

Meeting CORSIA's Demand with Sovereign ITMOs

The Case for Using Article 6 ITMOs for CORSIA and in Support of the Paris Agreement



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As the airline industry entered its first CORSIA decarbonisation implementation phase (2024-2026) there is currently a shortage of Eligible Emission Units (EEUs) to help the industry meet its climate-compliant targets. ITMO Ltd. explores how this can be resolved by using Sovereign Article 6 ITMOs from the Paris Agreement.

Key Insights

- **2024-2026**
First CORSIA decarbonisation implementation phase
- **EEUs**
Official CORSIA carbon units - Eligible Emissions Units
- **225m tCO₂e**
Estimated shortage of EEUs (maximum scenario)

In 2016, governments adopted CORSIA, the Carbon Offsetting and Reduction Scheme for International Aviation, to stabilize net CO₂ emissions from international aviation from 2021. Since 2019 all airlines are required to report their CO₂ emissions on an annual basis, and since 2021, international flights have become subject to offsetting obligations.(1)

CORSIA Demand & Supply Shortage

CORSIA is a market-based scheme to drive emissions reductions in international aviation, and establishes criteria to ensure that the Eligible Emissions Units (EEUs) used by airlines are real, accurate, and permanent.

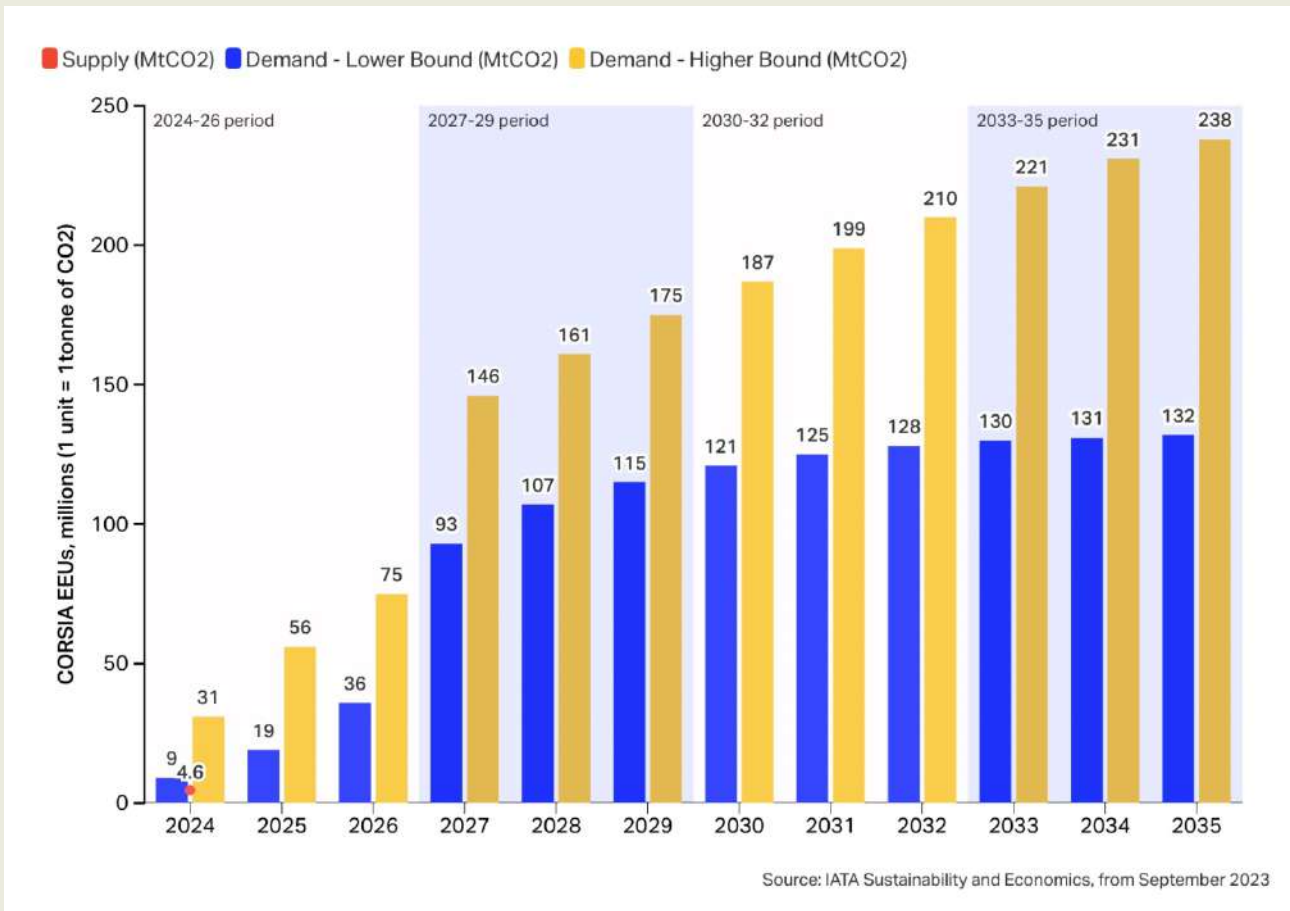
The demand for such EEUs (carbon credits) are quite significant. The potential demand for CORSIA's compliance purposes in 2024-2026 is estimated to vary between 17 and 75 million tons EEUs each year.(2)

However, the forecasted supply for CORSIA's first phase amounts to only 34 million EEUs, falling short of all demand scenarios. In the minimum case, short by 50% (51m EEUs), and in the maximum case, short by 600% (225m EEUs).(2)

Another interesting comparison point is with the current traded volumes from the Voluntary Carbon Market (VCM), which last year traded about 111m tCO₂e. In total, the average demand of EEUs in its first implementation phase represents almost 43% of the total traded VCM credits volumes.(3)

Since the start of the first implementation phase this year (2024-2026), there is a shortage of EEUs that airlines need to meet their required targets. The scarcity of EEUs relates to two main factors according to IATA's latest analysis:

- **Eligibility Requirements:** To qualify as CORSIA-eligible, programs must receive approval from the ICAO Council. As of now, only two programs have received this approval.(1) This is largely because although ICAO

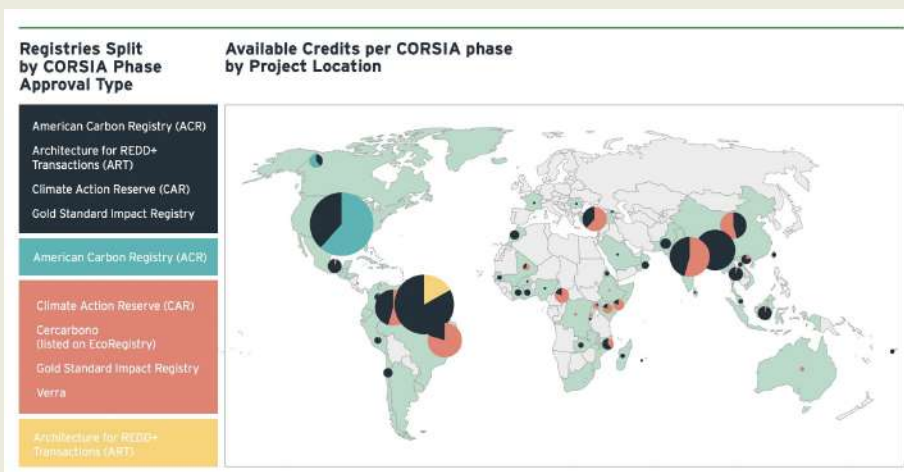


Demand and supply for CORSIA Eligible Emissions Units (EEUs) across compliance periods

has approved multiple programs for the Pilot phase, only a few credit schemes have been approved for the First phase.

- **Corresponding Adjustments:** Another challenge is that there is a lack of, or slow pace from of the host countries to release and account for these Correspondingly Adjusted carbon credits.(4)

“Moreover, the host countries, where the EEUs originate, must authorize their release from the country’s national registry by conducting a “corresponding adjustment” in their Nationally Determined Contributions (NDCs), submitted under the UNFCCC Paris Agreement.” - IATA (2024)



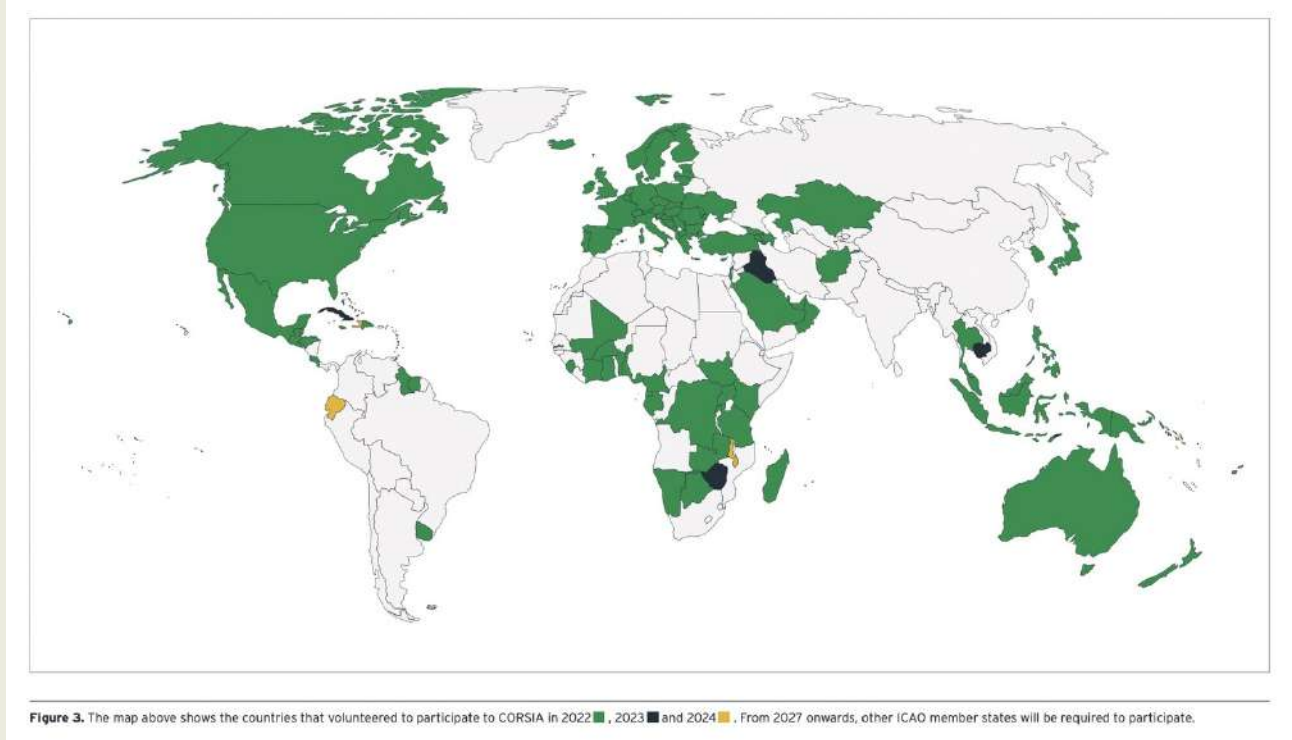
A Potential Solution - Sovereign ITMOs

Since Suriname issued the world's first Sovereign Carbon Credits ITMOs under Article 6 of the Paris Agreement this month, a lot of these supply shortage challenges can be resolved.

Allied Offsets - CORSIA Volunteer Member States (2024)

Suriname's ICAO and CORSIA Membership

Since 2024, 126 States volunteered to participate in CORSIA, and Suriname is one of these ICAO Member States and a CORSIA volunteer participating States since 2023.(5) Therefore Suriname is allowed to and can envisage to authorise its Article 6 ITMO carbon credits with and through a Letter of Authorisation (LOA).



Allied Offsets - CORSIA Volunteer Member States (2024)

ITMOs accepted under ICAO Resolution A39-3

Under ICAO's Resolution A39, ICAO allows any carbon products and tools from the Paris Agreement into their CORSIA scheme, as any units generated from the Paris Agreement are eligible to be used.(6)

Decides that emissions units generated from mechanisms established under the UNFCCC and the Paris Agreement are eligible for use in CORSIA. - ICAO (2024)

Once again, Suriname is currently allowed to and can envisage offering its Sovereign ITMOs as CORSIA EEUs.

ITMOs and CORSIA Eligibility Requirements

For a program to be eligible under CORSIA's eligibility requirements, the carbon units (e.g. ITMOs) must meet all the following criteria.

Interestingly, Sovereign ITMOs issued under Article 6.2 of the Paris Agreement fulfill all these criteria, and here are all the associated articles and documentations that supports and justifies all these points:

1. **Additional:** ITMOs are real, verified, and additional "Internationally transferred mitigation outcomes (ITMOs) from a cooperative approach are: (a) Real, verified, and additional;" Article 6.2
2. **Real & Credible Baseline:** National baselines based on FREL and FRL from Article 5.2 National REDD+ System.
3. **MRV:** National MRV system under Article 5.2 National REDD+ System.
4. **Transparency:** Transparency requirements under Article 13 and Article 6.2 (p. 1, 6, 8, 10, 11, 12, 13, 14)
5. **Permanence:** Article 5.2 carbon reductions and removals from nature. The country must "Explain the minimizing the risk of non-permanence of mitigation across several NDC" under Article 6.2
6. **Leakage:** Leakage is also addressed "Through robust, transparent governance and the quality of mitigation outcomes, including through conservative reference levels, baselines set in a conservative way

and below 'business as usual' emission projections (including by taking into account all existing policies and addressing uncertainties in quantification and potential leakage);" Article 6.2

7. **Double Counting:** "How corresponding adjustments undertaken in the latest reporting period, pursuant to chapter III above (Corresponding adjustments), ensure that double counting is avoided in accordance with paragraph 36 of decision 1/CP.21 and are representative of progress towards implementation and achievement of its NDC, and how those corresponding adjustments ensure that participation in cooperative approaches does not lead to a net increase in emissions across participating Parties within and between NDC implementation periods;" Article 6.2
8. **No net harm:** Article 5.2 Cancun Safeguards on respecting national biodiversity, Sustainable Development Goals and Local and Indigenous Rights.(9)

	On an emissions unit level, offset credit programs should deliver credits that represent emissions reductions, avoidance, or sequestration that:	At the program level, the eligible offset credit programs should meet the following design elements:
1	Are additional	Clear Methodologies and Protocols, and their Development Process
2	Are based on realistic and credible baseline	Scope Considerations
3	Are quantified, monitored, reported, and verified	Offset Credit Issuance and Retirement Procedures
4	Have a clear and transparent chain of custody	Identification and Training
5	Represent permanent emissions reductions	Legal Nature and Transfer of Units
6	Assess and mitigate against potential increase in emissions elsewhere	Validation and verification procedures
7	Are only counted once towards a mitigation obligation	Program Governance
8	Do no net harm	Transparency and Public Participation Provisions
9		Safeguards System
10		Sustainable Development Criteria
11		Avoidance of Double Counting, Issuance and Claiming

CORSIA Eligibility Criteria - European Union - Aviation Safety Agency (8)

As such, Suriname's Sovereign ITMOs fulfil all of CORSIA's eligibility criteria and can already be considered eligible as CORSIA EEU's.

Corresponding Adjustment of Suriname's ITMOs

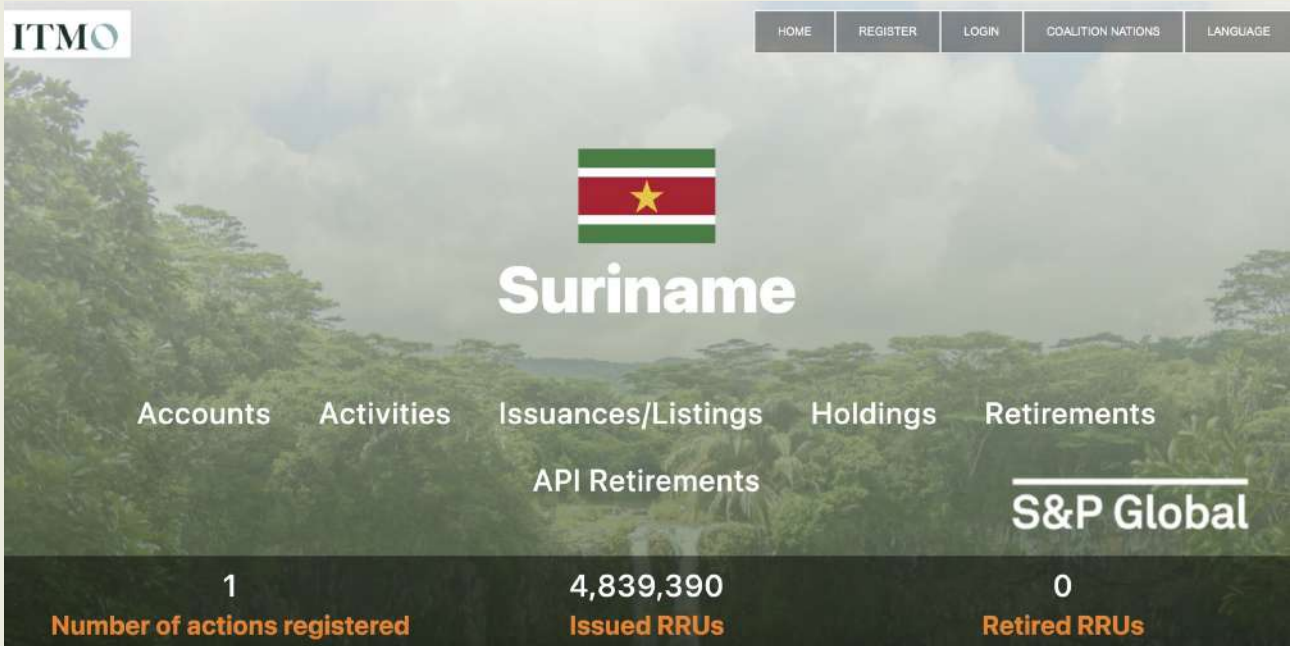
Since Suriname has issued the world's first Sovereign ITMOs, it has also created the world's first ITMOs national registry.

As Suriname has posted their ITMOs on their national registry, it is very easy and quick for Suriname to correspondingly adjust their ITMO supply to meet any demands by CORSIA and its members.(7)

Furthermore, there is no risk of double counting, as these ITMOs are part of the global accounting system of the Paris Agreement, and will be correspondingly adjusted by Suriname once they are sold. (Please see Point 7 Above).

ITMO Price Premium

In addition to the eligibility criteria, current CORSIA EEUs seem to be fetching a considerably higher premium (2-6x) than current VCM carbon credits as analysed by AlliedOffsets. Similarly, Article 6 ITMOs as CORSIA



ITMO Ltd - Suriname ITMO Registry

EEUs should reflect a comparable price premium as they fulfil all of CORSIA's criteria, and are Paris-compliant.

In Conclusion

The Airline industry's decarbonisation plan through ICAO's CORSIA system is crucial to meet the global targets of the Paris Agreement. For its first implementation phase (2024-2026) the demand for carbon credits from all airline members is quite substantive, 43% of last year's (2023) total Voluntary Carbon Market's traded volumes.

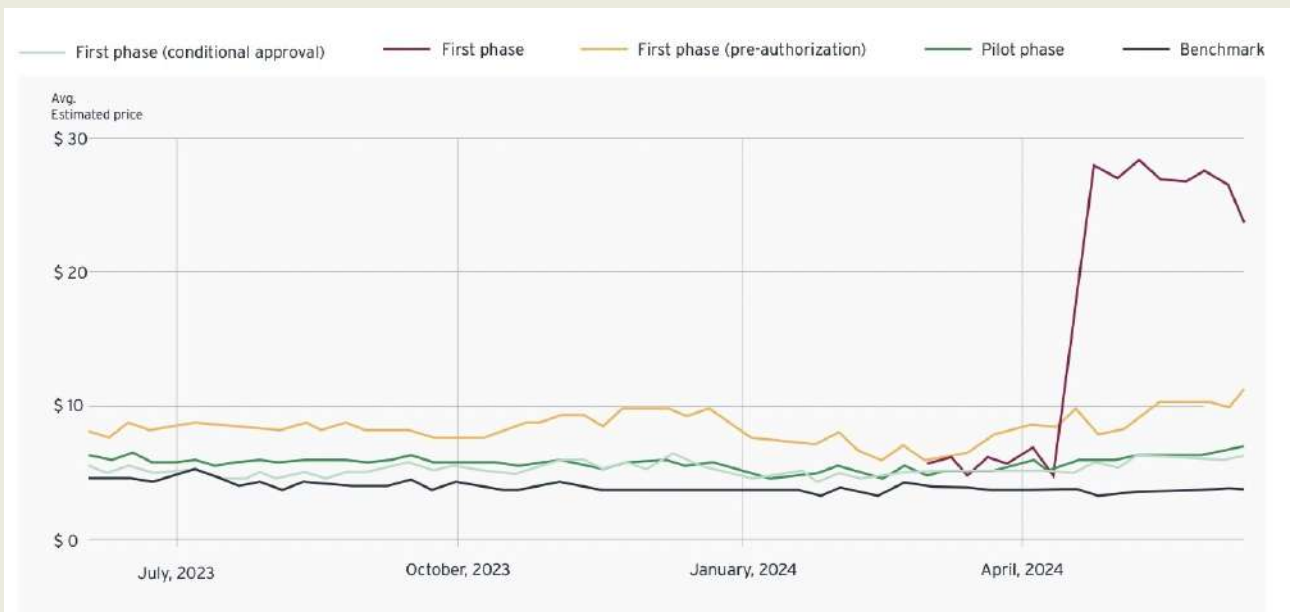


Figure 4. The chart above shows the premium trends differentiated by CORSIA phase and approval type for historic prices in the past 12 months.

Allied Offsets - Price Premium Data for CORSIA EEUs

However, the current supply of EEU's (34m tCO₂e) will not meet CORSIA's requirements as shortages of EEU's range from 50-600% for CORSIA's first implementation phase.

In order to resolve this EEU's shortage ITMO Ltd. strongly advises that ICAO immediately accepts current Sovereign ITMO's from countries, such as Suriname, as they are both members of ICAO and signatories of the Paris Agreement. In addition, these Sovereign ITMO's:

1. Fall within the current remit of ICAO under Resolution A39-3
2. Fulfill all CORSIA eligibility criteria as they mirror Paris Agreement Article 6.2 criteria
3. Can be Correspondingly Adjusted easily and in a transparent way by the host country's national ITMO registry
4. Should reflect similar price premiums than current EEU's as they are Paris-compliant

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About ITMO Ltd. ITMO Ltd. (www.itmo.com) supports nations, corporations and financial institutions transition to Net-Zero, at speed and scale, through the Paris Agreement Carbon Market. ITMO Ltd. sources, structures, and sells Paris-Compliant Sovereign Carbon Credits (ITMO's), at Gigaton Scale, with Economic, Social, and Environmental benefits. ITMO Ltd. is a private company based in the USA and the UK developing the Paris Agreement Carbon Market, its infrastructure, its products and its credibility through three units: ITMO Tech (Structuring, Platform & Registries), ITMO Capital (Selling, Syndication & Distribution) and ITMO Research (Data, Analytics & Research). ITMO Ltd. is an affiliate of the Coalition for Rainforest Nations.

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9. UNFCCC Cancun Safeguards - <https://redd.unfccc.int/fact-sheets/safeguards.html>

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