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Episode 3

From emissions to carbon offsets: understanding the path to net-zero

Welcome to the *Powered* by Marsh FINPRO podcast. Through a series of interviews with experts from across the energy and power industry, host Grace Brighter will examine key challenges and opportunities brought by the energy transition, and how to approach and manage the evolving management liability risks this transformation brings.

Sarah Baldys:

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I am Sarah Baldys, US power and renewables leader at Marsh's financial and professional liability practice, and I am pleased to introduce the host of the *Powered* by Marsh FINPRO podcast, Grace Brighter.

Grace Brighter:

Hello and welcome to *Powered* by Marsh FINPRO. I am your host, Grace Brighter.

For our discussion today, I am joined by Marsh's very own Shea Jameel. Shea is the senior director of sustainability at Marsh McLennan.

Shea is a sustainability leader with over 12 years of experience leading and implementing sustainability programs across a variety of sectors, including real estate, manufacturing, and hospitality. In her role at Marsh McLennan, she is responsible for ESG reporting and the company's climate initiatives, partnering with cross functional stakeholders to drive progress.

In today's episode, our conversation is focused on understanding the sustainability ecosystem and evaluating the metrics behind carbon reduction.

Hey Shea, thanks for joining us today.

Shea Jameel:

Great. Yeah. Thanks for the question and thanks for having me. Sustainability has evolved considerably since I first started my career and even in the past few years, we've seen a really big acceleration and growth stakeholders including customers, clients, investors, employees, regulators, and civil society are increasingly interested in how companies are using their size to benefit society.

This can mean anything from how is the company providing high quality jobs to the local community, to what they're doing to reduce their environmental impact and their emissions. In response, companies are disclosing more information, publishing annual ESG reports and setting targets and taking actions to show their support for these topics.

As new regulations come into effect across the world, I think you'll see even more action in this space…and at climate week, that was the topic where, five years away from the first milestone of the Paris Agreement, which is the global treaty that countries agreed to in 2016 to keep warming below 1.5 C, the first milestone is coming up in five years, which is nothing. So I expect that you're going to see a lot more action in this space and there is a lot of talk at climate week around what the voluntary carbon market can do to contribute to these goals.

Grace Brighter:

Great. Thanks, Shea. And what are Marsh's priorities? Specifically, their commitments to sustainability?

Shea Jameel:

In 2022, we committed to setting strategies to achieve net-zero emissions in our core operations by 2050. We also committed to reducing these emissions 50% by 2030.

I'm happy to share that as of 2023, the most recent year we have data for, we reduced our direct emissions - so scope one and two as they're referred to in the climate community - by 45% since 2019, largely through efficiencies in our office footprint and the use of renewable electricity.

In addition, Marsh McLennan has been a certified carbon neutral company for the past four year. What this means is we calculate our emissions and then offset them through high quality carbon offsets projects.

Grace Brighter:

Thank you for that overview, Shea. So now I think we can really pivot to the process of determining how to achieve sustainability goals and there's definitely a lot to cover here. Shea, how are companies really evaluating and selecting projects to invest in?

Shea Jameel:

So this really depends on what's most important and relevant to the company and what stakeholder groups they're targeting.

So for example, if you're in the agriculture space, you might be really interested in projects that touch farming and agriculture and those stakeholders. If you're in the fashion space, you might be really interested in projects that are impacting the role of fashion and sustainability, so maybe working with those factories in Asia. But overall, when you think about corporate climate action, it's important to remember the concept of the mitigation hierarchy of emissions.

What this means is that companies and organizations should first avoid emissions where they can. So is there a change you can make in your process? Can you upgrade equipment to use less energy in the first place, and then produce less emissions in the first place?

Once you've done that, then the next step in the mitigation hierarchy is focusing on reducing emissions, so here you could do that through perhaps switching to renewable electricity, switching to electric vehicles, looking at how you're transporting goods, moving from high impact ways of transporting (like air cargo) to lower impact ways, like rail. And then lastly, once you've avoided and reduced what you can focus on offsetting what can't be avoided or reduced through high quality projects outside of your operations, so maybe it's like you're supporting forest conservation or even sucking carbon out of the atmosphere and burying it underground.

As companies work through this mitigation hierarchy, they'll identify what's most important to them when selecting projects. Here at Marsh McLennan, it's very important that the projects we select are aligned with our geographic footprint. We've also in our ESG report identified six sustainable development goals as the ones that are most relevant to the work we do for our clients, and we want projects to support those goals and then as an insurance broker, we're especially focused on the role of nature and resiliency in climate mitigation and adaptation.

Grace Brighter:

So you touched briefly on some of these offsets. I think it would be helpful for those listening to really understand how does a carbon offset get developed? You know, how does it evolve from really just starting out as an idea to an L set?

Shea Jameel:

Yeah, that's a great question. The life cycle of a carbon offset project is that there's an entity - it could be a local community, so maybe in a far space nation there is a local community that lives in the forest that are really stewards, or it could even be a corporation…maybe there is an industrial manufacturer that's identified a process change that can reduce carbon, but they need help funding that change - so this is the actual organization taking the carbon action. They'll work with the project developer to quantify that action and then turn it into a credit.

Most of the time, the organization doing the action and the one developing the project offset are different, but sometimes they're the same.

So, once an action has been identified, the next step is really quantifying and calculating, what are those avoided emissions or reduced emissions? So an example can be we recently, as Marsh McLennan, supported a project that caps orphaned methane wells. So oil wells, once they're no longer being used, continue to emit greenhouse gas emissions. If you cap those wells, those emissions no longer get emitted, so a project developer would quantify what these emissions are that are being avoided - there's methodologies, and they'll calculate those emissions - and then one carbon offset is equal to removing or avoiding one metric ton of emissions.

So in this example I just gave, let's say that 100 wells were capped, and then that led to 1000 metric tons of avoided emissions, so those thousand metric tons would be the amount of carbon offset. To develop the actual instrument, the developer would pick a registry - so as an example, Vera or gold standard or American carbon registry - and then they'd pick a methodology based on the type of project. Once they're chosen, those can't be changed. They follow the methodology to come up with the quantification and then once that's done, there's another third party, an auditor, that vets this process to ensure that the calculations make sense, all the data is there, and then those offsets get listed on the registry. The registry is the ledger that provides transparency and credibility to the system. How a company like ours would be able to buy those credits is we would work with either a broker or marketplace to actually purchase the offsets. And the broker model, the broker purchases and resells them, and in the marketplace model, you can think of it like AirBNB, where there's a platform that connects developers and buyers.

Grace Brighter:

So Shea, what makes a good project or a good investment, and how do you really vet it? What does this process look like and what third parties are involved?

Shea Jameel:

Yeah, this is also a really great question. And we've seen a lot of attention and scrutiny of bringing to the voluntary carbon market as it's grown, so really important when companies are purchasing these credits like about that credibility and due diligence. So there's the internal vetting that a company would go through where they develop the criteria like the ones that I've mentioned earlier, and the governance process, and then the projects would be reviewed against those criteria.

Then there's also external vetting, where a third party will review the project, so once it hits the registry, there has been a lot of vetting already, so there is an auditor that confirmed that the methodology was followed, that there was that methodology. But as this market has grown, two governance, other tech forms and provide additional overseas.

The first group is the Integrity Council for the voluntary carbon market, and this group is focused on the supply side of the equation. So working with those developers, they've issued core carbon principles that identify high integrity projects. For example, project additional. What that means is that the offset is a project that wouldn't have happened without this additional financing. You shouldn't buy an offset for a project that was going to happen regardless, and there should be no double counting. That's another one of these core carbon principles, and the way that's governed is through the Ledger.

On the other side of the equation is the demand side, so the corporate buyers. A group called the Voluntary Carbon Markets Initiative has been developed that provides best practice on how companies talk about their efforts publicly. So, companies are buying carbon credits because they want to showcase their commitment to sustainability and make public statements to the marketplace, to their stakeholders, their investors, and their clients. The voluntary carbon markets initiatives provides those best practices.

There's also independent raters. They're similar to credit rating agencies for carbon offsets, and they'll provide a rating using their own data. So, for example, if you're looking at a forestry project where a piece of forest is being protected, and that's what will develop those carbon reductions, they might use satellite data to see if indeed overtime that forest is being protected.

Grace Brighter:

So, Shea, you spoke about making claims and public statements. What are some best practices when making these statements?

Shea Jameel:

As the market has grown, there's been a lot more attention and scrutiny to the claims that companies are making in this space, including some negative attention from the press or NGO's around these projects. When companies are purchasing carbon credits, thinking of their overall sustainability strategy and how they want to communicate it, remembering that mitigation hierarchy is really important and having transparency the around the role of the carbon offsets in the mitigation hierarchy.

So if you've set a corporate climate target, thinking about and communicating what companies are doing internally to go through that hierarchy and then the role of offsets providing transparency into the types of projects - maybe where the projects are located is really important - and then being really clear that the reductions you're speaking about or the claims you're making do include offsets. Some of the scrutiny that has happened is third parties, like NGO's, feel companies are claiming reductions in emissions when in fact they're financing a project outside of their operations.

We need carbon financing at climate week, there is a lot of talk right now, the carbon market, the voluntary carbon market, is worth about $2 billion a year. It needs to grow to $100 billion a year if we want to meet the Paris Agreement goals, so we need this carbon financing, and the offset market has proved to be a really great mechanism to provide that. But companies should be clear in their communications if they're claiming like my product is carbon neutral, how they got to there, including the role of offsets.

In California, recently issued a new regulation that tries to bring transparency to this space. So starting in 2025, companies that use offsets and make claims will have to issue a statement on their website detailing exactly what types of projects they were, and then how they feed into these claims.

Grace Brighter:

So you've discussed a lot about these projects and regulations, best practices. I think it would be really helpful to understand what can go wrong. You know what, what project, what happens if a project fails and what red flags do you really look for?

Shea Jameel:

Yeah, this is another really great question, and there are instances where a project has failed to provide the carbon benefits that were claimed. Maybe, for example, there was a forest fire that impacted the piece of land that was being protected, or there's a new technology and it turns out that the actual emissions reductions didn't perform like the calculations thought it would, and this happens. You know, this is, it's to be expected, nothing is perfect. But in this case, there is a reputational risk for the buyer if they're making claims and public statements about the project.

So as you're going through the vetting process, it's really important to choose third parties carefully and ask questions. Don't be afraid to ask your third parties questions like, what happens if the project fails? What are my options? Are you going to provide me equally high-quality credits?

In that case, how are you going to inform me that the project has failed? I don't want to have to find out when I open the news – I want you to tell me first. Ask about the calculations. Don't be afraid to ask those hard questions and a good developer. A good marketplace, a good broker, will have no problem answering these questions for you.

Grace Brighter:

That's great, Shea. Thank you. And I and I think this kind of brings us to our last topic here of conversation. You know, what is the role of insurance, both insurance companies and then brokers like Marsh in the sustainability ecosystem?

Shea Jameel:

So at climate week, there was a lot of talk about how carbon financing needs to scale dramatically. The numbers that were being mentioned is $2 billion annually and it needs to grow to $100 billion if we meet the Paris Agreement goals. And I mentioned earlier that the first milestone, the Paris Agreement 2030 is going to be here before we know it.

If we want to see this level of scale, this dramatic growth, insurance is going to be crucial in providing that growth and providing that assurance and protection from risk to the companies and organizations that are providing this financing.

As you increase the amount of financing, there’s going to be much more of a need for protection against risk, whether it's, you know, risk that the projects, bills…and insurance really does a nice job of providing that protection. And then also, again, bringing that standardization to the market as they start to underwrite these types of projects, and it will provide just another layer of vetting.

Grace Brighter:

Well, thank you so much, Shea, for your time today. You know, we are extremely lucky to have you at Marsh to serve as an excellent resource for all colleagues when it comes to sustainability. I'm really happy we were able to have this discussion and I'm sure those listening really learned a lot from you. So thank you.

Shea Jameel:

Thank you.

Grace Brighter:

That's all for this edition of *Powered* by Marsh FINPRO. We hope you enjoyed our discussion and thank you for listening. You can rate, review, and subscribe to *Powered* by Marsh FINPRO on Spotify, Apple Podcasts, or any other app you're using. You can also follow Marsh on LinkedIn or X.

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