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# Offsets for Carbon Neutrality and the Risk of Greenwashing

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***Biography***

*Neil Campbell is the Senior Consultant, Red River Management (https://www.redrivermgt.co.uk), a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW) and, since leaving the profession, has spent over 30 years leading finance and business transformation within blue chip financial services organizations.*

*For the last few years Neil has dedicated himself to the Environmental, Social and Governance (ESG) agenda and established the Red River Management Ltd consultancy with the sole aim of helping mid-sized and SME companies to simplifying ESG and Sustainability focussing on the opportunities provided by this new imperative and identifying and mitigating the existential risks of ignoring it by building business resilience.*

*Within the ICAEW, Neil is an active member of the sustainability community and has also joined their Sustainability, Ethics and Corporate Governance committees, all of which provide responses to new and changing policy issued by government and financial bodies.*

*Naturally his hobbies include getting out into nature and he is an active cyclist, climber and scuba diver. He is also an avid football fan and has been a supporter of Manchester City since their title winning season in 1967/68.*

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**Paper type** Research

## Abstract

There is a growing awareness in business that being greener helps organizations build a reputation for doing the right thing, creating a positive effect in the world, as well as giving them a considerable competitive edge. However, as the author of this article explains, in the desire to show a green company some businesses are tempted to be creative with reporting using offset schemes which, if not certified and based on sound local knowledge and management, can in fact aid greenwashing. If the company is found to be making misleading claims, the resulting backlash will have a significant impact on the company's finances and its reputation.

## Introduction – Greenwashing

As climate action becomes mainstream, the focus to show a green company has tempted some, through a desire for good PR and increased sales to be creative with reporting. In some organizations marketing was simply rebranded as the Sustainability Department. As cynical as this seems, there is a danger, either knowingly or by over-enthusiasm, of making false claims, targets or intentions. This is what is meant by the term "Greenwashing".

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Although offset schemes are usually offered with best intentions, if not certified and based on sound local knowledge and management, they can aid greenwashing enabling companies to make false or over-optimistic claims about greenhouse gases (GHG) reductions. If discovered, it can seriously and irreparably damage a company's reputation. As Warren Buffet said, it takes 20 years to build a reputation but 5 minutes to lose it.

Although there is currently no legislation or legal precedent in the UK, in September 2021, the Competition and Markets Authority (CMA) issued the Green Claims Code[1] as guidance to companies in the form of six principles to ensure that claims are not misleading or overstated. These principles also provide a framework whereby consumers can take action through existing legislation when they feel misled by claims of green credentials.

## Global warming

Annual $CO_2$ emissions are now over 50 billion tonnes compared to around 6 billion in 1950 and just over 40 billion in 2000. Earth is experiencing a devastating rise in global temperatures due to excess, and exponentially increasing, levels of GHGs in the atmosphere preventing the sun's rays escaping and trapping heat like a garden greenhouse, hence the name.

Of the $CO_2$ in the atmosphere today it is estimated around ⅓ of the total has been emitted since 2000. The answer is simple: reduce emissions and draw existing carbon from the atmosphere – stop the damage, start the repair.

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## Carbon capture

In July 2019 Restor[2], a global ecosystem and biodiversity research organization, published a paper using data from 1.2 million forests confirming the pivotal role trees can have in reducing $CO_2$ emissions from the atmosphere by up to 30% through reforestation. Restor also identified almost a billion hectares of land outside of urban and agricultural areas where up to a trillion trees might naturally grow leading to the World Economic Forum publishing its Trillion Trees campaign[3] with similar efforts by both WWF and the UN.

Unfortunately, whether by design or accident, the message became distorted and planting trees became identified as the sole most effective way to cut emissions and solve the climate crisis, obviously not the case and just one of many solutions we must pursue.

Governments and companies around the world also made pledges and began focusing on reforestation. However, the lessons had yet to be learned about quality over quantity and the fact that, until fully grown, newly planted trees absorb minimal $CO_2$ and thus limited offset capability although this didn't stop companies claiming the full potential results immediately.

However, there was limited regulation and many planting projects offered as offsets were focussed on PR and had no effective planning or follow-up to determine success with losses of up to 95% in a high proportion of schemes. Biodiversity and soil quality aims were also not realized for the same reasons; many projects adopted monoculture planting which had opposite effects on both. The key ingredient was a lack of involvement of local or indigenous people who understand and care for nature and this was further reflected in a lack of any benefit accruing to local communities.

## Carbon offsetting

The Kyoto Protocol adopted at COP3 in 1997 sanctioned offsets for governments and private companies to show a reduction in their carbon impact and to earn carbon credits that can be traded on a marketplace. Initially 36 countries participated in the commitment to reduce GHG with commitments effective from 2008 to 2012 and extended in 2009 (Doha COP 18) until 2020. This was later superseded in 2015 by the Paris Agreement which currently has 195 signatories.

The stage was set, offset schemes became a key mechanism for companies to meet mandatory emissions targets by reducing excess $CO_2$ over their pre-set limits. Offsets were also used by companies to manage their short term voluntary targets.

From a business perspective this makes little sense as it does nothing to limit GHG emissions or reduce operating costs especially fuel and, as demand for offsets increases, adds the increasing cost of the offsets themselves to an already increasing cost base.

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## Carbon accounting

There is no recognized international accounting standard for carbon offsets yet and there exists an urgent need for guidance from a recognised body. A lot of research has been done in this area and it is generally accepted that they be treated as an investment or traded asset within financial instruments at fair value similar to a hedge (presumably against the risk of excess $CO_2$ emissions) rather than an intangible asset.

The lack of standard treatment, different interpretations and the related capital requirements does not support the aims of the Task Force on Climate-related Financial Disclosures (TCFD) framework for transparency and consistency and to inform the allocation of capital to make more responsible investment decisions.

## Nationally Determined Contributions (NDC) to carbon reductions

Last year at COP26 pledges were made for NDCs by all countries. Those pledges were insufficient to limit climate increases to 1.5°C. UN estimates currently put the world on track for an average increase closer to 2.8°C with no clear plan to achieve the Paris Accord targets.

Expectations were high that NDC pledges at COP27 would bridge this gap although, disappointingly, this did not materialise and no new commitments were provided. A note of realism is needed, of the 193 country pledges at COP26, only 26 have followed through with more ambitious plans and none of the deforestation pledges are on track with 6.8 million hectares cut down last year, an area the size of the Republic of Ireland.

The recent deforestation legislation by the EU restricting imports of any damaging goods into the community, the election result in Brazil in October 2022 and the resulting proposed legislation are huge steps to reverse the damage in the Amazon but more responsible reforestation is required.

## Conclusion

There is great responsibility on governments to set and implement targets that will achieve the Paris objectives. However, those tasked with making the changes and reductions required are businesses across all sectors and households who will have to double their efforts to reduce GHG emissions.

Offsets do not reduce emissions and cannot be a practical or realistic solution, nor are they a scalable, long-term or an affordable option for most organizations. So, the next time you're on a flight or in a shop and hear that by using something or buying something you have lowered your $CO_2$ emissions, you can safely take it with a large pinch of salt.

**Reference**

[1] HM Government, *Green Claims Code - get your green claims right*. Available at https://greenclaims.campaign.gov.uk/ (Accessed: 21 December 2022).
[2] https://restor.eco/about/
[3] https://www.trilliontreecampaign.org/