

Too big to fail?

UNFCCC AND ICAO RESPONSIBILITIES REGARDING AVIATION'S NEW CARBON MARKET

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CO₂RSIA



Executive Summary

Last year, states created an offsetting scheme to compensate for aviation's pollution growth above 2020 levels. The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) is supposed to contribute to the temperature goals of the Paris Agreement. However, compensating for growing emissions does not reduce emissions overall, nor put the sector on a pathway to do so. ICAO will finalize details for the CORSIA by the end of 2017. Crucial elements include the type of credits allowed, registry design, and Monitoring, Reporting and Verification (MRV) rules.

The offset credits that CORSIA will use will come from measures in countries with nationally determined contributions (NDCs) under the Paris Agreement. This means that ICAO's CORSIA affects who is taking credit for accomplishing reductions towards the Paris Agreement. Therefore, the elaboration of the Paris Rulebook and specifically the market provisions will need to take the new offsetting scheme into account.

The CORSIA and the Paris Rulebook will be elaborated under different UN processes. ICAO and the UNFCCC must urgently align these efforts to provide for an effective measure for the aviation sector which needs to be followed by a rapid ratchet in ambition to achieve its own goal of setting the aviation sector on path of the Paris Agreement's goal to limit global warming below 1.5°C.

RECOMMENDATIONS FOR ICAO AND UNFCCC

AMBITION:

ICAO

- Ratchet ambition, to reduce in sector emissions, as soon as possible and at the latest at its first review in 2022.

UNFCCC

- Include aviation's efforts in the Paris processes of the Global Stocktake (GST) and the Facilitative Dialogue (FD) to measure progress and increase ambition.

CREDIT QUALITY:

ICAO

- Limit CDM eligibility to early action in the CORSIA.
- Establish a negative list for the CORSIA to avoid problematic and harmful project types.
- Limit early action eligibility to CDM credits that host countries pledge not to count towards their own goals.
- Promote activities that contribute to a shift towards a low carbon economy.

UNFCCC

- Phase out the CDM at the end of the second Kyoto Commitment Period.
- Consider re-registering vulnerable projects, which require further revenue to continue abatement, as SDM projects subject to new criteria.

REGISTRIES:

ICAO

- Record emissions, credit use and airline compliance in a centralized registry.

UNFCCC

- Provide guidance for NDC accounting that require units transferred to CORSIA to be reflected in NDC achievement to avoid double counting.

TRANSPARENCY AND PUBLIC PARTICIPATION:

ICAO

- Provide verifiers and the public with the necessary information to confirm emissions reported, verify the calculation of offset obligations and confirm the eligibility of units surrendered for compliance, housed in a centralized registry.
- Establish a public consultation process to improve civil society participation in CORSIA discussions.

UNFCCC

- Require reporting on states' offset credits that contribute to meeting CORSIA goals under the Transparency Framework.
- Maintain and strengthen civil society involvement in Article 6 discussions.

Introduction

In 2016, ICAO states created the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) to offset aviation's growth above 2020 levels. The goal of the measure is to compensate for airlines' carbon-dioxide (CO₂) pollution above 2020 levels. Because it relies on offsets from measures in countries with climate commitments under the Paris Agreement, it is important to understand how the CORSIA relates to state climate targets as well as the needed safeguards to ensure that ICAO and the UNFCCC reinforce and not undermine each other.

What is CORSIA?

The measures that the airline industry is relying on to taper its rampant emissions growth, will not prevent overall growth of airline greenhouse gas pollution. According to ICAO, the sector is expected to increase actual fuel use between 2.8 to almost 4 times between 2010 and 2040.

To address the sector's growing emissions, in 2016 ICAO created an offsetting scheme to compensate for growth above 2020 levels with climate measures in other sectors. One offset credit is supposed to equal one tonne of CO₂ pollution reduced. Airlines are only expected to offset their future pollution above 2020 levels, meaning that there will be no compensation or measures to address the 781 million tonnes of CO₂ in 2015¹ and subsequent years to 2020.

CORSIA timeline

An offsetting scheme is an insufficient environmental tool that requires strict monitoring and reporting of CO₂ emissions, quality criteria for the offset credits airlines can purchase, enforcement for non-compliant airlines, and external verification, but does not reduce the sector's actual emissions. Monitoring, Reporting and Verification (MRV), offset purchase oversight and accounting for the CORSIA are unclear, but data collection must start in 2019 and the first offsetting requirements are in 2021.

The Global Market-based measure Task Force (GMTF) is the ICAO technical working body responsible for developing the CORSIA rules. These rules will be published as Standards and Recommended Practices (SARP). The SARP is expected to be finalized in autumn of 2017 and will address MRV, Emissions Unit Criteria (EUC) and Registries among other issues. ICAO Member States must translate the SARP into national law by 2018. MRV for all states must start in 2019 to establish CORSIA's baseline for the year 2020. The CORSIA should then be fully functional in 2021 when some states will start to participate on a voluntary basis.

UNFCCC Negotiations

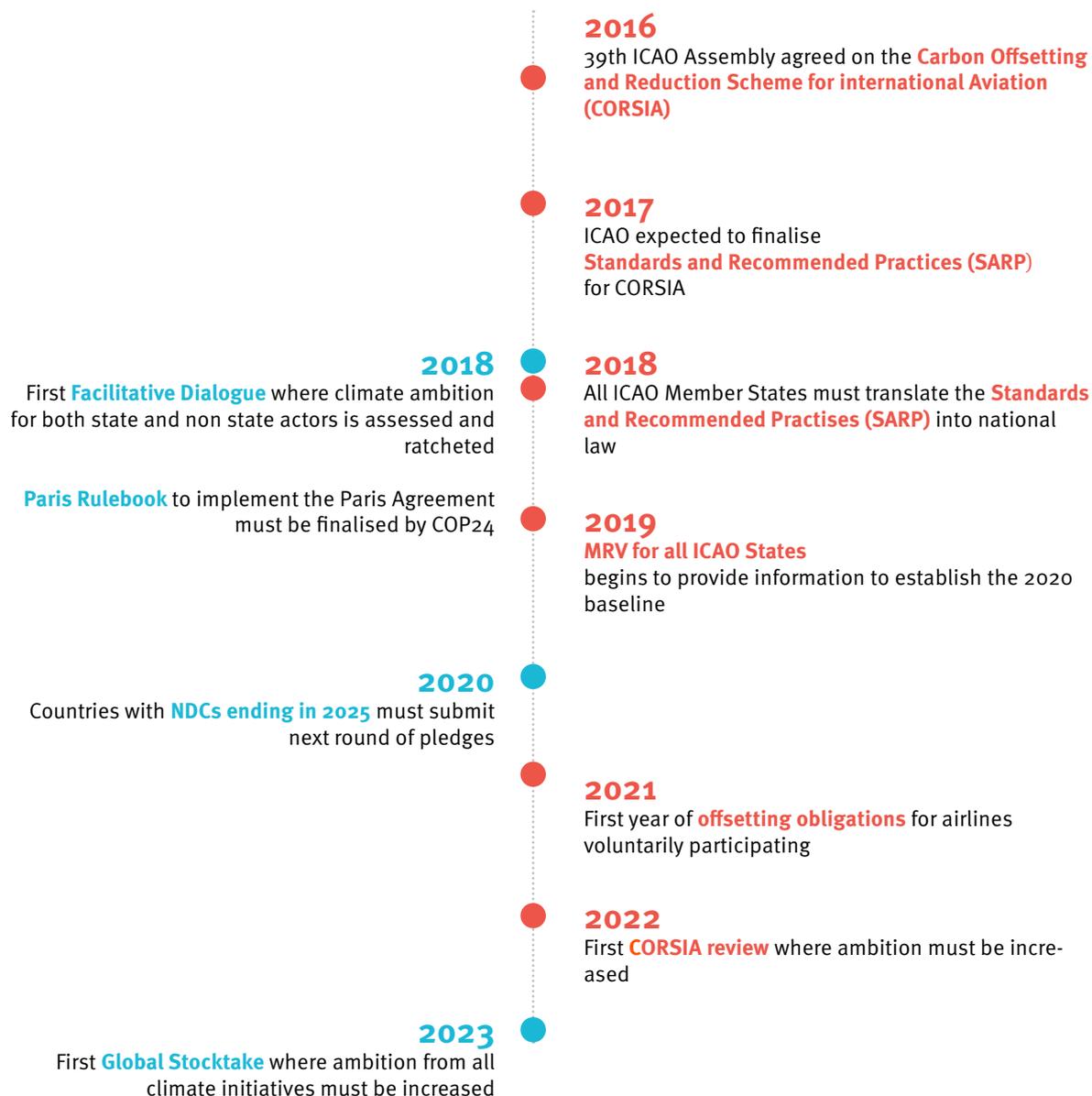
According to the CORSIA Assembly Resolution, emission units generated from mechanisms under the UNFCCC and the Paris Agreement will be eligible for CORSIA use, provided they meet additional offset criteria. As the CORSIA will interact with the Paris Agreement through the purchase of UN offsets, there is a need to address accounting concerns between CORSIA and Nationally Determined Contributions (NDCs), aviation's role in the Global Stocktake as well as the sector's contributions under the Transparency Framework (the Monitoring, Reporting and Verification of the Paris Agreement).

The ICAO measure was only briefly discussed at COP22 in Marrakech. The elaborations on the Paris Agreement's market provisions have not yet started.

¹ <http://www.atag.org/facts-and-figures.html>

COUNTDOWN TO CORSA

The **Carbon Offsetting and Reduction Scheme for international Aviation (CORSA)** is expected to start in 2021. To ensure that all essential elements and safeguards are in place for a timely start, the **UNFCCC** and **ICAO** have some key moments to address remaining gaps in the market measure.



The way forward: aligning institutions

By creating a carbon market for the sector, ICAO has stepped into unknown territory. Market measures were born out of the UNFCCC's Kyoto Protocol and ICAO predominantly deals with technical and operational standards for aircraft. However, with the CORSA, both UN processes have common goals: to encourage ambition, ensure high credit quality for offsets, provide robust registries for unit transfers and, above all, provide transparency of climate action. To that end, both ICAO and the UNFCCC have responsibilities to accurately account for the impact of CORSA.

ICAO Action Points

Ambition: The Paris Agreement calls for emissions to peak as soon as possible. ICAO's offsetting measure stretches until 2035 but is already insufficient. The sector is not on track to reign in its pollution and needs to increase ambition by reducing its own emissions rapidly.

To put the CORSIA in line with the Paris Agreement ICAO should:

- Ratchet ambition, to reduce in sector emissions, as soon as possible and at the latest at its first review in 2022.

Credit quality: The current offsetting measure achieves its purpose if credit purchases lead to real emission reductions. The CDM and JI under the Kyoto Protocol have been shown to overestimate the reductions achieved, crediting emission reductions that would have happened anyway, and in some cases provided perverse incentives to create more emissions only to be paid to reduce them.

To address these issues ICAO should:

- Limit CDM eligibility to CORSIA early action.
- Establish a negative list for the CORSIA to avoid problematic and harmful project types. An activity type negative list is a common practice in carbon markets to prevent faulty credit use.
- Limit unit eligibility to official UN credits that host countries pledge not to count towards their own goals: In the past, the UN used a centralized system that tracked offset unit transfers between countries. Under the Paris Agreement, offsets must avoid double counting and will also be subject to centralized oversight, providing stronger governance and transparency than other offsets.
- Promote activities that contribute to a shift towards a low carbon economy: To reach the goals of the Paris Agreement, GHG use must be drastically reduced. Storing CO₂, whether naturally in trees or through new technologies, should not be used as an offset because of measurement uncertainties, reversibility and the need to urgently address our fossil fuel and methane production to limit temperature rise to below 1.5°C.

Registries: The CORSIA will have a "central registry" to keep track of emissions, offsetting obligations, and credits surrendered for compliance. What this means in practice remains to be decided, but undoubtedly the registry includes a lot of MRV information including the size of the offsetting obligation. It is important that the essential elements of a carbon market registry are present in ICAO's CORSIA to avoid double counting, but must also only accept programs that can credibly claim to avoid double counting with national climate targets.

Establish a robust ICAO registry that records and tracks emissions, credit use and airline compliance:

- Provide verifiers and the public with the necessary data to confirm emissions reported, verify the calculation of offset obligations and confirm the eligibility of units surrendered for compliance.
- Create a centralized information system to track units and only accept programs that can credibly work to avoid double counting with UN climate targets.
- Make the registry publicly available on ICAO's website.

Transparency and public input: The credibility of carbon markets hinges on the extent to which the general public and outside experts can scrutinize the system. Carbon markets have an objective to publicly show they are making a

real difference in terms of emissions reductions. A public consultation process can then be a channel for input to remedy any problems identified and improve the system over time. The transparency of the CORSIA remains a pressing concern² with no indication as to how information will be made public or if there will be public stakeholder consultations as is common practice in other environmental policy processes.

To enhance CORSIA credibility, ICAO should:

- Require public disclosure of information to validate airline emissions and verify the number and types of credits bought, sold and surrendered.
- Establish a public stakeholder consultation process in line with best practice of existing environmental policy processes to improve stakeholder participation.

Needed safeguards on CORSIA within the Paris Agreement

Ambition: Collectively, NDCs are not sufficient to reach the Paris Agreement's objectives and instead are likely to put the world on a pathway to more than 2.7° Celsius³ of warming. ICAO's climate goals are also not in line with keeping warming to 1.5° Celsius. The Paris Agreement has set up reviews that invite both states and non-state actors to assess and then ratchet their climate ambition. The first opportunity will be the 2018 Facilitative Dialogue where countries will take stock of collective efforts and prepare for the next round of pledges before a Global Stocktake in 2023 that looks at progress towards achieving the 1.5°C goal of the Paris Agreement. The details of these processes are being developed under the Ad Hoc Working Group on the Paris Agreement (APA) to be approved at COP 24.

For a complete review of climate action the UNFCCC should:

- Include aviation's efforts in the Paris processes of the Global Stocktake (GST) and the Facilitative Dialogue (FD) to measure progress and increase ambition.

Credit quality: The Paris Agreement established the Sustainable Development Mechanism (SDM) for after 2020. Similar to the CDM, the SDM aims to mitigate GHG emissions and to foster sustainable development. The quality of CDM credits was highly variable. Aiming to contribute to real, measurable and long-term benefits, lessons need to be learned from the CDM, with special regards to eligible project types, environmental integrity, sustainable development benefits, and good governance.

To ensure credit quality the UNFCCC should:

- Phase out the CDM at the end of the second Kyoto Commitment Period. Kyoto mechanisms should not be used towards post 2020 commitments.
- Consider re-registering vulnerable projects, which require further revenue to continue abatement, as SDM projects subject to new criteria.

Registries: Under the Kyoto Protocol framework the transfer of offsets between parties was tracked using a centralized registry called the International Transaction Log (ITL). Now that all countries have targets and can surrender offsets to airlines for use in the CORSIA, states must avoid counting emissions reductions used by other sectors towards their own national climate targets.

² *Trust but Verify Aviation's Climate Deal: CORSIA Registries and Transparency* <http://icsa-aviation.org/reports/>

³ <http://climateanalytics.org/files/lowcarbonmonitor-nov2016-medres.pdf>

To ensure robust transfers of offsets the UNFCCC should:

- Provide guidance for NDC accounting that require units transferred to CORSIA to be reflected in NDC achievement to avoid double counting.

Transparency and public input: The UNFCCC is comparably more transparent than ICAO, with broad civil society participation and input encouraged in markets discussions. The Paris Agreement rests on the principles of clarity, transparency, and understanding for the achievement of commitments. This transparency framework is one of the central tools to inspire confidence between parties and gauge progress towards the overall goal. If climate action isn't clearly reported and tracked, the Facilitative Dialogue and the Global Stocktake are undermined.

For transparency of climate action the UNFCCC should:

- Require reporting on states' offset credits that contribute to meeting CORSIA goals under the Transparency Framework.
- Maintain and strengthen civil society involvement in Article 6 discussions.

Conclusion

The CORSIA is a complex and insufficient environmental solution for a sector with growing pollution levels. Because of its interaction with the Paris Agreement through UN units generated in states with climate targets, ICAO and the UNFCCC have separate responsibilities to ensure the integrity of their respective climate frameworks.

We cannot credibly expect one side to solve the issues of no double counting, transparency, credit quality or any other elements relevant to functioning carbon markets. The reality is that both systems' market mechanisms are interlinked and must take their respective responsibilities to protect the climate.



Contact

Aki Kachi - International Policy Director
aki.kachi@carbonmarketwatch.org

Kelsey Perlman - Aviation Policy Officer
Kelsey.perlman@carbonmarketwatch.org



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