



## **HIGH-LEVEL GROUP ON INTERNATIONAL AVIATION AND CLIMATE CHANGE (HGCC)**

### **THIRD MEETING**

**Montréal, 25 to 27 March 2013**

#### **Agenda Item 3: Policy issues related to market-based measures (MBMs)**

#### **A GLOBAL MARKET-BASED MEASURE (MBM) FOR CO<sub>2</sub> EMISSIONS FROM INTERNATIONAL CIVIL AVIATION**

(Presented by Belgium, France and the United Kingdom)

#### **1. BACKGROUND**

##### **1.1 The 2010 ICAO Assembly Resolution (A37-19):**

**“Requests the Council, with the support of member States and international organizations to continue to explore the feasibility of a global MBM scheme by undertaking further studies on the technical aspects, environmental benefits, economic impacts and the modalities of such a scheme, taking in to account the outcome of the negotiations at the UNFCCC and other international developments, as appropriate, and report the progress for consideration by the 38<sup>th</sup> Session of the ICAO Assembly”**

1.2 Qualitative and quantitative analyses are being carried out by the ICAO Secretariat with the assistance of a group of experts with a view to assessing the technical feasibility of different MBM options, including offsetting (with or without revenue-generation) and emissions trading.

1.3 This paper is intended to contribute to the task set by the ICAO Assembly on a global market-based measure. This paper aims to facilitate discussion and should not be considered as the final position of European States.

#### **2. OVERVIEW OF A GLOBAL MBM**

2.1 There exists broad agreement on the necessity and desirability of market-based measures in order to achieve agreed sector goals for mitigating growing CO<sub>2</sub> emissions. These MBMs would complement operational and technical measures to reduce aviation sector's CO<sub>2</sub> emissions and enable international aviation to contribute to tackling climate change by offsetting emissions growth through reductions elsewhere in the global economy. A global MBM should ensure aviation emissions are addressed in a fair, cost effective way. Such a global MBM could be designed in such a way to account for the principles of both non-discrimination between aircraft operators and the special circumstances and respective capabilities of states. It could also be designed to evolve over time according to the developing levels of emissions reductions, use of different types of offsets, the introduction of other sectors etc.

2.2 A global MBM would overtake States' national or regional measures, and reduce administrative efforts for the participants (e.g. aircraft operators) compared to multiple national systems. In response to the invitation to examine the feasibility of a global MBM and based on the result of the work of the ICAO Secretariat and the MBM experts during 2012, at its 197<sup>th</sup> Session, the ICAO Council:

*recognized* that the results of the qualitative and quantitative analysis of the three options for a global MBM scheme evaluated by the Secretariat with the support of the Experts demonstrated that all three options were technically feasible and had the capacity to contribute to achieving ICAO's environmental goals. (C-DEC 197/6),

Political decision on the way forward is the next logical step.

2.3 ATAG has included MBMs within its strategy to achieve its emissions goals and we understand it is actively considering how a global market based measure could work for aviation. We look forward to seeing the concrete proposal. Even though the elements in this paper focus on a global MBM based on offsetting or offsetting with revenue mechanism, they are generally relevant to and valid for a range of visions for a global MBM, including cap and trade systems.

#### 2.4 **How would a global MBM work?**

2.4.1 A global MBM based on offsetting would function by offsetting emissions above a certain level. Unless offsetting were for all international aviation emissions, then the level of emissions beyond which offsetting takes place must be distributed between airlines. Any emissions above this allocation would be offset using eligible offsets from other sectors.

2.4.2 The global MBM would apply to emissions from all international civil aviation flights, regardless of the nationality of the carrier and in line with ICAO principles of non-discrimination. To reflect the special circumstances and respective capabilities of States, the global measure could be designed so that routes from some states with less developed aviation markets could be phased in over a specific period (e.g. 5 years) and routes from Least Developed Countries could be exempted as long as these countries retain their status. Aircraft operators with low levels of emissions (a *de-minimis*) could also be exempted so as to simplify and reduce the administration of the global MBM.

2.4.3 The participants in this global MBM would be aircraft operators as they have the most direct effect on the emissions of aircraft. It would be administered by the appropriate combination of States, industry institutions, and international organisations in such a way to ensure that the system functions smoothly. Entities to ensure compliance are essential for any market-based measure to work.

2.4.4 The global MBM would require aircraft operators to account for their emissions annually, submitting the necessary offsets to the regulating body, which would probably need to be a State. The offsets which aircraft operators would use would need to have environmental integrity. This could be achieved by establishing agreed criteria on the levels and quality of offsets that are eligible for use under the system.

#### 2.5 **How could the volume for offsetting be defined?**

2.5.1 A methodology would be needed to define the volume each aircraft operator has to offset. One approach would be to take x % of the emissions for each flight operated, or another approach could be used reflecting the fuel efficiency of aircraft operators. The methodology could be developed to ensure that early action that aircraft operators have taken to improve fuel efficiency, such as investment in modern fleet, is accounted for and that new or fast growing aircraft operators are not penalised. In any case the volume to be offset may be reviewed periodically to reflect the changes in size of operations; the global aviation market; and the global goals.

2.5.2 A global MBM putting an international price on carbon emissions from international aviation transport could, in addition to achieving its primary goal of emission reductions, help provide the necessary resources to support international climate change mitigation and adaptation measures.

## 2.6 How important is monitoring, reporting and verification (MRV) of emissions?

2.6.1 Reliable and accurate monitoring of emissions will be essential both to track progress towards ICAO's aspirational goals as well as to administer the global MBM. Monitoring should reflect all measures that aircraft operators can take to reduce emissions (including sustainable biofuel use), and should be harmonised globally. Operators' emissions can be calculated from total fuel consumption for each international flight under the global MBM so that exemptions and phase-ins reflecting the special circumstances of States could be accommodated.

2.6.2 In a global MBM, it should be possible for aircraft operators to report emissions and offset to a single point of administration. Each operator could have one administering State for all their emissions covered by the system. If this were the State where the operator is registered, certain "checks" to avoid potential conflicts of interest and ensure a consistent level of application should be considered. As there may be progressive coverage of routes (e.g. under exemption/ *de minimis* provisions), States should not be obliged to establish such infrastructure. In such a situation, aircraft operators from those States would be administered by another authority on a transitional basis if they perform flights covered by the global MBM.

2.6.3 To ensure robust accounting of emissions, each administering body would need access to a registry system to track compliance by aircraft operators and to demonstrate transparency. The registry system could either be a globally harmonised system, or a series of linked national systems operating to common standards.

## 2.7 How would a global MBM be administered?

2.7.1 The administration of a global MBM could be done in a variety of different ways. There are likely to be activities which are best harmonised across the global system – these activities could include the establishment of MRV processes, types of offsets eligible for use in the MBM, calculations for the allocation of levels below which offsetting does not take place. These central roles could be undertaken by one or more bodies, as appropriate (e.g. ICAO, UNFCCC, World Bank). There are also likely to be activities which fall more naturally to States – these activities could include the regulation of aircraft operators.

## 2.8 Application of a global MBM

2.8.1 Once the above issues have been decided, there remain at least three key parameters for the application of the global system in practice:

- the timing of the global system's application
- full simultaneous global application, or possible phase-in graduated between countries
- the level of international aviation emissions above which offsetting will take place (i.e. the cap).

2.8.2 If not decided at the 38<sup>th</sup> Assembly, there should be a timeline according to which decisions on these and remaining issues would be made.

## 3. A ROADMAP FOR FURTHER WORK

3.1 Any global measure for international aviation will need to take account of the design elements highlighted above. We would like to suggest that by agreement to further work on the implementation of a global measure, this further work could be applied to almost any global MBM which ICAO States or the aviation industry, consider going forward.

3.2 In order to meet the task set by the 37<sup>th</sup> ICAO Assembly we propose that the following Roadmap should be agreed at the 38<sup>th</sup> ICAO Assembly.

3.3 The ICAO Assembly decides to work towards the implementation on a global MBM and invites the Council to do so on the basis of the roadmap below to be completed by the 39<sup>th</sup> ICAO Assembly:

- a) Assessment of an agreement to the most effective means of allocating emissions limits/responsibilities in a global MBM;
- b) Agreement to the effective and non-distortionary means of taking SCRC into account within the design of a global MBM;
- c) Agreement to establish a harmonised MRV system for a global MBM;
- d) Assessment of an agreement to the effective means of administering a global MBM;
- e) Agreement to the quality criteria for offsets; and
- f) Agreement to a timetable and legal mechanisms for the introduction of a global MBM

#### 4. **RECOMMENDATION**

4.1 The HGCC is invited to:

- Give views on how to progress discussion on the above key elements of a global MBM; and
- Give views on the proposed Global MBM Roadmap.

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