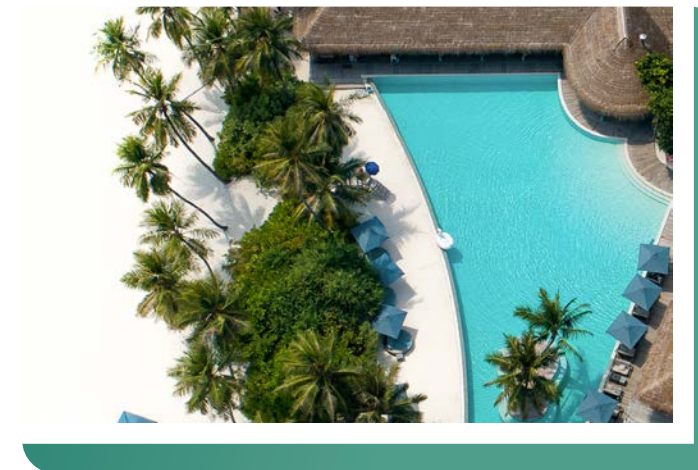
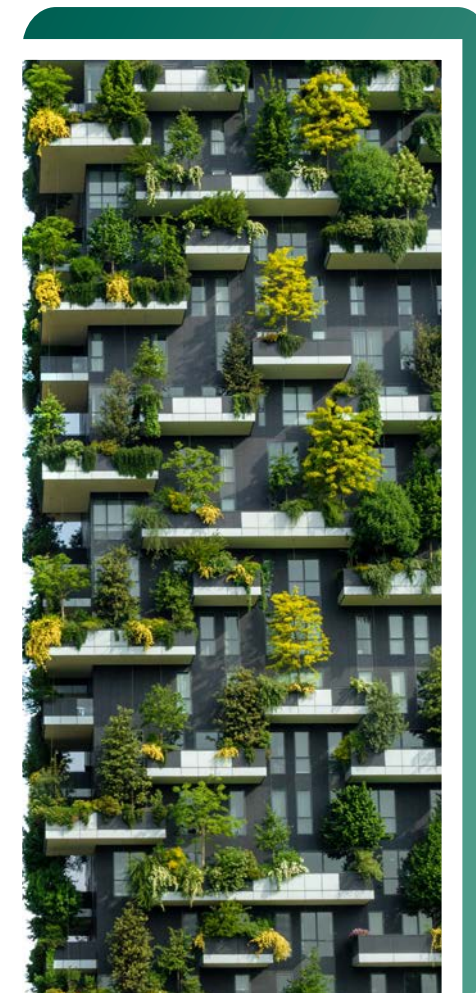


NET ZERO METHODOLOGY FOR HOTELS

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APPENDIX K

A NET-ZERO CARBON
OFFSETTING STRATEGY FOR THE
HOTEL INDUSTRY



APPENDIX K: A NET-ZERO CARBON OFFSETTING STRATEGY FOR THE HOTEL INDUSTRY

K.1 BACKGROUND CONTEXT

Carbon offsetting will play a significant role in the hotel and wider travel industry's pathway to net zero. While carbon offsetting has its limits and its detracting stakeholders, four elements should be considered when approaching carbon offsetting:

- 1 For some activities, carbon offsetting is the most significant way a carbon footprint can be mitigated until 2030.** Activities that involve burning of fossil fuel with no electrified or renewable replacement available at scale, have no readily available, viable alternative activities other than their reduction or elimination, are transversal with no exclusive business-to-business pressure in an integrated value chain, and are essential to basic provision of services to sustain life.
- 2 Carbon offsetting delivers benefits to people, not just the atmosphere.** Though the primary intended purpose is contributing positively to the balance of atmospheric greenhouse gases, carbon offsetting mechanisms involve compensating humans for their work. This includes people involved in originating, validating, and brokering the financial transaction. More importantly, it involves the people undertaking the activities that remove carbon from the atmosphere or preserve it from being released. Opportunities exist for carbon offsetting projects to generate local economic benefit and provide alternative livelihoods to local communities in locations where it is most needed.
- 3 Carbon offsetting can generate benefits for biodiversity and other UN SDGs.** Few question the value of funding the protection of forests, coral reefs, and waterways, which in turn enable myriad other benefits and activities, including carbon reduction.
- 4 Carbon offsetting is going to proliferate in voluntary markets.** The burgeoning number of carbon offsetting approaches to consumer products and services in place or in planning at the time of this publication is telling. In many cases, these mechanisms will be related to activities but not directly tied to their transactions. Many of these mechanisms will ensue and will involve offsetting activities despite stakeholder criticism or even the position of the companies whose activities are being offset.

The travel sector is perhaps the most emblematic manifestation of these four elements. Electric or biomass-based aviation is years off. Humans need heat in buildings. As the COVID-19 pandemic showed, some travel and accommodation are essential even in lockdown situations (quarantine hotels, housing for hospital workers, essential business and humanitarian travel) and the wider impact on economies is significant. Carbon offsetting has the potential to play a fundamentally different role in the travel industry than in other sectors if aligned with the pillars of sustainable tourism:

- 1** Environmentally friendly practices
- 2** Protection of natural and cultural heritage
- 3** Social and economic benefits to local people.¹

In particular, carbon offsetting projects that protect the natural and cultural heritage in locations visited by travelers, can play a dual role in preserving the assets that generate benefit for travel while offsetting the emissions of an activity. Almost all natural ecosystems of significant carbon sequestration are visited by travelers, and hotels are found in or near them inherently, as is evidenced by the Sustainability Accounting Standards Board (SASB) including a KPI of number of lodging facilities in or near protected areas or endangered species habitats for the Hotels & Lodging Standard.² Therefore, the travel industry can evolve past the 'pay to pollute' view of carbon offsetting.

Finally, voluntary over-the-counter carbon offsetting for travel activities is increasing rapidly, both to engage travelers directly, and as part of the number of large multinationals purchasing carbon offsets in bulk, and who will be allocating offsets to their Scope 3 value chain that includes business travel.

K.2 A STRATEGIC APPROACH TO NET-ZERO ALIGNED CARBON OFFSETTING FOR HOTELS

Given the considerations above, this methodology builds off the Oxford Offsetting Principles for Net-Zero Aligned Carbon Offsetting for a strategic approach for the hotel industry.

PRINCIPLE 1

CUT EMISSIONS, USE HIGH QUALITY OFFSETS, AND REGULARLY REVISE OFFSETTING STRATEGY AS BEST PRACTICE EVOLVES

The methodology seeks to achieve this principle in practice and prioritize hotels reducing their own emissions and scaling up removals, minimizing offsets to achieve net zero via three important tenets.

- 1. Differentiation between claiming retired credits and accounting for linked offsets, where all entities in a hotel's value chain can account for the carbon offset of a hotel stay.** For example, when a corporate travel management company offers carbon neutral travel for its clients by default as a service premium, then it can claim the offset purchases and credits retired accordingly in its Scope 3 accounting. The bookings for a hotel through that company's program with offsets can be accounted for by that specific hotel and its owner and operator, based on the amount used to offset by the travel management company. Conversely, when a hotel operator offsets the emissions of a hotel, its owner and franchisor can also include those in its accounting, as well as the travelers or corporate travel management companies that book with that hotel. While only one entity may make a claim of purchasing and retiring the credit for the offset, other entities in the value chain may include record of that offset in their accounting. Rationale for this approach:

¹ Source: Costas Christ

² See Sustainability Accounting Standards Board Hotels & Lodging Industry Standard Version 2018-10 SV-HL-160a.1.

APPENDIX K

**A NET ZERO
CARBON
OFFSETTING
STRATEGY FOR
THE HOTEL
INDUSTRY**

- As net-zero targets involve addressing the majority of value chain emissions, where inherent overlap and double-counting occurs and business travel is a part of almost any business’s value chain, an evolved approach is needed from that of the original parameters of carbon offsetting that was set up in the Kyoto Protocol in 1997.
- The inverse of this approach, should double-counting not be allowed, is that a plethora of offsets will need to be purchased by multiple entities, creating confusion to a traveler who may have touchpoints with several of these, each making a different claim for a different project and a different set of figures that were offset.
- The inverse also risks exacerbating the current trend of voluntary offset initiatives for the industry where the rationale is to offset first and think later, without regard to the calculation or the supply chain engagement of the hotel to decarbonize in its most effective way, which should be the focus as the original intention of decarbonizing the value chain. By stimulating more accurate accounting and engagement, the need then focuses on decarbonizing for hotels via the better approach in a decarbonization hierarchy and also the more cost-effective method of purchasing renewable electricity first and reducing emissions, then offsetting a much smaller amount.
- It does not seem reasonable that 10 or more entities would each need to purchase carbon offsets to make claims toward the same source of emissions, but a carbon offsetting provider would be allowed to sell offsets for the same source of emission for 10 different entities. Targeted, tracked offsetting can help ensure environmental integrity and maintain transparency.

2. Hotels can account for offsets toward net-zero pathway each year, with claims capped within the sectoral budget for Scope 1. Hotels should be able to account for carbon offsets for net-zero planning and claims, up to the amount equivalent to the service buildings sectoral decarbonization pathway for each year. Any accrued offsets for the year purchased by the hotel’s owner, operator, or franchisor can then either be counted toward the Scope 3 value chain emissions, or accrued for a further year based on established best practice for carbon accounting. Any accrued offsets for the year purchased through the value chain cannot be carried forward.

The limit amount is defined as the carbon emissions intensity per square meter allocated to each year from 2014 through 2050 based on the convergence methodology of service buildings decarbonization at 1.5 degrees scenario.

▼ Table K.2.1 Offset Sectoral Budgets Thresholds

YEAR	SERVICE BUILDINGS SECTOR PATHWAY SCOPE 1 ³
2014	N/A
2019	N/A
2020	18
2021	17
2022	16
2023	15
2024	14
2025	12
2026	11
2027	10
2028	9
2029	8
2030	7
2035	5
2040	2
2045	1
2050	0.18

Rationale for this approach:

- As an original source of most calculations for target setting aligned with climate science and IPCC 5th Assessment, the SDA pathways admit that a certain amount of emissions will occur from baseline through 2050, as the basis for intensity targets. This approach is then followed for intensity targets being used in the SBTi Net-Zero Standard pathways (though the metrics are provided in Scope 1 & 2). As organizations can meet these thresholds to align with the pathway, it is logical to assume that the amount of emissions for buildings allowable each year should then be able to be offset.

- In providing a cap threshold for each year, the methodology allows for offsetting but prioritizes reducing emissions by limiting the ability of companies to make claims of being net zero without first transitioning to renewable energy, electrifying building equipment, using cleaner fuels, and reducing energy usage.

- Using this upper limit pathway of available emissions to offset and include in the net-zero plan, carbon offsetting becomes less and less of a viable and strategic approach to its direct and indirect emissions for a hotel as time goes on.

3. To be included in a hotel's carbon offsetting claims, the offset must meet a minimum threshold of quality and contribution to sustainable tourism. Carbon offsets should be credible in terms of their rigor of certification and proof of retirement (i.e., not just planting trees and associating an estimated value per tree). Furthermore, the potential for a nexus of benefits between carbon offsetting and tourism is lost if the offset is purchased toward an activity not directly impactful to tourism activities and resources (i.e., ODS substance destruction).

Use offsets that are verifiable and correctly accounted for, have a low risk of non-additionality, reversal, and creating negative unintended consequences. The attributes of a good carbon offset are described in Table G.2.2 below.

▼ **Table K.2.2 Attributes of a good carbon offset**

VERIFIED	Verifying offsets ensures that the emission reduction or carbon removal actually takes place. Ensure that carbon offsets have undergone a rigorous validation and verification by a third-party organization and received certification from a credible carbon standard in a voluntary or compliance market. See Section K.3 in Appendix K for a list of key credible carbon standards
MINIMIZED FORWARD-SELLING	Any time gap between the purchase of the offset and the successful execution of the emissions reducing or carbon removing activity must be minimized, and mechanisms to ensure that the environmental benefits from an offset are actually delivered must be strong.
ACCURATELY ACCOUNTED	Care must be taken to ensure offset providers are properly converting the climate impacts of non-CO2 climate pollutants into CO2 terms according to their actual warming impact, particularly for short-lived greenhouse gases like methane.
ADDITIONAL	Offsets should be additional, meaning they represent an emission reduction or carbon removal relative to a baseline that would not have taken place but for the offsetting activity. Additionality can be difficult to determine and verify, and ultimately involves some degree of subjectivity. There are key questions buyers can ask to determine whether the offset project is additional or not. For more details you can refer to the additionality guidance published by Carbon Offset Guide ⁵ .

PERMANENT	Permanence refers to how long a greenhouse gas stays out of the atmosphere, whether stored in a physical reservoir or whose emission was deferred through avoidance. In the case of physically storing carbon in a reservoir (e.g., a forest or a geological sink), the risk of reversal of that carbon back into the atmosphere must be acknowledged and accounted for in the offsetting plan. For example, afforestation or reforestation generates carbon removal carbon offsets, but if forests are subsequently cut down or destroyed by pests, fire, or other natural disturbances the stored carbon is reversed and the carbon offset must be invalidated.
CO-BENEFICIAL	It is essential that in addition to contributing to significant emissions reduction the carbon offsets should also realize environmental and social equity and integrity. Also, a project should demonstrate it complies with all legal requirements in the jurisdiction where it is located. Depending on the type of project and the jurisdiction where it is located, however, additional reviews and safeguards may be necessary to guard against negative outcomes unrelated to GHG emissions.

PRINCIPLE 2

SHIFT TO CARBON REMOVAL OFFSETTING

An immediate transition to 100% carbon removals is not necessary, nor is it currently feasible, but organizations must commit to gradually increase the percentage of carbon removal offsets they procure with a view to exclusively sourcing carbon removals by mid-century. Most offsets available today are emission reductions, which are necessary but not sufficient to maintain net zero in the long run. Carbon removals scrub carbon directly from the atmosphere which can counteract ongoing emissions after net zero is achieved, as well as create the possibility of net removal for those actors who choose to remove more carbon than they emit.

Examples of emission reduction and carbon removal projects:

- Emissions reductions include avoided emissions, for example the deployment of renewable energy to replace planned fossil fuel power plants, programs to update inefficient cook stoves, energy efficiency measures in a factory resulting in carbon savings etc.
- Carbon removals are offsets generated by projects that remove carbon dioxide directly from the atmosphere. Examples include biological carbon sequestration (planting trees, soil carbon enhancement, etc.), bioenergy with carbon capture and storage (BECCS), direct air capture with geological storage (DACCS), or converting atmospheric carbon back into rock through remineralization.

PRINCIPLE 3

SHIFT TO LONG-LIVED STORAGE TYPE CARBON OFFSETS

Offsets increasingly need to come from activities that store carbon permanently, with very low risk of re-release into the atmosphere. Short-lived storage refers to methods of storing carbon which have an uncertain or higher risk of being reversed within decades. These include many biological storage methods like afforestation, reforestation and soil carbon enhancement. Such methods are capable of storing carbon for millennia, provided that land use and environmental conditions do not change. However, challenging conditions such as changing political priorities, economic pressures, fire, disease and risks associated with climate change itself, all conspire to increase the risk that this trapped carbon will be re-emitted in the near-to-medium term.

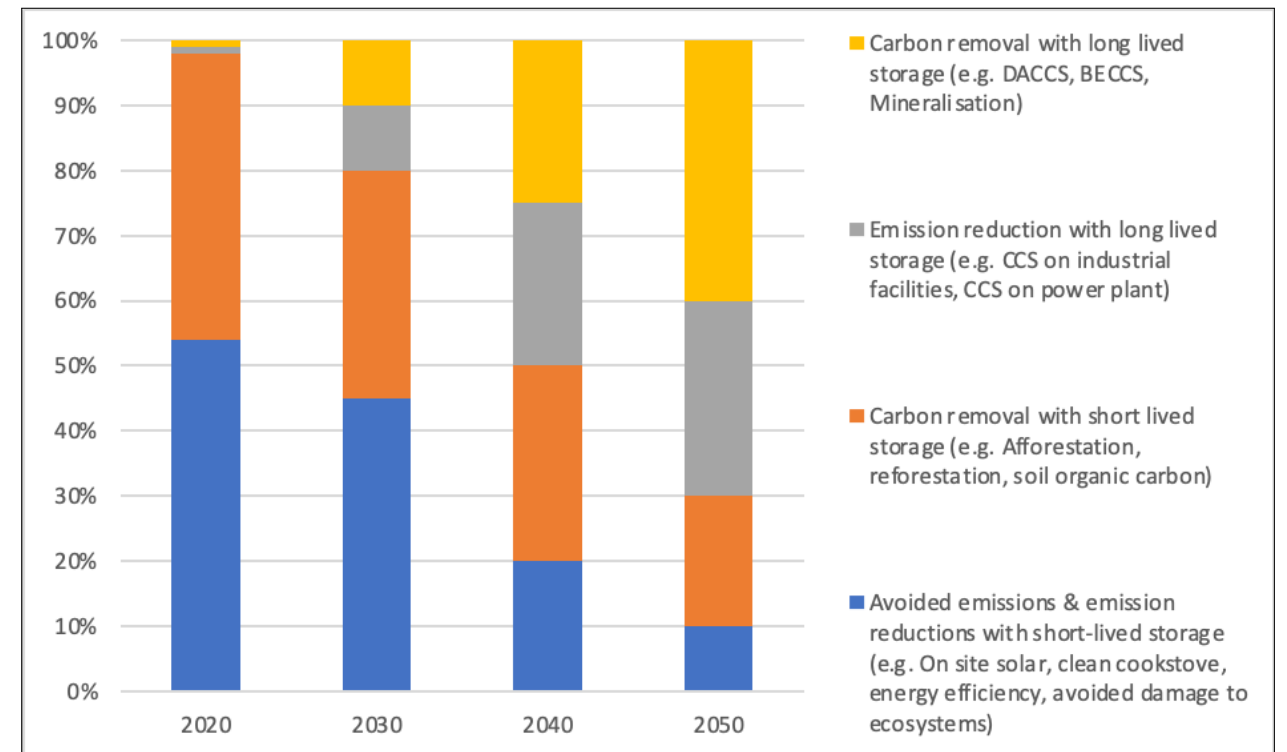
Long-lived storage refers to methods of storing carbon which have low risk of reversal over centuries to millennia. This includes storing CO₂ in geological reservoirs or mineralizing carbon into stable forms. While robust monitoring and verification is still needed to ensure the CO₂ added to these stores does not leak out, they are generally much more inert and secure than biological storage methods. A net-zero aligned portfolio of offsets must increase over time the portion of carbon removals over emission reductions, and the portion of long-lived storage over short-lived storage.

Table K.2.3 summarizes the principles of Carbon Offsetting.

Table K.2.3 Hierarchy of carbon offset projects

PROJECT TYPE	REVERSAL RISK AND PERMANENCE	PROJECT TYPE
Carbon Removal with Long Lived Storage	More permanent and lower risk of reversal	DACCS
		BECCS
		Mineralisation
		Enhanced Weathering
Carbon Removal with Short Lived Storage	Less permanent and high risk of reversal	Afforestation and reforestation
		Soil carbon enhancement
		Ecosystem restoration
Emission Reduction with long lived storage	More permanent and lower risk of reversal	CCS on industrial facilities
		CCS on power plants
Emission Reduction with short lived storage	Less permanent and high risk of reversal	Avoided damage to ecosystems
		Changes to agriculture practices that retain already-stored carbon
Avoided emission or emission reduction without storage	N/A	Renewable energy
		Cleaner cookstoves
		N ₂ O abatement
		Methane abatement

Figure K.2.4 Example of a Typical Net-Zero Pathway for Uptake of Type of Projects from 2020-2050



PRINCIPLE 4

SUPPORT THE DEVELOPMENT OF NET-ZERO ALIGNED OFFSETTING

The Sustainable Tourism Equity Principle

Carbon offsets relating to hotel emissions should create a nexus of benefits between carbon offsetting and tourism, so that the offset projects also benefit local economies and heritage. For a minimum threshold contribution to sustainable tourism, the selection of a project should be viewed in terms of its geographic location and its contribution to the UN Sustainable Development Goals.

- The offset should provide a tangible economic and social benefit to SMEs and local communities and economies, ideally supporting the decarbonization of emissions related to tourism activities.
- The offset should contribute to preserving natural and/or cultural heritage.
- The offset should identify the contribution to related SDGs as it pertains to supporting a location used for tourism, and in particular it should benefit tourism-related businesses and activities.
- The offset should be related as best as possible to the region of the hotel: municipality, state/province, country or physically proximate region. Where the hotel is located in an area without proximity to potential offset projects, it should be at least tied to the same macro-region of the globe.
- Finally, a carbon offset project can also seek to align with the hotel company's corporate strategy or their sustainability program. For example, if the company has a vision to empower women, or to empower certain communities, minorities, refugees, or to improve education, then they should look for projects which are focused on such themes.

EXAMPLES OF OFFSET PROJECTS THAT SUPPORT SDGS

HOUSEHOLD BIOGAS AND COOKSTOVE PROJECTS

A great example of an efficient and pollution-free project that can be implemented in many communities in or near tourism destinations, where gas released from organic waste is transformed to clean, reliable source of energy using anaerobic digestion. In addition, the residues from the fermentation process can be used as organic fertilizer, increasing crop growth and yield. More than 3 billion people lack access to clean cooking solutions and still rely on traditional methods such as using firewood and coal. Therefore, with the help of various Improved cookstoves, households can receive cleaner air, cost savings, and health benefits.

CONTRIBUTION TO SDGs



FORESTRY PROJECTS

Afforestation/Reforestation projects provide a nature-based solution that not only absorb CO2 from the atmosphere but create local jobs in forest management and conserve vital ecosystems – protecting local biodiversity at a time when several species are on the verge of extinction. Where biodiversity forms part of a tourism destination's natural heritage and part of the demand for travel to it, forestry projects support the principles of sustainable tourism directly. This is especially true in areas where the deforestation is being practiced and offsets can support tackling this problem.

EXAMPLE: Sumatra Merang Peatland Project, Indonesia This project aims to restore more than 22,934 hectares of peatland rainforest in the Merang biodiversity zone in Indonesia, one of the largest and deepest peat swamp areas in South Sumatra and an area more than 3.5 times the size of Manhattan. Climate finance will be used to rehabilitate and protect this critical ecosystem, preventing the release of significant volumes of emissions, in addition to creating a conservation area for hundreds of unique and endangered species such as the Sumatran Tiger which also generate revenue for eco-tourism.

CONTRIBUTION TO SDGs



WATER PROJECTS

These projects provide access to safe drinking water, improving health and living conditions and eliminating the burden on women and children of fetching water. For destinations with high water scarcity, supporting water-based projects is meaningful for the localized support it can provide.

CONTRIBUTION TO SDGs



AGRICULTURE PROJECTS

These are projects based on improving the various agriculture practices which empowers the farmers and also improves the environmental conditions. The practices can be improved tilling, soil preparation, reducing chemical fertilizers, and reducing erosion. Agriculture is important to hospitality and tourism as food and beverage establishments can support local and sustainably produced agriculture and add to guest experience.

EXAMPLE: Cordillera Azul National Park, Peru: This project is working in a huge landscape of 3.7 million hectares (nearly the size of the Netherlands) to protect 1.6 million hectares of threatened forest. The Cordillera Azul project focuses on establishing sustainable livelihoods through technical assistance and support for transitioning land use to agroforestry systems for sustainable cocoa and coffee production. In addition, a wide community-driven program is helping tens of thousands of local people gain access to basic services such as sanitation, health care and education

CONTRIBUTION TO SDGs



BLUE CARBON PROJECTS

Blue Carbon refers to projects that sequesters CO2 within marine and coastal ecosystems like wetlands marshes, mangroves and seagrass meadows. These vast natural carbon sinks have tremendous potential to store significant amounts of carbon while also restoring the habitat of some of the species that rely on them.

EXAMPLE: Gazi-Kwale County of Kenya: a mangrove restoration carbon offset project has served as a teaching mechanism to promote environmental awareness and recognition for the value of mangrove forest resources in primary and secondary schools. The children of Gazi have benefited, after they received textbooks from the earning of the second proceeds of the carbon trade worth USD 1,500. Across in Makongeni, the first installment was used to buy textbooks worth USD 1,500 for Makongeni primary school while the second earning connected at USD 5 to every home with a monthly fee of USD 2.5.

CONTRIBUTION TO SDGs



VARIOUS RENEWABLE ENERGY PROJECTS

EXAMPLE: The Paradigm Project: American University, which became carbon neutral in 2018, invests in offset programs in Kenya through The Paradigm Project. American University has a study abroad center in Nairobi; the Paradigm Project counteracts emissions associated with study abroad air travel while also deepening connections with Kenyan communities and providing students an example of sustainable development.

CONTRIBUTION TO SDGs



METHANE RECOVERY PROJECTS

Methane recovery projects use technology to convert landfill gas into electricity which can be fed into a national grid. This not only reduces GHG emissions, but also the risks of explosion and unpleasant odors.

CONTRIBUTION TO SDGs



COMPOSTING PROJECTS

Composting projects use organic waste and produces good quality compost using aerobic digestion which is then sold to farmers as soil structure improver.

CONTRIBUTION TO SDGs



K.3 KEY CARBON STANDARDS

Following Table K.3 lists the key carbon standards that are being used to certify offset projects in accordance with the attributes and principles of carbon offsetting.

Table K.3 Key Carbon Standards

NAME OF PROGRAM	TYPE OF CARBON MARKET	REGIONAL SCOPE	REGISTRY	VERIFICATION REQUIRED	LABEL USED
Clean Development Mechanism (CDM)	Compliance (Under Kyoto Protocol)	International (Projects should be developed in Developing Countries as defined by Kyoto Protocol)	Yes	Yes	Certified Emission Reductions (CERs)
California Compliance Offset Program	Compliance	United States	Yes	Yes	Air Resources Board Offset Credit (ARB OC)
Regional Greenhouse Gas Initiative	Compliance	Northeast United States	Yes	Yes	RGGI CO2 Offset Allowance
American Carbon Registry	Voluntary	International	Yes	Yes	Emission Reduction Tonne (ERT)
Climate Action Reserve	Voluntary	United States, Canada and Mexico	Yes	Yes	Climate Reserve Tonne (CRT)
Gold Standard	Voluntary	International	Yes	Yes	Verified Emission Reduction
Verra	Voluntary	International	Yes	Yes	Verified Carbon Unit (VCU)
Plan Vivo	Voluntary	International	Yes	Yes	Plan Vivo Certificate (PVC)
Social Carbon	Add-on certification standard	International	Yes	Yes	Used in Conjunction with other labels
Climate, Community, & Biodiversity Standards (CCBS)	Add-on certification standard	International	Yes	Yes	Used in Conjunction with other labels

K.4 ACCOUNTING AND BOUNDARY ISSUES IN CARBON OFFSETTING IN HOTEL INDUSTRY

Due to the nature of the travel and hotel business, multiple entities are involved in the value chain of the hotel industry, as outlined in Section 5 of this methodology. This leads to several challenges pertaining to carbon offset claiming and accounting, with the potential for multiple entities to offset the same emissions. As discussed above, **the recommendation of this methodology is that two or more parties can account for the same carbon offset, while only one entity can claim retiring of the offset.**

The challenge lies in identifying offsets which have been claimed and retired throughout the value chain so that entities do not, even unwittingly, double count. As such, the whole tourism and hotel sector should work towards the introduction of transparent and appropriate tracking systems which centralize and streamline efforts and engage travelers uniformly. When a travel intermediary offsets the emissions of a hotel, the operator may not need to offset again, and using an improved registry and tracking system, could show the amount of carbon offset from its GHG inventory without the need for additional offsets, as the emission from the traveler's stay has already been neutralized. It can then focus efforts and resources in other emissions reduction activities.

Appropriate claims should be made with full transparency and details should be noted in inventories and disclosures on aspects related to who, how and how much has been offset. There are various resources available which gives guidance on making offset claims, one of which is the Carbon Offset Claims Guidance. Please see the below section for key points from the Carbon Offset Claims Guidance.

K.5 CARBON OFFSET CLAIMING GUIDANCE

Following are some key points to be considered when claiming carbon offsets:

- **Be specific about the scope and boundaries of the emissions that have been offset** – Companies have wide sources of emissions and it is difficult and impractical to quantify all and offset all potential sources of emissions. Therefore, it is important that carbon offset claims should clearly indicate information about the activities covered, scope covered and time period of the emissions sources
- **Provide information about the type of projects you have purchased and do not overstate your role in offset creation (unless you have originated the project)** - When communicating about purchasing carbon offsets, ensure that you are not overstating or indicating that you have created the offset project or originated it, unless you have. Instead, mention that you have either “supported” or “purchased” credits from that project. Also mention the type of project you have purchased and its location etc.
- **Purchasing carbon credits does not equal emission reduction from your boundary** – While you have purchased carbon offsets to compensate your emission, your company has not reduced those emissions from your boundary. Therefore, any claims in regard to your company being a ‘zero’ emissions entity is false.

Principles of Carbon Credit Claims

Any company or organization that seeks to safeguard the transparency and integrity of carbon credited-related claims would ensure that these VCMI principles are met:

■ **True and accurate** –

- When carbon credits are used for offsetting, clarify what portion of a company's GHG emissions are being offset and what standards and methodologies were used to measure, calculate, and verify GHG emissions
- Be based on evidence and real climate action planned and being implemented by the company. A true and accurate commitment claim is underpinned by the existence of a concrete plan, near-term abatement targets, and clarity about the scopes of activities and emissions covered
- Ensure that carbon credits are issued by high integrity carbon standards. Carbon standards, in turn, must demonstrate that carbon credits are accurately quantified, real, verified and additional, while properly addressing leakage, nonpermanence, and double counting risks

■ **Clear and relevant to their target audience** –

- Carefully consider the target audience and their familiarity with concepts. The target audience may involve a range of stakeholders including consumers, investors, shareholders, host countries, and the broader climate community
- Be clear on whether carbon credits are being used to achieve corporate targets, used to neutralize residual emissions only, and/or whether they are credited only against unabated emissions beyond the abatement target set by the company.
- Be clear and transparent on the climate accounting impact of the carbon credits being used and whether they carry a corresponding adjustment in the meaning of Article 6 of the Paris Agreement. Carbon credits that do not carry a corresponding adjustment should be explicit about this condition (note: more concrete guidance needs to be developed post-COP 27)

■ **Substantiated with objective, transparent, and up-to-date data** –

- Be supported by a net zero abatement pathway validated or guided by initiatives such as the SBTi.
- Provide evidence of a robust, low-carbon transition strategy validated or guided by initiatives such as the Assessing Low Carbon Transition (ACT) initiative
- Provide clear descriptions of type of target, timeframe and trajectory (and how these relate to different scopes).
- Provide clear annual progress reports and information on whether the corporate is on track to achieve its net zero abatement target
- Provide information on the portion of emissions that are being reduced vs. the portion of emissions being offset (including what is being offset).
- Provide easy-to-access data on volume, type of carbon credits acquired, from which projects the carbon credits come from and when these carbon credits were generated. Information on price paid per unit is also relevant.

- Provide a description of balance of the portfolio of mitigation activities between emission reductions and removals.
- Ensure full transparency of mitigation activities and offsetting programs being used. Transparency is a key criterion to evaluate the quality of mitigation activities, including the assessment of additionality and baselines. It is also crucial for the design and functioning of carbon standards and for tracking the movement and final use of carbon credits (through robust registry systems).
- Ensure positive social or environmental benefits beyond mitigation

■ **Avoid Overstatements -**

- Explain (and provide evidence of) how carbon credits are integrated into the corporate strategy. Carbon credits should be supplementary to corporate's own abatement efforts and temporary in nature
- Clearly specify whether and how a corporate commitment covers Scopes 1, 2 and 3 of GHG emissions, as well as non-CO2 emissions and non-energy emissions.
- Clearly specify the actions being taken to address emissions from each scope, and which scope represents the larger climate impact.
- Carbon credits derive from projects or programs that apply conservative baselines and adequate methods for managing uncertainty in the calculation of emissions and emission reductions.

■ **Avoid false impression or hide trade-offs -**

- Where terms such as “carbon neutral” and “climate neutral” (or “carbon neutrality” and “climate neutrality”) are used, they should carry a clear explanation that the company has not yet eliminated all of its emissions or that using products or services does not mean producing “zero” emissions.
- Inform whether the company has formally adopted a net zero abatement pathway, whether company targets are validated by a third party (e.g. the SBTi) and provide annual progress reports on whether the company is on track to achieve these targets.
- Where NBS carbon credits are used to improve the protection and enhance natural ecosystems, provide a clear explanation as to how leakage and permanence of emissions reductions are being managed and addressed. For REDD+, jurisdictional programs and nested projects have increased accounting integrity.
- Where carbon credits derive from technological removals, provide a clear explanation of the type of technology being applied, the scale of the activity, and sustainability trade-offs.
- Both NBS and technological removals should put in place the proper environmental and social safeguards.

■ **Actions go beyond legislation or expected practices -**

- Provide assurance that carbon credits used for offsetting purposes only supplement internal corporate action (and do not delay or postpone actions and investments in own GHG reductions).
- Ensure that mitigation activities are additional and, where needed, consistent with efforts and actions contained in the host country NDC.

Types of Corporate Climate Claims Related to Carbon Offsetting

Companies use a wide variety of terms to refer to their voluntary climate commitments. These fall into 3 broad categories:

- Carbon Neutral Product
- Carbon Neutral Company
- Net Zero

The above 3 categories of claims are based on 5 key attributes:

- **Company coverage:** whether the commitment covers the entirety of the company's value chain, or one particular product or service
- **Target achievement date:** whether the company has made a commitment to achieve a certain target in the future, or if the company is claiming to have reached the agreement today
- **Emissions target:** whether the emissions target is aligned with an emissions pathway of 1.5°C of warming by 2100
- **Emissions coverage:** the type of emissions covered (both in terms of the gases emitted and the source of those emissions within the company's value chain).
- **Use of carbon credits:** whether the commitment uses both compensation (removal projects) and neutralization (emissions reduction or avoidance) carbon credits, or neutralization credits only

Tables K.4 and K.5 below shows 1) the 3 categories of claims based on the above 5 attributes and also 2) a how a company who have committed to net zero should use carbon credits respectively.

▼ **Table K.4** Differences in company climate claims (Adapted from VCMI)

CLAIM CATEGORY	ATTRIBUTES	CARBON NEUTRAL PRODUCT	CARBON NEUTRAL COMPANY	NET ZERO
Company Coverage	Whole company value chain		✓	✓
	Specific product / service	✓		
Target Achievement Date	Today	✓	✓	
	Future (2030 - 2050)			✓
Emissions Target	1.5C pathway alignment	✓	✓	✓
	Internal emission reduction required	✓	✓	✓
Emissions Coverage	CO2 only	✓	✓	
	All GHGs			✓
	Scope 1 and 2 required, Scope 3 encouraged	✓	✓	
	Scope 1,2,3 required			✓
Emissions Target	Compensation and neutralization projects	✓	✓	
	Only neutralization projects			✓

▼ **Table K.5** Use of Carbon Credits in Net Zero Commitments – Type 1 is the highest level of ambition followed by Type 2 and 3 (Adapted from VCMI)

NET ZERO PATHWAY TYPE	TARGET, STRATEGY AND PERFORMANCE	USE OF CARBON CREDITS
Type 1	Target Company adopts a 1.5° C abatement target as well as a long-term net zero target. Target covers full Scope 1-3 emissions and non-CO2 emissions. The target is validated by a reputable third-party initiative or standard (e.g. SBTi)	Company purchases carbon credits to compensate all unabated emissions and neutralize residual emissions Company also purchases carbon credits to compensate for all its historical emissions
Type 2	Strategy Company has a net zero aligned (short- and long-term) low carbon transition strategy and a concrete plan/roadmap to meet its formally adopted target	Company purchases carbon credits to compensate all unabated emissions and neutralize residual emissions Company does not purchase carbon credits to compensate for its historic emissions
Type 3	Performance Company is on track to meet the formal net zero aligned target on a rolling average	Company purchases carbon credits to neutralize residual emissions Company does not compensate all unabated emissions in the short to medium term Company does not purchase carbon credits to compensate for its historic emissions
Type 4	Target, strategy and performance criteria not met (but company may have a non-validated net zero target OR may have a validated target but is not on track to achieve it)	Company purchases carbon credits for “offsetting as a substitute for within value chain science-based action”

APPENDIX K

**A NET ZERO
CARBON
OFFSETTING
STRATEGY FOR
THE HOTEL
INDUSTRY**

K.6 PURCHASING CARBON OFFSETS

■ **Do I need to buy additional offsets, if my travel partner has already offset the emissions associated with my guest’s travel and accommodation?**

No. If you are already aware that emissions with your guest’s travel and stay have been offset, you do not have to purchase additional offsets as that would lead to multiple counting. However, you can account for the offsets of those emissions in your reporting, but not claim publicly and take responsibility of the offsets as the ownership lies with the travel partner that has made the purchase.

■ **Where should I purchase carbon offsets from?**

There are many ways to purchase carbon credits ranging from directly and actively getting involved in their origination to simply purchasing offsets with the help of brokers or retailers. The decision lies on when you need to purchase the offsets, how many offsets you require or the price of offsets and the amount of time and resources you have to put in into acquiring offsets. Some of the key approaches to purchase carbon offsets are:

1 Directly and actively engaging in investing in new projects – Here the buyer invests in an offset project in return for rights to carbon offsets the project will generate. The buyer will have to involved in project development, registration and monitoring of the project.

■ Pros	■ Cons
<ul style="list-style-type: none"> • Allows “at cost” access to offset credits, hedging against future price increases • Allows deep engagement with project and understanding of / influence over quality characteristics 	<ul style="list-style-type: none"> • Time consuming • Requires resources and expertise • Commits the buyer to long-term purchase agreement

2 Getting into contracts with an offset project developer – here the buyer contracts directly with a project developer for delivery of carbon offsets in form of Emission Reduction Purchase Agreements (ERPA)

■ Pros	■ Cons
<ul style="list-style-type: none"> • Lower transaction costs • Allows low-costs access to offset credits, hedging against future price increases 	<ul style="list-style-type: none"> • Time consuming • Requires some resources and expertise • Commits the buyer to long-term purchase agreement

3 Purchase one-off from a project developer – here the difference from approach 2 is that instead of getting into a contract, the buyer simply purchases the offsets as one-time transaction. Usually, the project developer will have some unsold offsets and can sell them directly to a buyer

■ Pros	■ Cons
<ul style="list-style-type: none"> • Lower costs • Immediate delivery of credits • Avoids long-term engagement 	<ul style="list-style-type: none"> • Difficult to procure • Volumes may be low • May have some concerns about quality of offsets

4 Purchase from a broker – Various firms acts as brokers for carbon offsets. Brokers can make it easy to identify projects and provide large number of volumes immediately. Brokers also develop their own projects and therefore are sometimes vetted

■ Pros	■ Cons
<ul style="list-style-type: none"> • Quick and easier access to offsets • Avoids time and effort to engage directly with project developers 	<ul style="list-style-type: none"> • Higher costs • Not feasible for low volumes • May have some concerns about quality of offsets

5 Purchase from a retailer – Retailers often have variety of projects and offset and provide basic information about the offsets.

■ Pros	■ Cons
<ul style="list-style-type: none"> • Good for small volumes • Avoids time and effort to engage directly with project developers 	<ul style="list-style-type: none"> • Prices are higher than brokers • Not good for low volumes

6 Purchase from an exchange – There are several environmental commodities exchanges that list carbon offsets for sale and facilitate transparent transactions.

■ Pros	■ Cons
<ul style="list-style-type: none"> • Quick and easy transactions • Can access large volumes • Wide range of projects 	<ul style="list-style-type: none"> • Sometimes not relevant for voluntary carbon markets • Have to make accounts and include some other maintenance costs and etc.

■ **Should I go for “cheaper” carbon offset?**

In many markets, “cheap” is often synonymous with “low quality.” Very cheap offset credits can indeed be a sign of low quality, especially for newer projects. The inverse argument – that higher prices correlate with higher quality – is not reliably true either. However, the key point when purchasing offsets, buyers should ask questions related to various aspects of the offset which are given in the sections below.

■ **Which vintage year of offsets should I purchase?**

Generally, it is recommended to try and buy carbon offsets within 1-3 years of your organization’s greenhouse gas (GHG) emissions, and anything more than five years apart is much less desirable. However, older issuance vintages may present a quality concern where the following conditions are true as the offset under consideration may have remained unsold for a long time and/or there were delays in the delivery of the offsets due to various financial or administrative risks that may question the additionality or quality of the projects. **Should I forward-buy offsets?**

Generally, no. As a key attribute of offsets, time gap between the purchase of the offset and the successful execution of the emissions reducing or carbon removing activity must be minimized. The reason being, say if a company forward-buys offsets for 10-15 years in the future. The company may face a higher risk for the offsets to not be delivered in time. Projects are exposed to various types of risks such as administrative, legal, financial, community conflict etc, which can cause delays in project registration, monitoring or verification and therefore can lead to offsets not being delivered on time to buyers. Especially, forestry projects may also be vulnerable to risks of leakage such as catching wildfire or deforestation activities etc. Therefore, forward-buying should be minimized as much as possible.

■ **What questions/consideration should I seek when purchasing offsets?**

There are various questions that a buyer should consider when purchasing carbon offsets. For full list of questions please refer to [Offset Guide](#).

K.7 CARBON INSETTING AND ITS RELEVANCE IN HOTEL INDUSTRY

Carbon insetting differs from carbon offsetting in terms of where the emission reductions take place. In carbon insetting, investment in emissions reduction projects are made by a company within its supply chain i.e., in the Scope 3 value chain boundary. Whereas for carbon offsetting it is clearly stated that the investment can be made anywhere outside the company’s supply chain, the definition of carbon insetting has not been standardized and documented.

In generally, carbon insetting may be more attractive than carbon offsetting as:

- The funds remain within the company’s value creation
- Stakeholder relationships are strengthened
- It can demonstrate commitment and leadership
- Companies can actively support communities or SMEs in their supply chain

There are several examples of companies such as L’Oréal, Chanel and Nespresso that are already implementing forestry restoration and conservation projects in Latin America where the majority of their farmers and suppliers are based.

As the definition of insetting has not been standardized and formalized, SBTi recommends in its recently published Net-Zero Standard, that companies should only include emissions reductions from “insetting” projects that use a corporate accounting approach and are wholly contained within their supply chains, or the portion of a “partially-included” project that is within their supply chain and linked directly to sourcing.

Given the extensive supply chain, with the potential for sourcing of locally produced goods and services (such as bathroom amenities, food, materials (wood, timber, steel etc.), carbon insetting may be a consideration for the hotel industry, however challenges may arise as hotels generally do not have the scale to undertake projects themselves or quantify the insetting with respect to their direct supply chain.

