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CORSIA Market Snapshot

Insights for small and medium-sized airlines

Q1 2025

Executive summary

The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) is rapidly becoming a critical compliance mechanism for airlines worldwide. With increasing airline emissions and stringent environmental regulations, demand for CORSIA credits is rising sharply. However, supply constraints, regulatory complexities, and pricing volatility present significant challenges, particularly for small and medium-sized airlines.

Key findings of this report include:

- **Surging demand** Airlines must offset emissions exceeding 85% of 2019 levels, and the aviation sector's growth, particularly in non-EU regions, is driving higher credit requirements (MSCI, 2024).
- **Limited supply** CORSIA-compliant credits are in short supply due to slow regulatory approvals, corresponding adjustment requirements, and limited issuance by host countries (ICAO, 2024).
- **Rising costs** Credit prices are expected to increase significantly, from £18–51/tCO2e in Phase 1 (2024–2026) to £27–91/tCO2e in Phase 2 (2027–2035), potentially exceeding £100/tCO2e by 2035 (S&P Global Commodity Insights, 2024).
- **Impact on smaller airlines** Larger airlines can secure credits through bulk purchases at lower costs, while smaller airlines face higher prices and potential non-compliance penalties (IATA, 2024).
- **Strategic actions required** Airlines must act early to secure credits, advocate for regulatory simplifications, engage with industry groups, and explore SAF partnerships to mitigate future risks (European Commission, 2024).

The findings of this report underscore the importance of proactive compliance planning. Delayed action could result in significant financial strain, operational disruptions, and reputational damage. Our advice to airlines is to adopt strategic procurement approaches to navigate the evolving CORSIA landscape effectively.

We hope you enjoy our CORSIA compliance insights!

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The growing pressure to comply with CORSIA: A market analysis

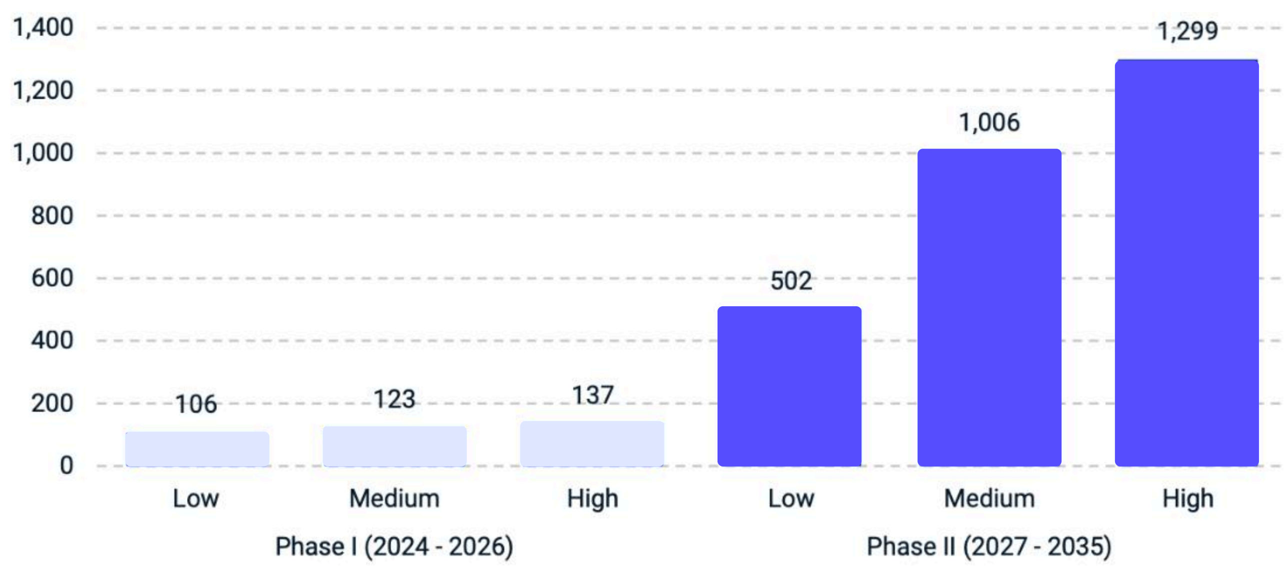
The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) is becoming increasingly crucial for airlines as demand for carbon credits continues to rise. With airline emissions escalating and regulatory frameworks tightening, securing compliance credits early is essential. This report explores the dynamics of CORSIA demand, supply constraints, and the cost implications for airlines, particularly small and medium carriers (ICAO, 2024).

1. Demand for CORSIA-compliant credits

1.1 Increasing demand and market deficit

The demand for CORSIA credits is projected to significantly exceed supply. Estimates for demand and supply across different phases indicate potential shortages. MSCI estimates that the cumulative demand for Phase 1 is from 106 to 137 MtCO2 and for Phase 2 it is projected from 502 to 1299 MtCO2 as shown below:

Exhibit: CORSIA offsetting requirements by phase (MtCO2e)



Factors driving demand growth include:

- **Limited sustainable aviation fuel (SAF) adoption:** SAF remains costly, at 2–7 times the price of conventional jet fuel. Even with expected scale-ups post-2035, SAF remains unaffordable for many airlines (European Commission, 2024).
- **Offset obligations:** Airlines must offset emissions beyond 85% of 2019 levels (ICAO, 2024).
- **Regulatory push:** The EU's ReFuelEU mandates increasing SAF blends (2% by 2025, 6% by 2030), yet current production is significantly below demand (European Commission, 2024).

2. Supply constraints and risks

2.1 Limited availability of CORSIA-compliant credits

- The primary challenge facing the compliance of CORSIA is the limited availability of credits. The sole significant CORSIA-compliant credit issuance to date has been from Guyana's ART TREES program, which has generated approximately 7.14 million credits, of which 2.5 million have already been sold (ART, 2024).
- However, this supply is insufficient to meet the projected demand for Phase I, which is expected to be around 100 to 150 million CEEUs.
- The slow development of new credit projects means supply shortages will persist until 2029–2030 (MSCI, 2024).
- High rejection risks exist for carbon dioxide removal (CDR) projects and nature-based solutions like REDD+ (Verra, 2024).

Supply crunch

Supply is insufficient to meet the projected demand for Phase 1

2.2 Corresponding adjustments (CAs) & regulatory barriers

- Credits require government-issued CAs to avoid double counting, but only 7 MtCO2e meet Phase 1 standards (ICAO, 2024).
- Only a few countries are "highly prepared" to issue CAs, resulting in prolonged shortages (World Bank, 2024).
  - Host country approvals are delayed, with only Guyana and Colombia issuing Letters of Authorisation (LoAs) (Carbon Pulse, 2024).
- Approximately 90% of potential supply is projected to originate from countries with a Carbon Markets readiness score of "low" or "very low." Consequently, the projected supply of CORSIA-eligible credits significantly decreases when assumptions regarding the likely availability of corresponding adjustments are considered.

3. Pricing trends and financial implications

3.1 Rising CORSIA credit costs

CORSIA credit prices are increasing, with Phase 1 prices ranging between £18–51/tCO2e and projected Phase 2 prices reaching £27–91/tCO2e. By 2035, prices could exceed £100/tCO2e if supply remains constrained (S&P Global Commodity Insights, 2024).

Phase/Year	Price Range ($/tCO2e)
Phase 1 2024-2026	$18-51
Phase 2 2027-2035	$27-91
Phase 2 By 2035	$100+

3.2 Why delaying increases costs

- **Early movers secure lower rates:** Airlines acting now can lock in sub-£30/tCO2e prices, while those delaying until 2026+ may face £50+ rates (IATA, 2024).
- **Price volatility:** A 26% price spike in December 2024 followed ICAO methodology delays (S&P Global Commodity Insights, 2024).
- **EU ETS overlap:** Intra-Europe flights also face EU ETS compliance, adding up to 25x higher carbon prices. This creates an additional compliance cost burden for airlines operating in Europe (European Commission, 2024).

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Secure lower rates now

Airlines acting now can lock in <$22/tCO2e, while those delaying until 2026+ risk >$50/tCO2e rates

Act now: The plan for small and medium airlines

1. **Secure CORSIA credits now:** Lock in lower prices and ensure compliance (IATA, 2024).
2. **Advocate for streamlined regulations:** Push for simplified approval processes to improve credit availability, a key factor for airlines as they look to put financing in place for their CORSIA transactions (World Bank, 2024).
3. **Engage with industry groups**: Strengthen negotiating power by collaborating with industry peers (IATA, 2024).
4. **Join a buyers' club:** Pool resources to enhance purchasing leverage and mitigate financial risks (Carbon Pulse, 2024).

Ready to be CORSIA compliant?

Navigate the complexities of evolving CORSIA regulation and get the credits you need when you need them. From sourcing to reporting, and cancelling credits. Opna has everything you need in one place. Contact our team for more information.

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