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CARBON OFFSETTING: CORONAVIRUS AND BEYOND

Until the economic impacts of coronavirus started to bite, the voluntary carbon market had been experiencing something of a rebirth. In the preceding twelve months, we saw a significant increase in demand for carbon credits, from airlines, industry and other businesses looking to offset their emissions. This was being driven in large part by the growing pressure on businesses to reduce their greenhouse gas emissions and to commit publicly to carbon reduction targets. Carbon offset providers were scrambling to find enough credits and to develop new offset projects as quickly as possible to meet the increasing demand.

The pandemic has slowed this trend, at least temporarily. It has redirected attention away from climate change to dealing with the immediate effects of the virus. Businesses currently have less cash to spend on voluntary carbon offsetting – something that may be seen as non-essential in present circumstances. Those looking to develop new carbon offset projects may not currently be able to access the investment support to do so as investors become more cautious about entering into emerging sectors they are not entirely familiar with.

While this all sounds like bad news for carbon offsetting, there have, even in the midst of the current crisis, been some positive developments. Most notably, on 13 March 2020 the International Civil Aviation Organisation (ICAO) announced the carbon offset programmes approved to supply eligible emissions units to airlines to meet their offsetting obligations for the Pilot Phase of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). The six approved programmes include two of the largest voluntary programmes – the Gold Standard and Voluntary Carbon Standard (VCS) – as well as three regional offset programmes and the Clean Development Mechanism. Only units issued to activities that started their first crediting period from 1 January 2016 and which relate to emissions reductions occurring in the period up to 31 December 2020 will be eligible for compliance in the Pilot Phase (2021-2023). Other programme-specific restrictions also apply.

ICAO's announcement will create a large market for the eligible units going forward. ICAO has estimated that the total cost of CORSIA to industry could be \$1.5bn to \$6.2bn by 2025 so clearly there is going to be a huge amount of investment in this market over the coming years. What's more, it is possible that CORSIA compliance costs could be even higher because of the coronavirus pandemic. CORSIA is premised on the goal of offsetting any increase in greenhouse gas emissions from international aviation above 2020 levels. The 2020 emissions baseline is based on the average level of emissions in 2019 and 2020. The grounding of many of the world's airline fleets this year will result in a lower baseline compared to a business as usual scenario, meaning that airlines will potentially be faced with a much larger offsetting obligation than initially anticipated when operations start to return to normal levels. Some see this as a good thing but the International Air Transport Association (IATA) is

Key issues

- Coronavirus' impact on the voluntary carbon market
- Eligible emissions units for Pilot Phase of CORSIA announced
- Opportunities ahead

calling for ICAO to use only 2019 emissions as the reference year for the baseline.

Irrespective of how the baseline is ultimately calculated, it is clear that CORSIA will drive demand from the aviation sector for eligible offsets from the approved programmes. It is also clear that climate change concerns at a broader level will drive demand for carbon credits from elsewhere as companies and investors continue to come under increasing pressure to reduce their carbon footprints. The present hiatus will not change this. In fact, many argue that the economic slowdown resulting from the coronavirus may present a unique opportunity to redirect the global economy towards a greener more sustainable path. Carbon offsetting will inevitably have an important role to play in this. Businesses should therefore look to the future and to the opportunities that this rejuvenated sector creates.

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