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ESG Strategy Series

Starting a Carbon Offsetting Plan—Critical Aspects to Consider

As we wait for consensus among nations at this year's COP26, many businesses are already forging ahead by announcing plans to achieve net zero in the short to medium term, while others are going further and claiming to have already achieved net zero or even carbon negative emissions (removing more carbon from the atmosphere than they emit).

Although encouraging, these announcements don't generally mean that a company has completely removed any reliance on fossil fuels in their processes or supply chains. Instead, businesses are carbon offsetting to achieve net zero by investing in projects and schemes which reduce emissions to compensate for their own activities.

Businesses who use carbon offsetting as part of a carbon reduction strategy need to ensure any investments they make can effectively contribute to emissions reductions and represent a credible plan to investors, customers, staff, and all key stakeholders.

This article outlines some critical aspects businesses should be aware of when embarking on a carbon offsetting plan, and follows on from ESG Strategy Series 12 which introduces and defines carbon offsetting.

Carbon Neutral vs Net Zero

Once a business has calculated their annual emissions levels and overall carbon footprint, carbon offsets can be purchased to ensure they offset the same amount. Although this might seem like a tempting quick fix this doesn't mean that a business can be labelled as net zero.

If a company is not making sufficient efforts to reduce carbon emissions in the first place, but are offsetting all emissions, they can claim to be carbon neutral as they have a policy of not increasing carbon emissions. However, net zero carbon specifically means making changes to reduce carbon emissions to the lowest amount possible – and offsetting as a last resort.

The recognised standards for net zero are governed by the Science-Based Targets Initiative and differ depending on the size and sector of the business. Critically, claiming to be net zero involves setting reduction targets at different periods and developing a credible pathway towards decarbonisation.

Certification and Credible Offsets

The market for carbon offsets has developed rapidly over several years and, to provide assurance on the quality of credits, voluntary codes and standards such as the UN Clean Development Mechanism, the Gold Standard or the Voluntary Carbon Standard (VCS) have been established.

One critical aspect of voluntary carbon offset standards is 'additionality' and the ability to demonstrate that greenhouse gas emission reductions or removals would not have occurred without revenue from the sale of the credits as the projects would not be viable without this additional finance. Other aspects of voluntary codes include measuring emissions to an agreed methodology and independently verifying project impacts via approved, independent assurers.

Businesses looking to invest in carbon offsets should seek out only carbon credits that are associated with projects that have passed the various tests set by a reputable voluntary code.

Local vs Global

Businesses looking to purchase credits can source offsets from across the global market and there are no standards that indicate credits should be sourced from the country or region where the buyer is based.

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Despite this, a business may wish to consider projects that benefit communities they operate in or those that are part of their supply chain.

Finding offsetting schemes in developed markets is more of a challenge given the need for additionality already outlined. For example, in the UK, grid connected renewable energy schemes are a proven way to reduce emissions but investment in those projects is likely to happen from private investment without the need for further finance in the form of carbon credits and therefore these schemes are not deemed to be eligible to produce carbon credits. On the other hand, an off-grid renewables scheme in a rural community in Malawi may not be commercially viable and could sell carbon credits to source finance to get the project off the ground.

Do it yourself

As a result of the lack of carbon credits in developed markets, many domestic businesses are choosing to develop their own local schemes by, for example, investing in areas of peatland restoration or forestry for the primary purpose of offsetting carbon emissions, not for commercial gain. This approach can have obvious benefits including increased control over the outcome of carbon offsetting projects as well as opportunities to engage and benefit the local community and to get staff involved in developing the projects as an additional corporate social responsibility activity.

Consider Secondary Benefits

When selecting or developing carbon offsets it is now increasingly recognised that added value is an important consideration alongside carbon reduction. For example, a reforestation scheme may serve to reduce flood risks, protect certain species, or create local employment alongside carbon reductions. Global standards are trying to capture the added value of these projects and the Gold Standard now has a code that recognises and values contributions across the sustainable development goals, not just for carbon.

For those developing their own schemes, additionality in the form of increased biodiversity or climate adaptation benefits is something which should be taken into consideration, offering opportunities to relate the scheme to the business and the local area thereby raising awareness and interest.

Ex-Post and Ex-Ante Credits

When carbon credits are required to offset emissions that a business has already made, the carbon credits need to be from schemes that are active and have already removed carbon from the atmosphere. In this case, credits have already been 'realised' and are labelled as 'ex-post' credits.

Alternatively, when planning for future emissions in years to come it is possible to either purchase more 'ex-post' credits to use at a later date or alternatively to invest in schemes that are yet to realise emissions reductions and are in development. These credits are defined as 'mature' when the scheme ultimately reduces carbon at a defined point in future and are labelled as 'ex-ante' credits on the market.

In particular, companies may wish to initially purchase ex-post credits to offset current emissions but invest in or develop a project for the long term which will involve ex-ante credits that will mature at a time to align with any required future offsetting.

Reduction Remains Key

The market for carbon offsets is developing at pace and there are some examples of excellent projects that businesses can support to reduce carbon emissions.

Despite this, the risks to businesses from emitting carbon through their direct operations are rising through increased carbon prices and taxes, new regulations to cut emissions and support for alternative fuels and processes. Furthermore, public opinion and market trends are shifting towards products and services that are low impact and low carbon.

For these reasons, and to achieve a credible, science-based net zero label, businesses must focus first on exploring, developing, and implementing an emissions reduction strategy before considering a carbon offsetting strategy and purchasing credits.

Ways we can support

ITPEnergised work with clients across sectors to identify reputable carbon offsets that meet their specific requirements in terms of type, price, location, quantity, and timescale, and are aligned with their carbon and climate change objectives.

We can

- Design a bespoke plan to achieve carbon neutrality or net zero, considering all available methods of reducing, eliminating, and offsetting emissions.
- Integrate carbon offsetting into your existing business strategy.
- Advise on the most suitable offsetting standards and projects for your organisation.