



BRIEFING:
DEBATING CARBON OFFSETS:
THE ROLE OF OFFSETTING IN
THE TRANSITION TO NET ZERO



Global Compact
Network UK



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The growing number of countries, cities, and companies setting net zero emissions targets raises hopes of limiting average global warming to 1.5°C. However, immediate action to reduce greenhouse gas emissions is required, and pathways to net zero and the role of offsets in reaching these targets remain unclear.

The Science Based Targets initiative continues to show signs of exponential growth as more and more companies commit to limiting average global warming to well below 2°C, with many going further and committing to a 1.5°C target, which will be the only accepted target after June 2022.

Commitments are an important first step on the journey to net zero but do very little to address the issues we face if not translated into action that delivers real emissions reductions. Countries, companies, and other stakeholders must develop plans for how they are going to meet their targets and deliver emissions reductions immediately.

Carbon offsetting is one method that may be utilised to deliver on these commitments. Carbon offsets are a widely used tool to compensate for fossil fuel emissions by funding an equivalent emissions reduction or removals practice elsewhere. For example, a carbon offset may take the form of a company financing a wind turbine generator to displace fossil fuels on the power grid. This is known as emission avoidance.

A carbon offset may also take the form of removal of carbon from the atmosphere through nature-based or engineered solutions (e.g., reforestation or carbon capture and storage technologies).

Though organisations such as the United Nations¹ and the Science Based Targets initiative² recognise that offsetting has a role to play in achieving net zero, the use of carbon offsets has been controversial over the past two decades.

Advocates argue that offsets have enormous potential to combat climate change by accelerating climate action, protecting nature, and funding social impact projects. Others say that carbon offset projects have a long history of overpromising and underdelivering, and ultimately, do not reduce emissions at the rate needed to limit average global warming to 1.5°C. What cannot be over-emphasized is that decarbonisation must remain the number one priority.

ABOUT THIS BRIEFING

A recent event hosted by the UN Global Compact Network UK brought participating members together to present arguments for and against the use of carbon offsets. The objective of this session was to enable companies to make better informed decisions about how they will utilise carbon offsetting in their own net zero carbon strategies – this briefing is based on the event.

The debate convened two teams of three to form proposition and opposition teams. The participants came from a diverse group of organisations operating in various industries and so brought differing approaches to the use of carbon offsets to the discussion. Views expressed by the participants were for the purposes of presenting two sides of the debate, rather than necessarily reflecting speakers' personal viewpoints. For this reason, comments made by participants have been anonymised throughout the report.

The debate's motion was: "This house believes that all companies should use carbon offsetting to achieve net zero emissions by 2025."

The challenge of achieving carbon neutrality by 2025 was used to draw out a wide range of arguments and give audience members a clear understanding of the pros and cons of carbon offsetting. The target date also highlighted that despite increasing long-term commitments to reach net zero, there are far fewer short-term emissions reduction targets being set, which are urgently needed to limit global warming to 1.5°C.

¹ <https://offset.climateneutralnow.org/aboutoffsetting>

² <https://sciencebasedtargets.org/resources/files/Net-Zero-Standard.pdf>

³ <https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/>

SPEAKERS

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Stuart Hayward-Higham, Technical Development Director, SUEZ Recycling & Recovery UK Ltd

Zoë Knight, Managing Director and Group Head of the HSBC Centre of Sustainable Finance

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Anna Turrell, Head of Environment, Tesco

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MEETING DEMANDING TARGETS

Companies with net zero commitments must find solutions to reduce emissions rapidly. The longer appropriate action is delayed, the more difficult it becomes to meet net zero targets. Offsets offer one possible way to do this.

"To make a real difference in the fight against climate change, the emissions we produce must be brought down as close to zero as possible by shifting from the use of fossil fuels to clean, renewable energy, eating less meat, and reducing waste," one participant explained. "The number one priority is to drive down emissions, but that is unlikely to happen at the required rate."

According to the Intergovernmental Panel on Climate Change (IPCC), global emissions must be reduced by approximately 45% from 2010 levels by 2030, and by 100% by 2050 to come close to achieving the goals of the Paris Agreement³.

This is an enormous challenge, and it is widely accepted that no country, city, company, or technology can solve it alone. Achieving these targets would help to avoid the most catastrophic impacts of climate change; however, many parts of the world are already facing the disastrous impacts that climate change can have on lives and livelihoods. For these reasons, “we need every tool in the box to achieve net zero,” said a member of the debating team.

“Companies and countries must look at their own sources of emissions and take action to reduce them, but carbon offsets offer a much-needed opportunity for them to go beyond what they are already doing,” noted one speaker. For example, ‘big emitters’ such as steel and cement manufacturers are proving that it is effective to invest in innovation whilst offsetting in the interim, before new innovations mature and begin to transform the sector. In this case, offsets offer a short-term solution whilst innovation drives longer-term emission reductions.

Carbon offsetting also provides an opportunity for companies to sequester more emissions than they produce. This is something that is being used by some major companies to take responsibility for emissions they have produced in the past.

On the other hand, it is argued that carbon offsetting should be the absolute last resort once all reasonable measures have been taken to reduce emissions. “Carbon offset projects will never be able to curb the emissions growth, while reducing overall emissions, if coal power stations continue to be built and petrol cars continue to be bought, and our growing population continues to consume as it does today,” explained one participant. Carbon offsets therefore represent a distraction from what is needed – absolute decarbonisation.

ADDRESSING PAST FAILURES OF THE OFFSETS MARKET

The use of offsets has long been a major source of debate, and disagreements regarding the rules of carbon offsetting markets continue to derail and delay international climate negotiations. Though carbon offsetting has been around for at least two decades with many organisations offering to offset emissions, a lack of standardisation has meant that the quality of offsets varies significantly, leading to criticism. Major issues with offsetting include credibility, accountability, permanence, and additionality.

Early stage of reforestation efforts.



Photo: Flore de Preneuf / World Bank



Carbon offsetting projects can deliver on other sustainable development objectives. Women, such as those seen here, will earn an income for their labour that they'll then be able to use for their expenses and to improve their quality of life. Cash for work schemes have enabled economic development to reach many of Rwanda's poorest citizens.

Using verifiable offsets that are correctly accounted for ensures that emissions are indeed reduced to the degree that is promised. However, "many carbon offsetting projects have been funded without verification of the reduction taking place, meaning large amounts of money that could have been invested in decarbonisation have been wasted," said one speaker.

A particular issue with emissions removals is that projects that aim to physically store carbon in a carbon sink (e.g., forests, oceans), may only temporarily store the carbon. One member of the debating team illustrated this point by stating: "Afforestation or reforestation may be used to remove carbon from the atmosphere; if these forests are subsequently cut down or destroyed, the removed carbon is released back into the atmosphere." Unless accounted for, a company may have paid for a carbon offset that is no longer valid and has not delivered any real emissions reduction. However, standards like Verra address this risk by using buffers to ensure that valid credits are substituted if a project has an issue.

Furthermore, carbon offsets should provide additionality, meaning that they should lead to an emissions reduction or carbon removal that would not have taken place without the finance provided

through the offset activity. Additionality can be difficult to determine and verify, as it is not always possible to certify that a project would not have gone ahead without the finance from the offset. Difficulties determining additionality have resulted - and may continue to result - in purchased carbon offsets funding projects that would have taken place regardless, and therefore fail to balance emissions.

"The carbon offsets market has experienced serious failings; however, improvements are already being made to improve the credibility of offsets," argued one participant. "The market may not be perfect, but it is improving and should therefore not be abandoned." For example, Mark Carney has brought together stakeholders in the Voluntary Carbon Market Integrity Initiative (VCMI) to improve the credibility of offsets.

MORE THAN JUST OFFSETTING

As the quality of carbon offset projects continues to improve, so does their ability to deliver on other sustainable development objectives. Climate change is a threat that requires enormous amounts of investments, resources, and time to tackle.

However, climate change is not the only challenge that we face as a global community, and we cannot afford to let global issues such as extreme poverty, hunger, inequality, and biodiversity loss persist. It is critical that we work to achieve the targets set out in the 2015 Sustainable Development Goals (SDGs) to create a fairer and more sustainable world.

Carbon offsetting projects are often undertaken in developing countries and can provide valuable economic opportunities for communities that are exposed to the physical threats associated with climate change and who are susceptible to sustainable development issues. High quality nature-based offsets can enhance biodiversity, increase local incomes through job creation, build climate-change resilience, and safeguard community rights.

“An offsetting provider works with local farmers to support tree planting and improved land management, which delivers emissions reductions. Tree planting supports the regeneration of deforested land and creates job opportunities, leading to increased incomes. Increasing incomes allow parents to send their children to school which raises levels of education,” stated one speaker, who explains how offsetting projects can support the achievement of various SDG targets.

Unfortunately, not all offsets are high-quality, and there are insufficient offset providers that can deliver the emissions reductions required to avert a climate disaster. There have been examples in the past when large sums of money have been invested into projects that have not been able to deliver on the desired outcomes. Instead, they have led to unintended negative consequences such as loss of livelihood for farmers and

local communities, violation of local community land rights, and decreased biodiversity due to monoculture planting.

If their quality can be improved and assured, offsets have the potential to drive down emissions and address a range of environmental and social issues. Through their primary use in developing countries, offsets are extremely useful in connecting people to finance. One member of the debating team noted that “industrialised countries in the past have done more to contribute to climate change”; we must therefore provide developing and rapidly industrialising countries with the financing to offset emissions that will allow them a quick transition to a net zero economy. To do that, we must create liquid frameworks, improve the credibility of markets, and bring investors into the mix.

ENSURING EVERYONE CAN TAKE CLIMATE ACTION

Carbon offset markets can create frameworks that provide an entry point for everyone to join a market-based mechanism that supports a net zero economy.

For smaller companies with less control over their emissions and influence over stakeholders in their value chain, purchasing offsets offers an opportunity to achieve net zero that may otherwise be unachievable (at least in the short-term). For companies that are responsible for only minimal amounts of emissions, US \$1 invested in carbon offsets may also be able to deliver far more emissions reductions than US \$1 invested in their own decarbonisation.

Immediate action to reduce greenhouse gas emissions is required and everybody must play their part.



SUMMARY OF ARGUMENTS FOR AND AGAINST CARBON OFFSETS:

FOR

- Reducing emissions at the rate required by science to limit global warming to 1.5°C will require every tool we have; offsets allow us to reduce emissions while system changes take place (i.e., decarbonisation of the energy and other high-emitting sectors).
- Offsets offer companies opportunities to reduce emissions at a faster rate while they work to decarbonise their own operations and value chain.
- Offsets not only support emissions reductions but can help to achieve other sustainable development objectives (e.g., reducing poverty and restoring biodiversity).
- Finance from offsetting projects can help developing countries adapt to the impacts of climate change and transition to a low-carbon economy more rapidly.

AGAINST

- Offsetting fails to address the root of the problem and allows companies to pay to pollute – serving as a distraction from the real decarbonisation that is required.
- Vast amounts of money have been invested in carbon offsets where, in many cases, the intended emissions reductions have not been achieved due to poor quality offsetting programs, a lack of standardisation, inadequate verification, or imperfect additionality principles.
- Poor quality offsetting projects have resulted in unintended negative impacts (e.g., loss of livelihood for farmers and local communities and decreasing biodiversity due to monoculture planting).
- Delivering a sustainable net zero economy requires societal change – carbon offsetting may allow people to believe that our goals can be achieved without this change.

Everybody must play their part to avoid the most catastrophic impacts of climate change. “The power of offsetting allows everyone to measure their footprint and impact, and then to find immediate actionable ways to reduce that impact,” stated one speaker. If consumers were actively using offsets to balance their emissions, then that could raise considerable funds for tackling climate change.

This, however, is part of the problem, suggested one participant. By offering a simple way to offset emissions, people can avoid having to deal with the problem: “Change is hard, but the task at hand cannot be achieved without it.”

Offsetting may allow people to think that because they have offset their emissions, they are carbon neutral, and can continue to consume and behave as normal. This oversimplifies the complexities and realities of carbon offsetting and provides a distorted view, which changes how we address our own liabilities.

A member of the debating team concluded by stating: “We will not achieve a sustainable net zero economy, one that is not bought temporarily but one that is founded in societal and system change, unless we make the changes ourselves.”

VERDICT

Uncertainty over the optimisation of carbon offsets in a robust climate strategy was aptly verified during the event. At the conclusion of the debate, the audience of almost 200 were asked to vote on which team had won. The result was a tie.

Despite the challenges and criticisms carbon offsetting has faced in the past, it has the potential to produce significant emissions reductions that can help the world transition more rapidly to a net zero society. However, to truly create a net zero future requires all businesses to measure their emissions and proactively bring these as close to true zero as quickly as they can. ■

ABOUT THE UNITED NATIONS GLOBAL COMPACT

As a special initiative of the UN Secretary-General, the United Nations Global Compact is a call to companies everywhere to align their operations and strategies with Ten Principles in the areas of human rights, labour, environment, and anti-corruption.

Our ambition is to accelerate and scale the global collective impact of business by upholding the Ten Principles and delivering the Sustainable Development Goals through accountable companies and ecosystems that enable change. With more than 12,000 companies and 3,000 non-business signatories based in over 160 countries, and 69 Local Networks, the UN Global Compact is the world's largest corporate sustainability initiative – one Global Compact uniting business for a better world.

For more information, follow [@globalcompact](https://twitter.com/globalcompact) on social media and visit our website at www.unglobalcompact.org

ABOUT THE UN GLOBAL COMPACT NETWORK UK

The UN Global Compact Network UK connects UK-based organisations that are part of the United Nations Global Compact in a global movement dedicated to driving sustainable business.

Through an extensive programme of activity, we promote practical sustainability leadership, share knowledge across sectors, and actively shape the responsible business environment to create a world we want to live and do business in.

For more information, follow us on [LinkedIn](https://www.linkedin.com/company/unglobalcompactuk/) (UN Global Compact Network UK) and [Twitter](https://twitter.com/globalcompactUK) (@globalcompactUK) or visit our website at unglobalcompact.org.uk

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