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Mini-Review

Environmental Offsetting: An Effective Practice or an Ego Strategy?

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Abstract

With the expansion of environmental consciousness and the growth of nature loss awareness, people, governments, organizations and companies are devoted to achieve sustainable development. Businesses around the globe are facing the challenge of minimizing environmental impact, improving social responsibility, attending governance standards and, mostly, keeping the company financially stable. In order to achieve that goal, many are counting on offsetting schemes, most known as a way to compensate for biodiversity loss with environmentally positive initiatives. This article aims to analyze from an ESG perspective whether these initiatives effectively bring environmental benefits or are just a form of self-promotion and greenwashing. The study was conducted using bibliographic analysis, conceiving a small review on the subject matter. In conclusion, this article intends to serve as motivation for the debate and investigation of sustainable practices.

Introduction

Climate change, social inequality, biodiversity loss, deforestation, water and air pollution are some of the challenges the world is facing. Even with the decrease of net forest loss in recent years, the world has lost an area close to the size of Libya of forests since 1990 [1]. Also, according to the Global Footprint Network, the world population, which already achieved the mark of 8 billion people in 2022, would need 1.75 Earths in order to fulfill their need of ecological resources [2]. In addition, according to the Food and Agriculture Organization of the United Nations (FAO) [3], between 720 and 811 million people in the world faced hunger in 2020. Besides governments and NGOs, companies also have the opportunity to be a game changer and to make positive effects on the environment and people's lives. More than a chance to do good, approaches like ESG - the initials for environmental, social and governance - are demanding them to take all this into account and rethink the way they produce, sell, transport and relate to the surrounding communities. To achieve environmental, social and governance goals, it is mostly necessary that companies modify the way they consume natural resources, such as water, energy and forest products, but not all of them are willing or are able to do so. Therefore, compensation strategies were developed. Carbon offsetting projects are very well known, but there are also initiatives in the field of waste management and pollution in general. These projects allow companies to conduct their processes as they are used to, while committed to offset their negative impact. Even though offsetting might bring opportunities, there is a risk that good results in one dimension may hide the absence of results in others [4]. This article analyzes briefly those initiatives as an effective practice or an ego strategy, taking in account an ESG perspective of sustainable development for companies. Also, this article aims to motivate the debate and further investigation.

Discussion

In 2004, Kofi Annan, United Nations Secretary-General from 1997 to 2006, invited the world's biggest financial institutions to better integrate environmental, social and governance issues and to create recommendations to accomplish it. As a result, of the invitation, in that same year a report entitled "Who cares wins: Connecting Financial Markets to a Changing World" [5] was published by the United Nations, Swiss Department of Foreign Affairs and the World Bank. This can be considered the starting point to the development of what is known today as ESG, which are "environmental, social or governance matters that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign or individual" as defined by the EBA (European Banking Authority) [6]. The concept has been developed and widespread in Europe, America, and other countries. That made ESG more mainstream and popular in the practical field, going beyond investment analysis - its initial area of study - and becoming part of the evaluation criteria for the sustainability and social impact of business in general [7]. While there are still no unified principles or methodology for implementing ESG, there are globally accepted recommendations. To dialogue with local communities, assess environmental risks and opportunities - such as the transition to clean energy - to integrate sustainable development principles into decision-making [8], non-corruption, are some examples of these recommendations.

But, at the same time ESG encourages companies to do better for the planet and people, it also became a way of gaining advantages. 62.6% of studies show a positive relation between ESG criteria and corporate financial performance [9], recognizing that sustainable businesses do better also financially. The United Nation's report made clear "who cares wins". This sentence expresses the idea that those who make efforts to minimize their environmental impact deserve to be rewarded, but it also opened doors to greenwashing, another famous term frequently mentioned in this XXI century. Greenwashing collects many definitions, but it can be generally understood as an investment in green marketing, in order to be seen as an eco-friendly and socially engaged company [10]. In other words, when a company communicates the involvement in a cause - environmental or social - but doesn't directly and effectively do something for that cause, aiming only to achieve financial benefits, market growth, earn new consumers or receive more investment, it can be considered that that company made greenwashing. An unethical strategy that conservationists and environmentalists fight against. On the other hand, when pursuing a healthy and ethical sustainable development, companies adopt targets such as net zero, plastic free, carbon neutral, zero waste and 100% renewable powered. Regarding biodiversity conservation, it is not always possible to avoid the totality of losses - considering the population and footprint growth already mentioned - and offsetting usually appears as the only practicable action. In these cases, the main goal is to deliver No Net Loss (NNL) of biodiversity [11], which means the damage will still happen, but there will be gains of the same magnitude elsewhere.

In order to achieve that, companies must first present accountability of their biodiversity impacts, followed by studies of offsetting opportunities. It is preferable that offsetting occupies the last spot in the process of environmental losses mitigation, preceded by direct improvements, substitution of negative materials, avoiding non-essential consumption of natural goods, among other measures. It definitely promotes best results when seen as the ultimate resource. The same way companies that incorporate ESG issues have a bigger probability to perform better financially, the ones who invest in offsetting measures look for better results - not necessarily in a monetary way. Calvet, Napoléone and Salles [8] argue that the economic incentives for conservation provided by biodiversity offsetting schemes are responsible for its success, based on the polluter-pays principle. On the other hand, they say there's a risk that a system supposed to preserve biodiversity becomes a system oriented to ensure economic outcomes. Another argument that deserves attention is the one from Bidaud, Schreckenberg and Jones [12], when they claim that if a site that will benefit from biodiversity offsetting does not face threats, there would be no benefits at all from this strategy. This highlights the importance of prior studies on means and places that deserve the investment from offset.

Last but not least, biodiversity offsets need careful investigation in order to be effective in each specific situation. The greater the complexity of the biodiversity considered, the more difficult it is to reproduce the components of biodiversity and, therefore, to consider it as replaceable [13]. Nonetheless, the positive effects of an offsetting plan can be more diverse from its main purpose. For example, when neutralizing the CO_2 emissions by planting the corresponding amount of trees in a deforested place, the benefits for the local environment are more than just the CO_2 that will be sequestered from the air. It also includes improvement of water quality, shading for animals, decrease in temperature, soil recovery, among others.

Conclusion

Offsetting is one of the many strategies companies are implementing to achieve ESG goals. If made correctly, well planned and carefully orchestrated, it can promote a big range of environmental - and maybe even social - benefits for the place that receives the compensation. On the other hand, there is the risk that companies take advantage of this alternative to carry out greenwashing practices, seeking only self-promotion and forgetting the true objective of offsetting: deliver no net loss. As mentioned in the beginning of this article, the main goal of this short work is to motivate the debate and further investigation. Even so, during the brief research it was possible to perceive that an offsetting action has more chances of effectively bringing environmental benefits when planned carefully, in a strategic way, focusing on its positive impact on the environment and biodiversity. Evidently, positive side effects that equally benefit the compensating company do not characterize the practice of greenwashing, as long as the central objective of the action remains the same.

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