Ensuring Transparency in CORSIA

May 16, 2017

Summary

In a promising development for climate protection, in 2016 the International Civil Aviation Organization (ICAO) committed to launch, by 2021, a Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). CORSIA will limit the net carbon dioxide emissions of flights between participating countries to 2020 levels, and will require airlines to procure emission reductions achieved elsewhere to "offset" their emissions above these levels. Forecasts indicate that airlines will need to offset some 2.5 billion metric tons of emissions from 2021 to 2035 – and potentially more if CORSIA's ambition is strengthened.

Governments are now drafting detailed Standards and Recommended Practices (SARPs) to implement CORSIA. Governments, the aviation industry, investors, the flying public, the private sector and civil society all have strong interests in ensuring that CORSIA – the world's first global sectoral market-based measure – delivers on this commitment.

For CORSIA to meet this commitment, though, airlines should operate within a transparent marketplace – something that governments can ensure by drafting the CORSIA-related SARPs appropriately. Doing so will not only provide the strong foundations for a lasting, ambitious effort to tackle climate change, but it is also in the interest of all stakeholders involved in CORSIA. Transparent accounting will allow governments and airlines to more easily demonstrate compliance and uphold the integrity of both CORSIA and other compliance systems. Airlines and offset suppliers will have better access to emissions and offset purchase data, leading to healthier market dynamics, efficient resource allocation, and more informed decision making. The public will have greater confidence in a transparent system, leading to more sustained support for CORSIA in the long-term. These are just some of the benefits of putting in place a strong transparency system from the start.

We recommend these elements to ensure transparency in CORSIA:

1. **Airline-by-airline public reporting of annual emissions**, including the extent to which each airline's emissions exceed or fall below required levels.
2. **Airline-by-airline annual public reporting of credit purchase volumes, source, and activity type** - though transaction information such as purchase price need not be reported.

3. **Transparent development of rules** for, and decision-making about, emission unit eligibility.
4. Because CORSIA may accept units from programs which serve other markets, programs which supply units for CORSIA should **publicly report all surrendered units** to help facilitate prevention of double counting.

ICAO can draw upon examples and lessons from existing carbon markets (both compliance and voluntary) for guidance in establishing rules on transparency and reporting. It should be noted that CORSIA will exist alongside these markets, plus any approaches being discussed under the Paris Agreement; rules on transparency should therefore be coordinated to avoid the double claiming of units.

This paper will outline some experiences drawn from existing carbon markets that exhibit high standards of transparency and public reporting, briefly explain how establishing such standards for CORSIA is in the self-interest of all stakeholders, and provide recommendations for transparency in CORSIA.

Experience with Transparency in Existing Carbon Markets

Thirty years of experience with the design, implementation, and evaluation of market-based environmental policy tools have demonstrated that effective policy interventions must be underscored by several key transparency elements to ensure public support and healthy market dynamics. Most compliance and voluntary programs alike employ stringent transparency standards. This encompasses both the process by which the program is designed (and subsequent revisions and modifications to the program's rules) and ex-post reporting of information that give the public insight into how the program is performing. Each program reports information according to its individual rules, but data is typically released to the public either in periodic reports and/or on a public registry which is constantly updated.

Such key transparency provisions used in existing markets include:

- **Public Reporting of Annual Emissions:** Virtually every successful environmental market requires participating facilities to report their emissions annually, which are then published by the regulator.[1] Existing programs such as the European Union Emissions Trading System (EU ETS) (which includes aviation emissions for flights within the European Union), the cap-and-trade programs of California and Québec, the Regional Greenhouse Gas Initiative (RGGI), and the U.S. Sulfur Dioxide Trading

[1] Programs such as the American Carbon Registry, Climate Action Reserve, Verified Carbon Standard and CDM Gold Standard provide offset credits to companies that wish, as a voluntary matter, to offset some or all their carbon emissions. Some of these "voluntary offsetting" programs do not ask the companies to report all of their emissions since the companies' commitments to offset emissions is wholly voluntary. However, this is because purchasers are not reducing their emissions to meet a regulatory "cap". Nevertheless, many companies who do use voluntary offsetting also disclose their emissions through programs such as the Carbon Disclosure Project (CDP).

Program all require annual public reporting of facility level emissions data. For example, the EU ETS publishes all verified emissions at an installation level (for airlines included in the EU ETS this information is collected at a company level) which includes their emission allocation and the number of allowances and offset credits surrendered.

It should be noted that there is no evidence of a competitive disadvantage from requiring transparency and public reporting. For example, in over a decade of compliance reporting under the U.S. Sulfur Dioxide Acid Rain Trading Program – which requires public reporting of emissions and emissions unit cancellation from all boilers included in the program – no utility has demonstrated competitive harm. Similarly, in the EU ETS, airlines must already publicly report verified emissions information for participating in the EU ETS, without any evidence of competitive disadvantage for these airlines.

Aside from emissions trading systems, a number of programs (which could generate transferable units for CORSIA) take a similar approach to emissions reporting:

- In REDD+[2], an agreed approach to reducing deforestation under the United Nations Framework Convention on Climate Change (UNFCCC), participating developing country governments report their emissions over time through the REDD+ Information Hub, and those reported emissions are compared to each country's national forest reference emission level and/or forest reference level or, as an interim measure, subnational forest reference emission levels and/or forest reference levels.[3]
- In the Clean Development Mechanism (CDM), access to emissions units is typically contingent on emissions reporting: CDM units are only available to Parties under the Kyoto Protocol if they submit annual greenhouse gas inventories.

- **Offset Purchase Public Reporting:** California's cap and trade program is at the forefront of publicly reported information for offsets. Each year, the California Air Resources Board (CARB) releases a compliance report, which includes Air Resource Board Offset Credits (ARBOCs) surrendered by each participating company. This includes the purchasing entity, the tons retired, and the project identification number. Importantly, information on transaction price and other contractual details are not reporting through this system. However, there is a public record of the credits surrendered by cap-and-trade program participants. Similarly, surrenders of offsets and other units as well are reported in the Kyoto Protocol's International Transaction Log (ITL).

[2] Reducing emissions from deforestation and forest degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.

[3] UNFCCC COP Decision 1/CP.16, para. 71.

In voluntary programs such as the American Carbon Registry (ACR) and the Verified Carbon Standard (VCS), companies engaged in voluntary offsetting may disclose that they surrendered units to take them out of circulation. This information is publicly available and continuously updated in online registries.

- **Rulemaking Processes:** The major compliance and voluntary markets provide substantial channels for stakeholder inputs. Throughout the initial rulemaking procedures in the EU ETS, California and RGGI, for example, draft rules and proposed changes are made available for public comment and stakeholder feedback. More specifically, while designing the California cap-and-trade program, the rules governing the use of offsets – including the eligible project types – were open for stakeholder comments.

The Importance of Transparency

Participants in a carbon market that has high transparency standards benefit in various ways. In the case of CORSIA there are specific advantages to a system which includes transparency and public reporting. These include:

- A level playing field for compliance. Requiring the public reporting of emissions and credit purchases by each airline reassures other stakeholders (rival airlines, investors, national regulators, customers, etc.) that an airline is fulfilling its own commitments.
- This, in turn, signals to credit suppliers that the CORSIA emissions cap is being enforced, which will bolster long-term interest in supplying the market. Without this information, there may be greater reluctance to engage in CORSIA, potentially reducing market liquidity and decreasing the supply of credits.
- Countries will more easily demonstrate their fulfillment of Paris commitments to transparency and environmental integrity. Reporting on what credits are surrendered by airlines allow regulators and civil society to check for fraudulent activities or double counting. Such checks increase public and investor confidence that the emission reductions purchased by airlines are real. This will help ensure that both CORSIA and other systems remain credible. In the context of the UNFCCC, for example, the Paris Agreement states that Parties “shall ensure the avoidance of double counting” in accounting for their nationally determined contributions (NDCs)[4]. Safeguards against double counting/claiming in ICAO will also help governments fulfill their commitments made in Paris.
- Greater information could improve CORSIA’s structure. The performance of CORSIA may be examined and measured by experts if information on emissions and offset purchases is readily available, which could help uncover potential improvements to CORSIA over time.

[4] See Article 4, paragraph 13 of the Paris Agreement.

- A transparent rulemaking process provides confidence that decisions are taken without undue influence from other actors, and enables input from a wider range of carbon market expertise. Broad participation in the CORSIA decision-making process is particularly important given its global scope, benefitting from engagement from stakeholders across different regions.
- Experience in existing markets outlined above provide no evidence that there is a competitive disadvantage from requiring transparency and public reporting. (If there were indeed any disadvantage to public reporting, then adopting a country-level approach would be unfair to countries who have only one major carrier, whose data can be easily viewed but not for competitors in other countries. This would be true both for annual emissions reporting and releasing information on the credits purchased.)

Our Recommendations

As suggested above, the norm for market approaches is to provide transparency for market participants and the public. CORSIA should follow the example of existing programs to promote transparency. It is important to note that these standards ***should be universal to all airlines*** to avoid unequal application of transparency standards, with sufficient capacity building so that all airlines are able to comply. Failure to enact universal transparency provisions leaves open the possibility of a costly, confusing and impractical patchwork of reporting requirements.

The transparency provisions should include:

1. **Airline-by-airline public reporting of annual emissions:** The data collected at the airline-level on emissions should be publicized, as is the case for facility-level data in other compliance carbon markets. Giving this information to the public so that each airline's progress can be seen is important to maintaining confidence in CORSIA.
2. **Airline-by-airline public reporting of credit purchase volumes and source:** As is the case in California, individual companies should report publicly on the volume of credits surrendered each year and the credit type, though transaction information such as the purchase price does not need to be reported as it is unrelated to environmental integrity. The potential breadth and variance in credit type available to airlines under CORSIA means it is important for the public, including airline customers, to know the credit purchases that airlines have retired for compliance.
3. **Transparent development of rulemaking:** The development of CORSIA requires expertise in carbon markets and climate policy, beyond the traditional focus of ICAO. Prior carbon markets have benefited from opening their processes to public input and broad stakeholder participation while developing

the critical rules that govern such markets. CORSIA should similarly make its rulemaking available to stakeholder comment and publish relevant documents to the public. Furthermore, given the public profile of the climate change issue, airlines participating in a CORSIA market that does not feature such transparency and participation in its rulemaking could experience skepticism and criticism of their efforts.

4. **Avoid double claiming by other programs:** In the event that CORSIA accepts programs that generate units that are either eligible for use elsewhere, or that could be used to meet NDCs under the Paris Agreement, then all units surrendered under these programs should be publicly reported, to underpin the mechanism that avoids double claiming of units.[5] Failure to prevent double counting could undermine confidence in both CORSIA and the Paris Agreement, as the emissions reductions reported by airlines and national governments would not be reliable.

Conclusion

While CORSIA is an important mechanism for meeting the aviation sector's goal of carbon-neutral growth from 2020 onwards, it is only one part of the global climate architecture to keep temperatures well below 2°C. Indeed, CORSIA will rely on the successful implementation of this broader architecture – particularly the implementation of the Paris Agreement – to provide flexibility for airlines to access emission reductions from other sectors of the economy to meet their obligations. Therefore, it is important that CORSIA ensure consistency with, and not undermine, the provisions under the Paris Agreement that will create an effective and credible system for ambitious climate action.

We believe that transparency is an essential tool for creating such a system. Making information on airlines emissions levels and credit purchases public will give greater confidence that the system is functioning and emission reductions are really occurring. An open, transparent rulemaking and decision-making process enables engagement from the broadest range of stakeholders across the globe. The absence of transparency could undermine trust, not only in CORSIA but also the broader Paris Agreement from which credits will be purchased. Therefore, we recommend that ICAO employ the highest standards, based on the experience of prior markets, for CORSIA.

---

[5] Credits purchased will come from sectors that are under the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement. Therefore, transfers from national accounts under the Paris Agreement into CORSIA will need to interact in a way that ensures no double counting. The transparency system must ensure disclosure of any credits transferred into CORSIA for compliance, including mitigation outcomes from sectors outside the current scope of a host country's NDC, to avoid these credits being used both for CORSIA and NDC compliance. To the extent that there is a lack of transparency about ownership of credits, this could complicate efforts to avoid double counting.