



Oxford Offsetting Principles Practitioners Forum

Pathways & Portfolios under the Oxford Offsetting Principles

Identifying a net zero aligned pathway is critical for the development of an Oxford Offsetting Principle (OOP) aligned portfolio. The foundation for such a pathway is deep internal emissions cuts. From this basis, organisations can then identify a clear net zero aligned trajectory of emissions and compensation measures that can be used to design an offsetting portfolio. The pathway and the accompanying offsetting portfolio should be clear and adequately ambitious from the outset, for instance, by progressively increasing the fraction of carbon committed to permanent storage: e.g. 10% by 2035, 50% by 2045, 100% by 2050.

(1) Elements of an OOP-grounded Offsetting Portfolio

Fundamentally, a net zero aligned offsetting portfolio tracks backward from the organisational net zero target date, demonstrating the portfolio volume attributed to project categories set forth by the [OOPs](#), with the ultimate purpose of moving towards 100% Carbon Dioxide Removal (CDR) with the lowest risk of reversal.¹ This portfolio could be a mix of project types that moves towards CDR with the lowest risk of reversal, or in the form of investment in units such as “progressive offsets” or “prosets”, which adjust the fraction of CDR investment from less durable to more durable CDR over time.² Within this context, the following aspects are critical:

- **Clear End Target & Interim Trajectory:** Including dates and expected volumes.
- **Portfolio Composition:** Ensuring transparency over both qualitative and quantitative dimensions of the offsetting portfolio.
- **Portfolio Purpose:** Identifying the emissions that are being compensated, or the manner in which investments are otherwise contributing to net-zero.

NB: It is not a requirement that an offsetting portfolio contains all the project types the OOP identifies but rather that it signifies a transition to Category V: Durable Removals with the lowest risk of reversal, especially for the part of the portfolio addressing compensating for any remaining or residual emissions.³

¹ These categories include Category I: Avoided emissions, or emission reduction from geosphere (without storage); Category II: Avoided emissions or emission reduction from biosphere; Category III: Emission reduction from geosphere (with storage), Category IV: Carbon removal to the biosphere, Category V: Carbon removal to the geosphere.

² Mitchell-Larson, E. and Allen, M., 2022. Prosets: a new financing instrument to deliver a durable net zero transition. *Climatic Change*, 174(1), p.15.

³ Indeed, this is one of the most common misconceptions the Principles deals with. See Axelsson, K., and Johnstone, I. (2024) The Top 5 common misconceptions about how to use the Oxford Offsetting Principles

<<https://www.smithschool.ox.ac.uk/news/top-5-common-misconceptions-about-how-use-oxford-offsetting-principles>>.

(2) Portfolio Evolution

The strategy to meet organisational net zero targets should evolve over time, in line with changes in scientific, technological, and regulatory advances, such as changes in science concerning what constitutes a removal with the lowest risk of reversal.⁴ The complexity of an evolving OOP-aligned portfolio should also reflect i) evolution in sector-specific decarbonisation pathways and transitional emissions and ii) organisational capabilities based on the requisite scale they operate on. In this line, small and medium-sized enterprises (SMEs) should be able to craft and implement an OOP-aligned portfolio tailored to their needs. Evolving portfolios can be either developed by the organisation itself or the result of externally curated portfolios or units themselves that adhere to the OOPs, such as, prosets (see above).

(3) Interim Targets & Reporting

An OOP-aligned portfolio should set clear and transparent interim targets. Such targets should be sector-specific and include i) qualitative and quantitative dimensions of the offsetting portfolio, including the fractions of units acquired per project category and the level of budget spent on each, and ii) comparisons of these dimensions to those of previous years. It is expected that year on year the proportion of durable CDR in offsetting portfolios should be ratcheted up on an annual basis.

Periodic reporting and reviews of a net zero-aligned offsetting strategy should occur in sync with efforts to track and report emissions and emissions reduction measures. As a result, reporting on any net zero-aligned offsetting portfolio target should also include reporting progress toward internal emission reduction targets. Reporting should be disclosed both internally to the organisational board or c-suite and publicly reported. Such reporting should be in sync with existing disclosure standards. For instance, the [International Financial Reporting Standards' Sustainability Disclosures](#) and the European Union's [Corporate Sustainability Reporting Directive](#) provide useful avenues to outline progress toward interim targets and the ultimate goal of net zero alignment.

(4) Additional Measures

Forward planning can facilitate the development of net zero-aligned portfolio pathways. Such planning should include considerations of the expected average price per tonne of emission reductions or removals, based on i) an organisation's existing portfolio allocation, ii) market data (e.g. cost curves by technology type), and iii) the specific sector (informing capacity to pay), among others. Forward planning should also include setting internal carbon fees to ensure alignment with internal decarbonisation measures. Budget spending should also clearly delineate between investments in internal decarbonisation measures and a net zero-aligned offsetting portfolio.

Forward planning can also help ensure the ramp-up of finance towards durable and low-risk CDR development in an equitable manner, through tools such as *advance market commitments* and ii) *direct project finance*, reflecting the calls to build an “innovative and integrated landscape for CDR financing” outlined in [OOP Four](#). Contributions to this landscape may vary depending on organisational scale, budget capacity, and other capabilities (e.g, SMEs vs Large Enterprises). Platforms such as carbon credit rating agencies can further help organisations focus their financing efforts on high-quality projects.

⁴ For instance, Allen, M.R., Frame, D.J., Friedlingstein, P., Gillett, N.P., Grassi, G., Gregory, J.M., Hare, W., House, J., Huntingford, C., Jenkins, S. and Jones, C.D., 2024. Geological Net Zero and the need for disaggregated accounting for carbon sinks. *Nature*, pp.1-3 and Brunner, C., Hausfather, Z. and Knutti, R., 2024. Durability of carbon dioxide removal is critical for Paris climate goals. *Communications Earth & Environment*, 5(1), p.645.