CO_2 COMPENSATION – GREENWASHING OR A SUSTAINABLE CONCEPT?

The origin of CO_2 certificate trading

The basic idea of certificate trading goes back to the Kyoto Protocol of 1997. The idea of the resulting emissions trading was to carry out climate protection where it is most favourable. This means that in order to achieve their reduction targets, developed countries did not have to implement emission reductions exclusively domestically. Since climate change is a global threat, it ultimately does not matter where emissions are reduced as long as it is done. We were convinced of the idea of certificates in 2006 – the film "an inconvenient truth" by Al Gore had just been released – and had launched the first continental European climate protection fund in the same year.

However, the economically valuable approach of certificate trading did not achieve its intended effect. The sheer mass of allowances created in this way and the global financial and economic crisis of 2008 put massive pressure on prices and prevented price signals that were supposed to provide significant incentives to reduce emissions. To remedy this issue Europe, among others, gradually suspended the use of these externally generated allowances within its emission trading system, where allowances should be reduced in line with climate targets. Subsequently, EU allowance prices rose, increasing the incentive to implement emission reductions, as these are linked to clear financial savings. Today, Europe's regulated certificate system is a model for the world. While the system is far from being perfect (what approach is perfect at all), we believe it sets the right incentives. However, while industry and the energy sector are subject to allowance trading, other sectors are largely unaffected. And thus, we move into the hitherto little-known and less regulated system of voluntary carbon offsetting, in which we have been active with our subsidiary KlimaInvest Green Concepts since 2009 and, more recently with AQ GreenTec.

Emission neutrality through certificates

As society becomes increasingly concerned, corporate sustainability continues to take centre stage. Consumers, investors and companies themselves are concerned about preserving their reputation or making a positive contribution in terms of protecting our livelihoods and avoiding negative impacts. Emission certificates generated by climate protection projects offer a way to voluntarily compensate for individual emissions that are unavoidable or hard to abate.

Additionality and Verification

A prerequisite for the sustainability of voluntary certificate trading is the verification of the actual climate contribution of corresponding projects. This means that independent organisations must quantify the emission reductions actually achieved as well as verify their subsequent cancellation. Examples of this are the recognised standards Verified Carbon Standard and Gold Standard. The basic requirement for the certification of emission reductions demanded by these organisations is additionality. In this context, it is required that corresponding climate protection projects make a contribution that would not arise without the income from the certificates. This means that, for example, investments in renewable energies can only generate certificates in least developed countries, as investments would not be made without the return from certificate trading. Only the economic value of certificates makes the creation of the ecological project possible and finances the necessary technological progress. This added value is the crucial point! Whereas investments in renewable energies in Europe do not fulfil the requirement of additionality, as they are return-generating. Even investments in forests, which also generate additional value through highly efficient carbon extraction and are responsible for the majority of all certificates to date, are not per se worthy of certification. Only additional projects such as afforestation meet the requirements under strict conditions.

Green Absolution and Moral Hazard

Criticism of emissions neutrality achieved on paper focuses on the lack of avoidance or conversion among those who cause emissions. The background to this is that even emission-intensive economic actions, via the purchase of emission certificates, can be disguised with a "green cloak". Private individuals can also compensate for the emissions of a cruise or the exhaust fumes of a large SUV, for example, and soothe their conscience. The concern is that the costs of voluntary certificates do not have the desired incentive factor and thus lose their actual meaning. "Moral hazard" here means that the possibility of offsetting tends to lead to less responsible action, possibly even to higher individual emissions. While offsetting emissions shows enormous growth, individual sustainability is not necessarily given. In addition, there are the costs of the respective certificates. Analogous to the start-up of the European emissions trading system, the costs of offsetting are at a very low level. While the costs of emission rights within the EU currently amount to just under 80 EUR/t CO_2, the certificates of voluntary trading are priced significantly below this. The incentive to avoid or forego is correspondingly low. As a result, there is a risk that the PR effect of emissions neutrality can be achieved more cheaply through certificates than through sustainable restructuring. Low prices and the heterogeneity of the market always lead to the concern that certificates have been created falsely or inappropriately.

Voluntary compensation or nothing

Despite the criticism of this system – which also existed in this way against today's well-functioning European emission trading system – it should be noted that offsetting is voluntary. This means that an enormously growing number of companies and private individuals voluntarily assign a price to emissions and thus support climate protection in other sectors or regions. Soberly considered, an abolition of offsetting options would deprive companies of the PR-efficient claim of emissions neutrality, but on balance would not generate any benefit for climate protection. In the long run, a start is made through personal responsibility. Even if the measures were to be taken for partly questionable motives, a later renunciation of the status achieved would possibly damage the reputation of companies in the long term.

Today's campaigns based on carbon neutrality can implicitly stabilise the whole system. Moreover, the idea is also finding its way into the private sphere, where one can neutralise one's travel or annual carbon footprint with a simple touch of the app. The social pressure is growing and not only our children will increasingly ask for it. We expect the market volume of voluntary emission certificates to increase by a factor of 10 by 2030 due to the strong growth in demand. There is already a noticeable push in certificate prices, which will probably converge with the model of mandatory certificates over time. High prices in turn lead to even more climate protection measures being implemented.

Conclusion

The goal of limiting global warming to below 1.5°C and thus meeting the Paris Climate Agreement will require global efforts as well as negative emissions on an unprecedented scale. The focus is not only on countries that can afford to reduce their emissions, but on finding technologies that open up options for action at the global level. The fight against climate change will be won through technological progress, and the personal responsibility that companies and private individuals assume in terms of voluntary certificate trading is an important building block for its financing.

Priority must always be given to avoiding and reducing one's own emissions. And the currently still favourable compensation of one's own actions must not be instrumentalised as a moral argument for counterproductive interests. But where avoidance and reduction are hardly possible, or where there is still a lack of alternative actions, voluntary CO_2 offsetting is the second-best option and an important support. Increasing demand will be accompanied by greater transparency, which will strengthen the trust in the reliability of the system. In sum, despite contentious motives, voluntary offsets will make investments in climate protection and finance technologies that would otherwise fail to materialise.

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