



# CAP<sub>2</sub> Position



**Offset transactions with voluntary CO<sub>2</sub> certificates become a reputation problem for companies**

Issue from 13.3.2023

## The basic idea of offsetting transactions

Anyone who buys a service or a product today often has the opportunity to purchase precisely this service or product *CO<sub>2</sub>-free*. Airlines use this offer just as much as petroleum companies that sell their petrol. It is not uncommon for consumers to have no choice but to buy a product that has already been made *CO<sub>2</sub>-neutral*. Although this form of *CO<sub>2</sub>* neutralisation is becoming more and more common, it is a little surprising that many people often do not know and understand the mechanisms behind it. The basic approach is quite simple: companies finance projects that can be expected to reduce or save *CO<sub>2</sub>* emissions that would otherwise have occurred. This positive difference can then be offset against the company's own - often technically almost unavoidable - emissions. In accounting terms and in real terms, this process has actually made a contribution to climate protection. For the climate and the *CO<sub>2</sub>* concentration in the atmosphere, it ultimately does not matter where emissions occur and where they are avoided. The decisive factor is always an overall view. From this perspective, such offsetting transactions would initially be a constructive way of contributing to climate protection.

## Theory vs. practice

What sounds good and reasonable in theory is unfortunately often problematic in practice. Sometimes there are even whole reasons - not without reason - have compensation transactions come under massive pressure in recent months.<sup>1</sup> The reasons for this are complex, but can be categorised quite well. For example, the main problem of many compensation deals is often

---

<sup>1</sup> A very good overview of the topic is provided, for example, by an article from Die Zeit ([CO<sub>2</sub>-Zertifikate: Grün getarnt | ZEIT ONLINE](#)) and an article from the Guardian ([Revealed: more than 90% of](#)

The results of these projects claim to protect existing forests that will otherwise be cut down one day. This always raises the question of the reference scenario: What would actually happen if the certified protection had not taken place? Would 10% of the area be deforested or even 100%? Would this happen in the next five years or in the next 50 years? As has been shown, the usual regulations of the market-dominant certifiers allow for absurd ranges of assumptions. And of course there is an economic incentive to always assume a worst-case scenario, because then the most certificates can be generated from an existing project. Thus, it is not uncommon for forest areas to become a certificate printing press, even though it is highly likely that these forest areas will not look significantly different in 50 or 100 years from what they do today.

While this unfortunately quite common form of certificate production is sometimes accompanied by almost criminal energy and deliberate deception, other problems of classic offset transactions are more conceptual in nature. Take, for example, certificates that are used to finance the reforestation of forests. Since the obvious alternative scenario here is a fallow or agricultural area without trees, manipulation through exaggerated worst-case alternative scenarios is hardly possible. Nevertheless, the investor is making a huge bet on the future. After all, it takes a tree a good 100 years to store a tonne of *CO<sub>2</sub>*. In the first few years, only a few kilogrammes of *CO<sub>2</sub>* are actually bound. If a climate protection certificate is to actually compensate for current emissions in the long term, then this will only work if the reforestation is successful and the growing forest is able to absorb the *CO<sub>2</sub>*.

rainforest carbon offsets by biggest certifier are worthless, analysis shows | Carbon offsetting | The Guardian).

will last for at least 100, or even better, 200 years. However, bark beetles, storms, forest fires and later deforestation can never be ruled out. And even if the forest is still standing in 100 years as planned, there is still the question of additionality: what would have happened if this project had not taken place? In many cases, such projects finance measures that states would have had to take anyway, because the states have committed themselves to them in climate agreements. As an investor, you can be proud of having financed a sensible investment. But since additionality was not given, there can be no compensation. The house of cards of the compensation business falls apart at this point at the latest. And it gets worse: companies that purchase emission certificates in good faith on the so-called voluntary carbon market feel encouraged by this to be able to increase their own CO<sub>2</sub> emissions - trusting that these have been compensated. But if this was not the case, the existence of voluntary carbon credits actually increases emissions. An instrument that actually makes sense thus ends up making things worse and counteracts the actual goal of climate protection.

## Conclusion

Voluntary emission allowances are problematic, as alternative scenarios can be submitted almost freely and additionality is often not certain. This makes the hoped-for effect of compensation impossible. In the

The result at the company level is accounting emission reductions that are not offset by actual reductions. We therefore assume that the use of the voluntary carbon market will be accompanied by considerable reputational problems for companies in the medium term. This is probably also the reason why, for example, the Net Zero Asset Owner Alliance under the umbrella of the UN now advises its members not to carry out any offsetting transactions at portfolio level.



**Prof. Dr. Hanjo Allinger**  
Allinger@cap2.eu ■ +49 (0) 40 64419362



**Dr. Christian Jasperneite**  
Jasperneite@cap2.eu ■ +49 (0) 40 60559352

## Disclaimer / Legal notice

The publication "Viewpoints" by CAP2 GmbH contains selected information and does not claim to be complete. The analysis is based on generally accessible information and data that are considered reliable and have been compiled with great care. However, CAP2 GmbH has not necessarily checked the information for accuracy or completeness and assumes no liability for the accuracy and completeness of the information. Any incomplete or incorrect information does not justify any liability on the part of CAP2 GmbH for damages of any kind. Moreover, the statements made here never constitute investment recommendations or financial advice. Accordingly, the analyses published here never constitute an offer or a solicitation of an offer to buy or sell a security. Publications (including parts thereof) of this publication require the prior approval of CAP2 GmbH. All rights reserved.

**CAP2 GmbH** ■ Johannes-Beckmann-Weg 1b ■ 22359 Hamburg

Phone: +49 (0) 40 64419362 ■ Email: [mail@cap2.eu](mailto:mail@cap2.eu) ■ Website: [www.cap2.eu](http://www.cap2.eu) Register Court Hamburg ■ HRB 163656 ■ Managing Director Prof. Dr. Hanjo Allinger