



Climate Action Network position on Market Based Measures (MBMs) for International Aviation

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International aviation is a major and fast-growing source of greenhouse gas emissions. Despite on-going discussions for over 15 years within the International Civil Aviation Organization (ICAO) there exists no legal instrument which addresses the limitation and reduction of emissions of the international aviation sector globally, even though emissions have grown to the point where aviation represents an estimated 4.9% of global radiative forcing¹. Further, aviation activities are being under-charged from an environmental perspective.² Yet there is high potential to reduce these emissions globally, beyond the energy efficiency measures being developed and considered under ICAO.³ Carbon pricing would be an effective means of addressing this situation and can be applied fairly and equitably.

The current year – 2013 – is a crucial year for decisions on the adoption of market-based mechanisms to address aviation emissions. The European Commission proposed in late 2012 a one year “stop the clock” exemption, temporarily deferring enforcement of the obligation of aircraft operators in respect of incoming and outgoing flights under the EU’s Emission Trading Scheme (ETS) to give a final chance for the adoption of a global approach through a multilateral process under ICAO. In late 2012 the ICAO Council created a High Level Group on Climate Change to provide political impetus towards agreement on measures to address GHG emissions, including a global market-based measure (MBM). The highest decision making body of ICAO – its triennial Assembly – is meeting in September/ October 2013. Since it only meets every three years it is essential that an ambitious global MBM for addressing the sector’s emissions is agreed upon at this year’s Assembly.

Any MBM adopted under ICAO must ensure that the international aviation does its fair share towards global efforts to keep warming to well below 2 degrees C, and to adapting to the effects of climate change. In particular, it must meet three objectives: first, it must deliver ambitious emission reductions as per set targets; second, it must generate financing to support mitigation and adaption efforts in developing countries, as well as for in-sector measures. Third, it must be implemented in a fair and equitable manner, that fully takes into

¹ <http://www.oecd.org/sd-roundtable/papersandpublications/49482790.pdf>

² Market-Based Instruments for International Aviation and Shipping as a Source of Climate Finance, Background Paper for the Report to the G20 on "Mobilizing Sources of Climate Finance", IMF/World Bank, available at: <http://www.imf.org/external/np/g20/pdf/110411a.pdf>.

³ The potential in the international aviation sector is not yet fully estimated; preliminary conservative estimates indicate the sector could achieve at least 110 MtCO₂ reductions by 2020.

account the special circumstances and respective capabilities of developing countries while respecting ICAO's principle of non-discrimination.

Meeting Mitigation Goals

A market-based measure adopted under ICAO must be designed to meet ambitious targets, in line with staying well below 2 degrees of warming. The specific target for the global aviation sector may be set by ICAO, but failing that it must be set by the UNFCCC, and in any case the adequacy of any target for the sector should be reviewed regularly by the UNFCCC. Any market-based system should put a price on most or all emissions from the international aviation sector beginning by pricing CO₂ which constitutes – different from contrails and cirrus clouds - the scientifically best understood warming effect of aviation emissions. While some exemptions may be required for phase-in periods or *de minimis* approaches, the bulk of the international aviation sector must be subject to full carbon pricing. This approach will provide a price signal to incentivize emissions reduction measures, generate financing in line with the sector's responsibility for global emissions, and ensure that the externalities and impacts resulting from the sector's activities are internalized. Whether in the end a levy, cap and trade based approach, or offsetting with revenues, is adopted, it must be designed with a view to ensure a strong, legally binding, long-term and predictable price signal. It should also reflect the determination of the international community that aviation does its fair share towards global efforts to prevent dangerous climate change, including financing for global adaptation and mitigation efforts.

It should be noted that full carbon pricing through a levy or full auctioning of emissions allowances will eliminate the need for centralized decisions about allocation of the global target to airlines or states, thus avoiding what could be a contentious and politicized negotiation. Also, coverage of all aviation emissions will be best achieved by regulation on the basis of all departing flights, rather than airspace for example, which would introduce needless complexity and perhaps render a global approach unworkable.⁴

Any decision to allow offset credits must be based on stringent requirements that ensure real, permanent, additional and verified emissions reductions. Additional quality restrictions should be placed on CDM offset credits to ensure the highest environmental and social integrity standards. Moreover, the use of offset credits should be supplementary to own in-sector reductions. Also, any cap-and-trade mechanism under ICAO must not be linked to another oversupplied system such as the current EU ETS as this would severely compromise the environmental and economic effectiveness of an ICAO trading mechanism.

Generation of Climate Finance

Market based measures for the aviation sector can provide a price signal and incentive to accelerate emissions reduction actions, while at the same time generate significant revenue.

⁴ Transport and Environment: “ Allocating aviation CO₂ emissions; The airspace-based approach and its alternatives.”

http://www.transportenvironment.org/sites/te/files/publications/201301%20Airspace%20Version%209%20Final%20%281%29_0.pdf

This revenue must not be seen as part of the tax base for national treasuries, but must be specifically targeted to climate change mitigation and adaptation actions in developing countries, including within the aviation sector itself.

The AGF found that after using part of the revenue to ensure no burden or “net incidence” on developing countries, at a carbon price of \$25/tCO₂, up to \$6 billion could be available from the aviation sector, attributed to developed countries.⁵ These funds attributed to developed countries should count primarily towards the fulfilment of the financial commitment by industrialized countries to mobilize 100bn USD annually by 2020, and be channelled to the Green Climate Fund as international climate finance, and towards in-sector measures.

Under any scenario, part of the funds can be used to finance emissions reductions, both inside and outside the aviation sector, to meet the emissions reduction objectives established. These reductions could be achieved through financing NAMAs or offsets through carbon markets.

Ensuring Fairness and Equity Between Countries

The ICAO refers to the “Special Circumstances and Respective Capabilities of Developing Countries”, which corresponds to the principle of “Common but differentiated responsibilities and respective capabilities” (CBDRRC) under the UNFCCC. This principle can be addressed through the design of a global market based mechanism, and should not be used as a justification for further delay in agreeing on a global approach to aviation emissions. The ICAO operates on the basis of non-discrimination between aircraft, particularly on the same route, operating in highly competitive global markets. However, the design of a global MBM under ICAO should avoid posing any disproportionate burden to developing countries that may arise even with equal treatment of aircraft. Further, it should also build in mechanisms to allow it to be adjusted over time to reflect different countries’ evolving responsibilities and capabilities.

The most promising option for addressing the equity and differentiation between countries is through the use of revenues generated by carbon pricing. If this method is being chosen, then such revenues flowing back to developing countries to address equity and differentiation between countries, could ideally be used to finance low carbon development in these countries or LDCs. However, other approaches may also be explored, such as *de minimis* clauses designed in such a way that all developed and high-income countries and the vast majority of global aviation emissions are included, distribution of emission allowances under an ETS mechanism (in the less than optimal outcome of partial free allocation of allowances) to ensure equitable distributional effects for developed and developing countries, phase-in periods, or by ensuring technology cooperation and providing technical support to developing countries in complying with the agreed measures.

⁵ This figure is an estimate of the amount of funds remaining after compensating developing countries for costs born by them, to ensure there is no net incidence on developing countries.