value chain, which can be accounted for within corporate inventories if the credits are used against contribution or financing targets. The GHG Protocol starts pilot testing its guidance on insetting in September 2022. Companies and other stakeholders involved in the AFOLU sector are encouraged to work with the Protocol to finalize an accounting approach that is practical, impactful and credible. This offers a significant opportunity to incentivize collaboration between value chain partners and scale up investment in approaches like Natural Climate Solutions.

Insets can deliver decarbonization in line with climate targets, secure value chain decarbonization opportunities, increase resilience and demonstrate companies' actions on climate, nature and inequality to customers. While the associated costs are relatively high – and likely to increase further with the addition of third-party certification – the business case is strong. In order to recognize and take advantage of all of the benefits associated with insets, companies should review their strategies to ensure they are prepared to identify and reflect the full range of positive impacts.

Following the above recommendations will support companies in understanding the direction of travel for insetting, the related accounting practices and the business case for investment. This will lay the groundwork for all stakeholders working in and with the AFOLU sector to make the most of this crucial tool in their transition to Net Zero and Nature Positive.



Endnotes

- ¹ World Resources Institute, 2021. *5 Big Findings from the IPCC's 2021 Climate Report*. Available: <https://www.wri.org/insights/ipcc-climate-report>
- ² IPCC, 2022. *Working Group III contribution, Climate Change 2022: Mitigation of Climate Change*. Available: <https://www.ipcc.ch/assessment-report/ar6/>
- ³ Griscom et al, 2017. *Natural climate solutions*. Available: <https://www.pnas.org/doi/10.1073/pnas.1710465114>
- ⁴ IPCC, 2022. *Working Group III contribution, Climate Change 2022: Mitigation of Climate Change*. Available: <https://www.ipcc.ch/assessment-report/ar6/>
- ⁵ WEF, 2021. *Net-Zero Challenge: the supply chain opportunity*. Available: <https://www.weforum.org/reports/net-zero-challenge-the-supply-chain-opportunity>



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We do this by engaging executives and sustainability leaders from business and elsewhere to share practical insights on the obstacles and opportunities we currently face in tackling the integrated climate, nature and inequality sustainability challenge; by co-developing "how to" CEO-guides from these

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