

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

This document has been prepared by the Commission services for consultation purposes. It is addressed to stakeholders and experts in the field of aviation and climate change with the objective of collecting experiences, suggestions and opinions related to international and EU policies tackling climate change impacts from international aviation emissions through market-based measures. The consultation seeks input on questions concerning the policy options currently being developed on the international level at the International Civil Aviation Organisation (ICAO), and to obtain stakeholder views on options to reduce the administrative effort for small aircraft operators under the EU emissions trading system (EU ETS).

A. The need for global response to aviation emissions

The aviation sector has a strong international character. Carbon dioxide (CO₂) emissions from international aviation are expected to grow by at least 70% from 2005 levels by 2020.¹ A global approach to addressing these rapidly growing emissions would be the preferred and most effective way of reducing these emissions.

The EU remains committed to seeking multilateral progress. For more than 15 years, the EU has been involved in the discussions aimed at tackling aviation emissions through a global agreement. These discussions have been carried out under the United Nations, in particular in ICAO.

B. The inclusion of aviation into the EU ETS

The EU ETS is one of the main policy tools of the EU for reducing greenhouse gas emissions. It sets a mandatory cap on emissions from the sectors included. Companies within these sectors need to cover their emissions with allowances provided by government for free or through auctioning. Participants can trade their allowances among each other. This facilitates cost effective emissions reductions.

The Council and the European Parliament adopted legislation that entered into force early 2009, making airlines liable for their emissions from 2012. The legislation applies to EU and non-EU airlines alike. Emissions from flights to and from Iceland, Liechtenstein and Norway (European Economic Area, EEA) are also covered. By including aviation in the ETS, Europe became the first region in the world to introduce market-based measures (MBMs) to address emissions in the sector.

Given that marginal abatement costs in the sector are generally high and the scope of technical measures available to slow the growth of emissions from aviation is limited, MBMs are a relatively low-cost and attractive choice for aviation. To support the positive outcome of the November 2012 ICAO Council, in particular the launch of a High Level Group on Climate Change (HGCC), the EU made a year derogation from the application of the EU ETS compliance obligations for inter-continental flights ("stopping of the clock"), demonstrating Europe's commitment to progress globally and a meaningful outcome at the 2013 ICAO Assembly².

¹ Written statement of reservation by Belgium on behalf of the European Union, its 27 Member States, and the 17 other States members of the European Civil Aviation Conference on Resolution A37-17/2, http://legacy.icao.int/icao/en/assembl/A37/Docs/10_reservations_en.pdf

² Decision No 377/2013/EU of the European Parliament and of the Council of 24 April 2013 derogating temporarily from Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32013D0377:EN:NO>

"Stopping of the clock" is a time-bound temporary measure. Any adjustment to the EU ETS thereafter will depend on progress made at the 2013 ICAO Assembly.

C. Progress at the 2013 ICAO Assembly

ICAO Assemblies take place every 3 years and provide a forum by which the 191 Member States of the ICAO agree on the way forward in the form of Assembly Resolutions. At its last General Assembly in 2010, ICAO Member States adopted Assembly Resolution A37-19³, containing an Annex that lists 15 guiding principles for the design and implementation of national and regional MBMs for international aviation (such as the EU ETS). A framework of guiding principles for MBMs could make a significant contribution to the reduction of national, regional and global CO₂ aviation emissions⁴. At the ICAO Council meeting of November 2012, further promising steps have been taken towards the development of a global market-based measure that might complement or replace national and regional MBMs.

Later this year ICAO Member States will convene for the 38th General Assembly in Montreal (24 September - 4 October). The EU expects this forum to bring about the long-expected progress on addressing the climate change impacts of international aviation. At the most recent G8 summit on 18 June 2013, the leaders of the G8 confirmed they will pursue ambitious and transparent action, both domestically and internationally, to tackle climate change, including calling for agreement at the ICAO Assembly in September 2013 on an ambitious package related to both market-based and non-market based measures to address rising aviation emissions.⁵

To facilitate progress throughout 2013, a High-level Group on Climate Change was set up to work on a number of key climate change issues on the agenda for the ICAO Assembly. HGCC work on market-related measures is centred on two strands of work: the ICAO Framework for Market Based Measures⁶ and a Global Market Based Measure⁷.

D. ICAO Framework for Market-Based Measures

The ICAO Framework for MBMs should elaborate principles, design elements and guidance to ensure the consistent application of national and regional MBMs to international aviation.⁸ The objective of a Framework would be to reduce the risks of distorting competition and creating greater burden than necessary. Ideally, when a global MBM system applies, the ICAO framework for MBMs will no longer be needed.⁹

One key outstanding issue is the geographic scope of such national or regional systems. A resolution on geographic scope would recommend maximum coverage of international aviation emissions by each national or regional system in place. By the same token, it would determine the proportion of international aviation emissions left uncovered by national and regional systems even if all States put measures in place.¹⁰

³ Resolution A37-19: Consolidated statement of continuing ICAO policies and practices related to environmental protection – Climate change

⁴ Decision No 377/2013/EU of the European Parliament and of the Council of 24 April 2013 derogating temporarily from Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, recital

⁵ <https://www.gov.uk/government/publications/2013-lough-erne-g8-leaders-communique>, paragraph 57

⁶ CO₂ Emissions Coverage of the Geographic Scope Options for the Framework for MBMs, Presented by Belgium, France and the United Kingdom, ICAO Working Paper HGCC/3-WP/7 (15/03/13)

⁷ A Global Market-Based Measure (MBM) for CO₂ Emissions from International Civil Aviation, Presented by Belgium, France and the United Kingdom, ICAO Working Paper HGCC/3-WP/6 (15/03/13)

⁸ ICAO Working Paper C-WP/13895 (23/10/12) Framework for Market-based Measures (MBMs)

⁹ ICAO Working Paper C-WP/13861 (7/6/12) Market-based Measures (MBMs)

¹⁰ See footnote 6

Several options are currently discussed in ICAO with regard to the geographical scope of national and regional systems in the context of a MBM Framework. The table below provides an overview of the different options and their estimated coverage.

Options	Maximum potential coverage of international civil aviation CO ₂ emissions if all States implement measures
Arriving and departing flights within national airspace	22%
Flights arriving in, departing from and flying over national airspace	55%
Flights within the Flight Information Regions (FIRs), including oceanic FIRs	100%
Flights departing from an aerodrome in a State	100%

Source: Analysis by Manchester Metropolitan University as presented in the submission by the 3 EU Member States represented in HGCC¹¹

With regard to the EU ETS, the different options would have the following estimated impacts on the coverage of emissions compared to the current scope of the EU ETS that covers emissions from all arriving and departing flights in Europe:

Options	Estimated coverage of CO ₂ emissions from aviation compared to current scope of EU ETS
Arriving and departing flights within national airspace of each EEA Member State	10 to 20%
Arriving and departing flights within the aggregated regional airspace (or FIRs) of the EEA Member States	35 to 50%
Flights departing from aerodromes in the EEA Member States	around 65%

E. ICAO Global MBM scheme

There exists broad agreement on the necessity and desirability of market-based measures in order to achieve agreed sector goals for mitigating growing CO₂ emissions. The aviation industry in its recent IATA Resolution (see below) supports the role of market based measures and the adoption of a single global MBM. 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 and emissions trading.¹²

The Roadmap for a global MBM proposed by EU Member States is the following:

- a) Assessment of, and 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 the special circumstances and respective capabilities of developing states into account within the design of a global MBM;

¹¹ See footnote 6

¹² See footnote 7

- c) Agreement to establish a harmonised monitoring, reporting and verification system for a global MBM;
- d) Assessment of, and 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.

The completed roadmap with the elements listed above should be endorsed by the 39th ICAO Assembly. In parallel, the ICAO Council should develop, as a matter of priority, a common set of monitoring, reporting, and verification standards for measuring greenhouse gas emissions from international aviation.¹³

The International Air Transport Association's (IATA) Annual General Meeting on 3 June 2013 approved a resolution with an overwhelming majority in favour of States agreeing a global market-based measure. IATA encourages governments to adopt at the ICAO Assembly in September 2013 a commonly agreed, single global MBM mechanism to be applied to offsetting the industry's growth in emissions post-2020.¹⁴

It is encouraging that the industry has for the first time agreed on supporting design principles for a global MBM, and acknowledged that technical and operational measures, though important, are simply not enough to achieve the emission reduction objectives. The EU supports the aviation industry initiative for adoption of a global MBM and remains committed to keeping the momentum and reaching an agreement at the 2013 ICAO Assembly on a binding timetable for the development and implementation of a global MBM.

F. Questions for consultation

F.1. ICAO Framework for Market-Based Measures and Global MBM scheme

- 1) What should be the major considerations to assess the four different geographical scope options for the ICAO Framework listed above? [Max. 1000 characters]
- 2) Which elements of the "Roadmap for a Global MBM" do you consider a priority, and what would be the optimal timeline for implementation? [Max. 1000 characters]
- 3) What essential requirements should be taken into account for the development of a common set of monitoring, reporting, and verification standards for measuring greenhouse gas emissions from international aviation? [Max. 1000 characters]

F.2. Simplifications for small aircraft operators

Certain flights are exempt from the Community system. According to paragraph (j) of Annex I to the EU ETS Directive, certain flights operated by a commercial air transport operator are exempt from the provisions of the EU ETS (*de minimis* exemption). The conditions are the following:

- the operator is a commercial air transport operator; AND
- the operator either operated less than 243 flights per three consecutive period of four months (Jan-Apr, May-Aug, Sep-Dec) or emitted less than 10,000 tonnes of CO₂ annually.

¹³ ICAO Working Paper C-WP/14030 (29/04/13) Report on the Outcome of the High-level Group on International Aviation and Climate Change (HGCC)

¹⁴ <http://www.iata.org/pressroom/pr/Documents/agm69-resolution-cng2020.pdf>

This exemption applies to commercial air transport operators. Non-commercial aircraft operators below the threshold are covered by the EU ETS. Small emitters can take advantage of simplified procedures to monitor their emissions. Recently, the threshold to make use of the simplified procedures has been increased to 25000 tonnes of emissions per year.¹⁵

1) What could further decrease the compliance cost (cost for monitoring, reporting, verification, and registry) significantly for small aircraft operators? [Please rank the options below. Rank 1 - greatest cost decrease, 4 - no cost decrease]

- Management companies could be attributed to Member States for administration;
- No additional verification would be required in case of using the Eurocontrol Support Facility;
- All Member States would provide IT-tools for reporting;
- Simplified requirements to open an aircraft operator holding account in the Union Registry for small emitters (only for receiving and surrendering allowances).

2) Would you be in favour of exempting non-commercial aircraft operators altogether from the scope of EU ETS similar to the *de minimis* exemption of commercial operators? [Possible answers: "Yes"/"No"/"Cannot decide"]

3) Which consideration is the most important when choosing a *de minimis* threshold for small aircraft operators? [Possible answers: "overall environmental effectiveness of the system", "administrative effort for operators", "other"]

Please, explain your answer [max 1000 characters].

¹⁵ Article 54 of Commission Regulation No 601/2012 of 21 June 2012 on the monitoring and reporting of greenhouse gas emissions