



ACATIS FAIR VALUE SPECIAL

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Is carbon offsetting a good approach for reducing global greenhouse emissions?

Under the heading “Questionable corporate CO₂ deals”, this year's July edition of Manager Magazin offers insights into the difficulties of reducing greenhouse emissions with climate protection projects.

Such carbon offsets generate emission certificates (carbon credits) if at least one tonne of CO₂ is reduced due to climate protection projects. Companies buy and initiate CO₂ certificates for their CO₂ neutrality or net zero emissions; these certificates are also traded in many countries in emission trading systems. Carbon offsetting is a part of the Paris global climate protection agreement (Article 6, Section 4). Emission certificates have already been created since the Kyoto Protocol through so-called Clean Development Mechanisms (CDM) and Joint Implementations (JI). 70% of global emission credits are based on the same (World Bank Carbon Pricing Report 2020).

In light of the recent forest fires, floods and heat waves that were also caused by climate change, will offsets such as reforestation or carbon capture storage be able to reduce greenhouse gas emissions to such an extent that the increase in global warming will remain under 1.5 degrees Celsius as recommended by the Intergovernmental Panel on Climate Change?

It is somewhat doubtful, and there are great challenges when it comes to efficient implementation. The main problem: The impact of carbon offsetting is usually in the future and often uncertain. But stopping climate change requires immediate measures that tackle the root causes.

Let us look at the reforestation of destroyed forests, which garners a lot of media attention. Young tree plants need a long time to be able to store the CO₂ volume that is equal to the original forest. And quite often, they are destroyed by heat-related forest fires or floods. An added factor is that reforestation in the tropics is usually done for cost reasons. But this repeatedly leads to conflict with the endemic nature and the local population. Moreover, such “nature-based solutions” reduce the incentive (and the pressure) to effectively reduce greenhouse emissions at the source, leading to allegations of “green sales of indulgences”.

Usually, emission reductions are effective when they are implemented immediately, reliably and cause-based in consumption and production, mostly in rich countries. Carbon offsets, on the other hand, often promise more than they can deliver.

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