**DATE 27/01/2021**

# Companies can do better than offsetting

*Relying on paying someone else to reduce emissions is risky and unsustainable. Therefore, private companies should stop "offsetting" and instead financially help poorer countries reach their climate targets and foster sustainable development.*

Voluntary carbon markets are booming as businesses across the world make climate-neutrality pledges. These plans often rely on the purchase of credits from climate projects in foreign countries. India, the US and China were the three countries hosting the most projects in 2019, according to an Ecosystem Marketplace report.

It is undoubtedly positive that private companies commit to climate action. But there are issues with doing it through offsetting. Financing, for example, a tree-planting project in Uganda doesn't cancel the environmental harm caused by a given good such as petrol for cars, a flight (more on this for example here).

There is another danger that has to do with global climate action. When companies finance climate projects in other countries, the governments of those countries may decide not to implement planned national measures - the voluntary action has already achieved what they were planning to deliver. This way, the company is not financing extra reductions. It is paying for reductions which the host country would have otherwise delivered. Such carbon credits are not appropriate for offsetting.

In addition, as all countries now have climate targets, there is a risk that companies financing cheap reductions in developing countries actually make it more difficult for these countries to reach their targets. Emission reductions should not be counted twice, so if the company claims the reductions, it will inevitably force the host country to look for reductions elsewhere.

In our latest report, we outline alternatives to this outdated offsetting model.

**From offsetting to climate finance**

One possible alternative is the so-called "contribution claim" model, under which a company finances a climate project in another country but doesn't claim to be carbon neutral as a result. Instead, the story is about the company supporting the host country to meet the Paris Agreement goals and drive sustainable development.

This approach could easily be combined with internal carbon pricing policies, adopting a "levy and fund" approach. A company would price its emissions internally and use the revenues to fund climate action elsewhere.

In this scenario, the emphasis would no longer be on finding the cheapest reduction, but on financing projects that cut emissions AND benefit local communities. This would be a welcome step forward as sustainable development and human rights are currently a mere afterthought and a significant omission in global carbon markets.

Beyond a change in rhetoric, this approach would make companies take ownership of their climate impact. It would also offer more transparent and accurate information to customers, as confusing "neutrality" claims which open the door for greenwashing would no longer be supported.

**A "corresponding adjustment" to avoid double counting**

If companies continue with the offsetting model, at least they should ensure that the countries don't count the reductions towards their own targets.

This way, one emission reduction would only count towards the private company's "climate neutrality" pledge. The host country would still need to cut its pollution in line with its national pledge under the Paris Agreement.

From the climate's perspective, it is essential to avoid such double counting that could lead to the host country lowering its climate ambition.

Of course, not all countries will drop domestic climate policies even if they host offset projects. A country can be committed to implementing planned policies regardless. Or, on the contrary, it wasn't even planning on taking domestic climate action because it lacks capacity or will.

These three scenarios each have different implications for voluntary carbon markets.

First, if a country implements all planned policies regardless of private finance from elsewhere, applying a corresponding adjustment should not be a problem. The country will reduce its emissions as planned, on top of whatever reductions the voluntary market delivers. In this case, requiring the application of corresponding adjustments will close the door for possibly less ambitious countries who might want to game the system.

Second, it would be problematic for private companies to finance climate projects in countries that are not willing to cut their pollution. Supporting countries that for example set themselves very low climate targets that they will easily overachieve would reward climate laggards.

Finally, some countries simply don't have the means to take ambitious climate action. However, the Paris Agreement's bottom-up nature allows countries to set reasonable national objectives. Therefore, we cannot assume that all poorer countries have unachievable targets. In any case, assessing whether or not a target is "unrealistically" high is difficult if not impossible. Allowing countries with such targets to count reductions from the privately financed offset projects towards their own effort will set an incentive for others to set unrealistic targets. Practically, this "solution" is therefore unlikely to work and would take us back to the Kyoto Protocol era during which some countries simply did not have targets.

**Why hold back progress?**

At the end of the day, the broader question is why should companies which finance emission reductions necessarily be rewarded with "compensation" claims? It is the collective failure of companies and many carbon market actors to relinquish the offsetting claim which creates these difficulties related to double counting.

Moving from offsetting to the contribution claim as we propose has no inherent drawback. The only clear criticism of it, that it is "unattractive for businesses'', is little more than a self-fulfilling prophecy. It is in the hands of the most engaged market actors to change the system so that it works for climate and the people, as they largely set the tone for what is acceptable by the private sector.  So why do these actors prefer to hold back new developments?