

EC Consultation on policy options for market-based measures to reduce the climate change impact from international aviation

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Carbon Market Watch, a project by Nature Code, welcomes the opportunity to provide its views to the European Commission on the Consultation on the policy options for market-based measures to reduce the climate change impact from international aviation. While supporting the submission of Transport & Environment, we would like to take the opportunity to provide more detailed comments to the following question of the consultation:

2) Which elements of the "Roadmap for a Global MBM" do you consider a priority, and what would be the optimal timeline for implementation?

Carbon Market Watch considers both, the choice of MBM as well as the level of quantity and quality of offsets, as priority elements of the "Roadmap for a Global MBM".

Countries still disagree on how such a global MBM would look like. The International Air Transport Association (IATA), a trade association representing the airline industry, recently declared a preference for a 100% offsetting option. It argues that offsetting is administratively simple and easy to implement.

However, Carbon Market Watch believes that of the options on the table, only a cap-and-trade scheme with a stringent cap and a limit on the use of offsets could lead to emissions reductions in the sector.

If ICAO decides on a global MBM and allows for 100% offsetting, demand for offsets from the aviation sector could be in the hundreds of millions. The "Low Carbon Economy Index 2012: Aviation" by Price Waterhouse Coopers¹ projects that the aviation sector will create additional demand for carbon offsets amounting to 100 million carbon offsets yearly.

But offsetting is not a long term solution because it does not lead to emissions reductions in the aviation sector itself but merely compensates these emissions throughout investment in reduction projects elsewhere. Because offsetting delays in-sector reduction, it cannot deliver the large long-term emission cuts required to mitigate aviation sector's emissions and projected growth in air-traffic. If the offsets are of low quality, climate impacts actually get worse.

One offset credit represents one tonne of emissions reductions and can be used by entities with emission reduction obligations to compensate for their emissions. It is therefore essential to ensure that every offset credit is "real, permanent, additional and verified." Every credit that does not comply with these principles causes an increase in global emissions. Also, low quality offsets compromise the economic integrity of an offsetting scheme because they artificially inflate supply.

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A large variety of offset credits exist. Only offset credits from the Clean Development Mechanism (CDM) and Joint Implementation (JI) are allowed on the international compliance market. They must comply with a set of international standards. A New Market Mechanism (NMM) is currently being developed under the UNFCCC and could potentially generate additional offset credits. Offset credits are also produced outside the UNFCCC. These include voluntary offset programmes (e.g. Verified Carbon Standard), national offset programmes (e.g. Australia's Carbon Farming Initiative) and bilateral offset mechanisms (e.g. Japan's Bilateral Offset Credit Mechanism). Emission permits could also be acquired in the form of allowances from cap-and-trade schemes, such as European Allowances (EUAs) from the European Emissions Trading Scheme (EU ETS).

Data about types of offsets used in the EU ETS in 2012 by airlines shows that in the absence of quality criteria airlines favour cheap offset credits originating from low quality projects. In 2012, airlines used 11 million offset credits almost equally spread between the CDM (5.6 million) and JI (5.3 million) originating from only 44 CDM projects and 16 JI projects. In general, HFC-23 destruction projects were the largest originators of CERs, credits meanwhile banned from the EU ETS over their lack of environmental integrity.

This data shows that putting in place quality restrictions for such offsets is absolutely vital. Below is a summary of main offset credit types and recommended quality provisions:

Clean Development Mechanism (CDM): CDM offset credits are called Certified Emission Reduction (CER) and are approved under the UNFCCC. CERs are issued for projects that reduce emissions in developing countries. Despite international oversight, an independent study commissioned by the [CDM Policy Dialogue in 2012](#) has found that potentially two thirds of all CDM credits expected between 2013 and 2020 could come from business-as-usual projects and therefore cause an increase in GHG emissions of up to 3.6 billion tonnes if used for compliance. Also industrial gas projects have sold millions of CERs that do not represent real emission reductions. This has led the European Union, Australia and New Zealand to ban industrial gas credits from their national emissions trading schemes. **Recommendation:** Quality restrictions already placed by regional Emissions Trading Schemes, such as the ban for offset credits from industrial gas projects must be taken into account. Additional restrictions should be placed on CDM offset credits from large scale power projects to ensure that only CERs that come from projects with high environmental quality could be used for compliance under an ICAO scheme.

Joint Implementation (JI): JI offset credits or Emission Reduction Units (ERUs) are issued for projects that reduce emissions in developed countries that have signed the Kyoto Protocol. JI has been repeatedly criticised for a severe lack of quality control. 95% of all ERUs issued to date are issued by host countries without international oversight. Despite the on-going reform it is unlikely that JI projects post 2012 will be of

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significantly better quality. **Recommendation:** Offset credits from JI should not be eligible under an ICAO scheme.

New Market Mechanism (NMM): A new offsetting mechanism was approved in 2011 and is currently being developed under the UNFCCC framework. **Recommendation:** NMM credits should only be eligible under an ICAO scheme if they are verified to be real, permanent and additional.

Voluntary offset programmes: There are a variety of voluntary offset programmes currently operating. Offsets from such voluntary schemes are often of low quality due to limited or no regulatory oversight.

Recommendation: Offset credits from the voluntary market should not be eligible under an ICAO scheme.

Bilateral offset mechanisms: Several countries are developing bilateral offsetting schemes without oversight of the UNFCCC. Due to the lack of international oversight the quality of bilateral offset credits cannot be evaluated.

Recommendation: Offset credits from bilateral offsetting mechanisms should not be eligible under an ICAO scheme.

Allowances from cap-and-trade systems: Emission permits could also be acquired in the form of allowances from cap-and-trade schemes, such as European Allowances (EUAs) from the European Emissions Trading Scheme (EU ETS). Cap-and-trade systems only lead to emissions reductions if there is a scarcity of allowances. The two biggest emissions trading schemes are severely oversupplied. The EU ETS and International Emissions Trading (ET) under the Kyoto Protocol are oversupplied with 2 and 13 billion allowances respectively. These two systems therefore do not lead to new emissions reductions. **Recommendation:** Surplus allowances from over-supplied schemes such as the EU-ETS or ET should not be eligible under an ICAO scheme.

ⁱ PwC 2012, 'Low Carbon Economy Index 2012: Aviation',
<http://www.ukmediacentre.pwc.com/imagelibrary/downloadMedia.ashx?MediaDetailsID=2243>