insight note

THE ROLE OF CARBON OFFSETS IN CORPORATE DECARBONIZATION

Executive summary

This research explores how carbon offsets fit into businesses' plans to decarbonize their operations. When should companies purchase offsets, and in what quantity? What's the business case for purchasing offsets? What should they anticipate to adapt as the market shifts in the coming decades? How can common pitfalls be avoided?

Part I is a primer on how carbon offsets work and why they matter for every company with a net-zero target. It also briefly explains the offset market, including key actors and a few key points about offset pricing and quality.

Part II shares three possible trajectories for incorporating carbon offsets into a company's sustainability strategy depending on a company's existing climate progress, footprint, financial and reputational priorities, and available resources. The trajectories are illustrated with case studies

Part III is a look at the future of the voluntary carbon markets; dive into a couple ways the types of offsets available for purchase could shift, how offset governance could change and who's leading the charge, and what this means for sustainability decision makers. The report concludes with action recommendations for companies to prepare to purchase offsets.

The full report contains nearly 50 pages of detail on carbon offsets, including key strategies illustrated by case studies and recommendations on how CFOs can adequately prepare their companies to maximize their sustainable debt opportunity.

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5 takeaways for incorporating carbon offsets into your sustainability strategy

1

Virtually every company that pursues a net-zero target will need to offset some portion of its emissions in the long run.

Even the most aggressive decarbonization plans will fall short of completely eliminating a company's emissions. Researchers at the Science-Based Targets Initiative estimate that many sectors can reduce emissions by at most 90-95% and will need to abate the rest through offsetting activities.

2

The inevitability of offsetting in the long term means the chance to differentiate a company's offset strategy is in the near term.

When and how should a company begin to participate in the carbon markets? Does it make more sense to purchase offsets or generate and sell them? Is there any advantage to moving more quickly? Which emissions outside the residual are worth offsetting? With carbon credit prices projected to rise and the voluntary market poised to incorporate guiding structure from new governance organizations, companies need to begin planning—no matter the intended pace of action.

3

The best approach to incorporating offsets depends on the size of a company's current and projected footprint, and reputational and financial considerations.

A smaller carbon footprint is less resource intensive to diminish, opening the door for companies to move quickly and take advantage of opportunities to improve their image or pursue offsets as an investment.

4

Every successful offsetting strategy depends on broader decarbonization planning and leadership.

Without a solid decarbonization plan and demonstrated progress, media and financial interests are likely to interpret a company's offset purchases as a license to pollute rather than as a tool to mitigate its carbon footprint, which may lead to accusations of greenwashing. As with other sustainability efforts, purchasing offsets requires the support of company decision makers.

5

Offset strategy will become a fundamental part of any company's financial management and investment skillset.

Greater offset integrity and quality assurance will encourage the development of forward transactions and reselling, moving the voluntary market closer to a regulated structure. As the market develops, leaders will need to understand offsets and their associated credits as financial assets to be bought, held, traded, and sold much like other commodities.