



**HIGH-LEVEL MEETING
ON THE FEASIBILITY OF A LONG-TERM ASPIRATIONAL GOAL FOR
INTERNATIONAL AVIATION CO₂ EMISSIONS REDUCTIONS (HLM-LTAG)**

Montréal, 19 to 22 July 2022

Agenda Item 2: Means of implementation for a long-term global aspirational goal for international aviation

Agenda Item 4: Conclusions and Recommendations of the Meeting

ESTABLISHMENT OF A MULTILATERAL FUND FOR INTERNATIONAL AVIATION

(Presented by Brazil, India, Nigeria, Russian Federation and Sudan and supported by Bolivia, Cuba, El Salvador and Paraguay¹)

SUMMARY

This paper proposes the establishment of a Multilateral Fund for Sustainable Aviation (MFSA), which would provide to public and private stakeholders in developing countries adequate means of implementation (financing, capacity-building and technology transfer) of in-sector measures for emissions reductions in civil aviation (operations, technology and fuels) that would contribute to achieving an LTAG, if an LTAG is adopted by ICAO.

For reference only, the complete rationale for and description of the suggested main features of the MFSA are found in the Appendix (in English only).

Action by the Meeting is in paragraph 9.

1. INTRODUCTION

1.1 The 40th Session of the ICAO Assembly requested the Council to explore the feasibility of a long-term global aspirational goal (LTAG) for international aviation and for the work on the matter to be presented to the 41st Session (Resolution A40-18, paragraph 9).

1.2 The LTAG-TG report, as endorsed by CAEP, consolidated the understanding that different levels of ambition in emissions reductions would involve different costs and investments along a timeline through 2050 and beyond. It also showed that regional variances in the implementation of operational measures are also expected.

¹ LACAC Member States

1.3 The costs and investments associated with the possible adoption of an LTAG, would be new and additional to those already expected to be needed for mitigation and adaptation to climate change and the pursuit of sustainable development economy-wide.

1.4 Therefore, in order to ensure the true feasibility of an LTAG, if any is adopted, it is paramount that predictable and adequate climate finance be provided to assist developing countries implement the necessary measures. This is consistent with paragraph 2.2 of the Kyoto Protocol, the UNFCCC and its Paris Agreement², including the principle of CBDR-RC, and Assembly Resolutions A38-18, A39-2 and A40-18. One must also bear in mind Article 9.1 of the Paris Agreement, that establishes an unequivocal separation of roles when it comes to climate finance: developed countries are responsible for the provision and mobilization of resources while developing countries are their recipients.

2. PURPOSE AND SCOPE

2.1 The purpose of the MFSA would be to provide to public and private stakeholders in developing countries adequate means of implementation (financing, capacity-building and technology transfer³) of in-sector measures for emissions reductions in civil aviation (operations, technology and fuels) that would contribute to achieving an LTAG, if adopted.

2.2 Clearing house functions would also be attributed to the MFSA, for the benefit of Parties that are developing countries. Such functions should be performed in close cooperation with the Technical Cooperation Bureau (TCB) under ICAO.

3. WHY THE MFSA IS NEEDED

3.1 Significant financial resources will be needed to create and/or expand capacity in the production of SAFs and other cleaner energy sources and, to a lesser extent, to build/adjust infrastructure, especially in airports. Private financing is expected to provide the funding needed for investment projects of global/international companies in competitive terms and adequate amounts. The same, however, does not necessarily apply to national investors in developing countries, who tend to have less competitive and/or abundant access to private funding.

3.2 A similar reasoning is valid for States when it comes to infrastructure, particularly related to airports, that may need to be built or adjusted in order to help achieve a potential LTAG. Frequently in less mature markets, such infrastructure remains in the hands of governments/public companies, which are subject to budgetary constraints and/or less advantageous access to private funding.

3.3 Furthermore, actions needed to achieve a possible LTAG are not limited to production or infrastructure investment. Capacity-building, technology transfer and even operational improvements are areas where private funds are not expected to adequately address the needs of stakeholders in developing countries.

3.4 More than private funding will be required, if we are to achieve a potential LTAG in a truly inclusive manner and in such a way that no country is left behind and all contribute to and benefit from the

² See Articles 2.1 (c) (the need of “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.”) and Article 9 (financing).

³ The IPCC Special Report on Methodological and Technological Issues on Technology Transfer (SRTT) (IPCC, 2000) defined the term 'technology transfer' as a broad set of processes covering the flows of know-how, experience and equipment for mitigating and adapting to climate change amongst different stakeholders

decarbonization of international aviation. Additional support would be needed in the form of funding by public sources, which is a modality of means of implementation integral to and a well-established practice in the multilateral environmental regimes, including those specifically related to climate change.

3.5 In this context, one possible source of public resources would be the existing multilateral and regional financial institutions, environmental funds and/or mechanisms. They can certainly play a role in addressing the needs of stakeholders in developing countries in their efforts to decarbonize civil aviation. However, there are clear limitations, both regulatory and financial, for these funding sources to be used in the aviation sector in a magnitude commensurate with the needs associated with achieving a potential LTAG.

3.6 A preliminary analysis indicates that in none of the major institutions or funds (World Bank Group, Green Climate Fund and Global Environment Facility, for instance) it is likely that current regulations would be easily amended to provide for sector-specific funding or funds would be augmented to cater for the needs of aviation decarbonization.

3.7 In this context, the proper funding of actions required to help achieve a potential LTAG, especially for developing countries, would be highly uncertain (given the fierce competition for limited resources) and undoubtedly insufficient, with a serious risk of failure in fully implementing any goal to be adopted. Therefore, there is a real need to ensure a clear correlation between sector-specific decarbonization commitments in international aviation and sector-specific funding. The MFSA would help to do precisely that.

4. GOVERNANCE AND INSTITUTIONAL ARRANGEMENTS

4.1 The MFSA would be fully accountable and report to the ICAO Assembly.

4.2 An Executive Committee would be established to manage the operations of the MFSA. The Executive Committee would be integrated by 16 ICAO Member States, to be elected by the ICAO Assembly, with equal representation of developed and developing countries⁴.

4.3 Given its expertise and experience in international climate finance, the World Bank would act as the Trustee of the MFSA. It would be appropriately remunerated with resources from the Fund, based on current practice in the similar mechanisms.

4.4 A small and functionally independent Secretariat would be established to manage the MFSA. Such Secretariat would be structured and function in a manner similar to what currently applies to the Secretariat of the Global Environment Facility (GEF).

5. MODALITIES OF OPERATION OF THE MFSA

5.1 The MFSA would disburse financial resources to public and private stakeholders in developing countries in the following modalities: grants (exclusively to States), concessional loans and guarantees (including as part of blended financing) to fund public or private policies, strategies, programs, investment projects or other actions that may contribute to the implementation of commitments related to a potential

⁴ For the purposes of this document, developed countries are those listed in Annex I to the UNFCCC, in addition to ICAO Member States to be possibly determined. Developing countries are all countries not mentioned in such Annex. Using this definition of developed and developing countries has no bearing either on the status of any State (party or not party) with regard to any international legal instrument or in any other international organization.

LTAG. The resources could be accessed by stakeholders in all developing countries. Actions financed by the MFSA would be executed through implementing UN agencies and programs and other reputable and qualified institutions to be properly accredited. The ICAO Technical Cooperation Bureau (TCB) would be eligible to act as an implementation agency in technical cooperation and assistance projects that involve ICAO Member States.

6. INITIAL MOBILIZATION AND REPLENISHMENT OF THE MFSA

6.1 The multilateral fund would receive mandatory contributions from developed States.

6.2 The Assembly resolution to establish the MFSA would request the Council to determine the initial amount to be mobilized for the MFSA on the basis of technical analysis by CAEP and a structured consultation with developing States, regarding their financial and technological needs and priorities associated with the ambition levels of an LTAG, if adopted. A report containing the findings and recommendations of the structured dialogue would, together with the CAEP analysis, would serve as the basis for the Council to determine the initial amount to be mobilized.

6.3 The MFSA would be replenished at each ICAO Assembly until any LTAG, if adopted, is achieved, on the basis of the methodology described above.

7. TRANSPARENCY AND ACCOUNTABILITY

7.1 In consultation with the Trustee, the Executive Committee would establish appropriate processes and procedures to ensure the operational and financial transparency and accountability of the MFSA. The trustee would prepare financial reports on investments and the use of resources to the consideration of the Executive Committee and the ICAO Assembly.

8. SETTING UP THE MFSA

8.1 The Assembly would direct the ICAO Secretariat to enter into an agreement with the World Bank as Trustee of the Fund in no later than 12 months and to facilitate the establishment and initial functioning of the MFSA Secretariat.

9. ACTION BY THE HLM-LTAG

9.1 The HLM-LTAG is invited to recommend the establishment, at the 41st Session of the Assembly, of a Multilateral Fund for Sustainable Aviation (MFSA), as proposed in this working paper.

APPENDIX

MULTILATERAL FUND FOR SUSTAINABLE AVIATION (MFSA)

INTRODUCTION

The 40th Session of the ICAO Assembly requested the Council to explore the feasibility of a long-term global aspirational goal (LTAG) for international aviation and for the work on the matter to be presented to the 41st Session (Resolution A40-18, paragraph 9). The CAEP LTAG Task Group (LTAG-TG) was established in March 2020 to provide technical support to the Council in undertaking such task.

The LTAG-TG report, as endorsed by CAEP, consolidated the understanding that different levels of ambition in emissions reductions would involve different costs and investments along a timeline through 2050 and beyond. It also showed that regional variances in the implementation of operational measures are also expected.

The costs and investments associated with the possible adoption of an LTAG, in particular in the two more ambitious Integrated Scenarios developed by the LTAG-TG (IS 2 and IS 3), would be new and additional to those already expected to be needed for mitigation and adaptation to climate change and the pursuit of sustainable development in other sectors/industries or economy-wide.

Therefore, in order to ensure the true feasibility of an LTAG, if any is adopted, it is paramount that predictable and adequate climate finance be provided to assist developing countries implement measures consistent with such goal, particularly in the context of recovery from the COVID-19 pandemic. This is consistent with paragraph 2.2 of the Kyoto Protocol, the UNFCCC and its Paris Agreement¹, including the principle of CBDR-RC, and Assembly Resolutions A38-18, A39-2 and A40-18. One must also bear in mind Article 9.1 of the Paris Agreement, that establishes an unequivocal separation of roles when it comes to climate finance: developed countries are responsible for the provision and mobilization of resources while developing countries are their recipients.

In light of the above, ICAO Member States are invited to consider establishing, under a resolution to be adopted at the 41st Assembly, a Multilateral Fund for Sustainable Aviation (MFSA).

Purpose and scope

The purpose of the MFSA would be to provide to public and private stakeholders in developing countries adequate means of implementation (financing, capacity-building and technology transfer²) of in-sector measures for emissions reductions in civil aviation (operations, technology and fuels) that would contribute to achieving an LTAG, if adopted.

Such measures may include public or private policies, strategies, programs, investment projects or other actions that may contribute to the implementation of commitments related to a potential LTAG.

¹ See Articles 2.1 (c) (the need of “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.”) and Article 9 (financing).

² The IPCC Special Report on Methodological and Technological Issues on Technology Transfer (SRTT) (IPCC, 2000) defined the term 'technology transfer' as a broad set of processes covering the flows of know-how, experience and equipment for mitigating and adapting to climate change amongst different stakeholders

Clearing house functions would also be attributed to the MFSA, including assisting stakeholders in developing countries through, for instance, country-specific studies and other technical forms of cooperation aiming at identifying their needs for cooperation, facilitating technical co-operation to meet these identified needs, holding workshops, training sessions and other related activities, for the benefit of Parties that are developing countries. Such functions should be performed in close cooperation with the Technical Cooperation Bureau (TCB) under ICAO.

Why the MFSA is needed

As previously mentioned, the purpose of the MFSA would be to provide public and private stakeholders with adequate means of implementation (financing, capacity-building and technology transfer) of a potential LTAG.

Regarding financing, very significant resources will be needed to create and/or expand capacity in the production of SAFs and other cleaner energy sources and, to a lesser extent, to build/adjust infrastructure, especially in airports. Private financing is expected to provide the funding needed for investment projects of global/international companies in competitive terms and adequate amounts. The same, however, does not necessarily apply to national investors, including large ones, in developing countries, as their access to private financing and the terms of access they have tend to be less competitive and/or abundant, if compared to those enjoyed by global investors.

A similar reasoning is valid for investment in infrastructure, particularly related to airports, that may need to be built or adjusted to implement actions/measures that may help achieve a potential LTAG. While it is true that, in many parts of the world, including in developing countries, parts of such infrastructure have been privatized or granted in concession, it is equally true that, in several others, often in less mature markets, they remain in the hands of governments/public companies. In these cases, budgetary resources (States) are typically insufficient and, as mentioned before, access by national investors (here, airport operators) to private funding or terms thereof are less advantageous than those available to global/international operators.

In addition, actions needed to achieve a possible LTAG are certainly not limited to production or infrastructure investment. Such other actions would not likely be funded by private financing.

One good example is capacity-building. It will be crucially important in developing countries in order to create or enhance governmental institutions and personnel needed to design and implement usually complex policies, regulatory frameworks (for SAFs, for instance) and programs (improvements in airspace control and in operations by airlines and airports, for example) conducive to contributing to the achievement of a possible LTAG. The implementation itself (beyond capacity-building) of such policies and programs (for instance, setting up/adjusting/supporting laboratories for certification or quality control of SAFs) would require additional financing that is not expected to be provided by private funding. Initiatives by the ICAO Secretariat such as ACT-SAF and future similar actions, although useful and important, are not expected to have the financial and human resources required.

Technology transfer also comes to mind. While, in several cases, investment projects financed by the private sector will include a technological component, there are likely to be situations in which this is not so or others in which technology proves to be too costly, in particular for national investors in developing countries, given the above-mentioned limitations and inequalities in access to and terms of private funding. Technology transfer to governments may also be an important part of public policies to support private investment in areas related to a potential LTAG.

Another area where private funding is not expected to play a significant role, if any, is R&D in developing countries. They may be crucial to the development or adaptation of technologies and processes to local conditions and needs (for example, identifying the most adequate technological pathways for SAF production, in light of locally available natural, technological and human resources).

In sum, it is clear that more than private funding will be required, if we are to achieve a potential LTAG in a truly inclusive manner and in such a way that no country is left behind and all contribute to and benefit from the decarbonization of international aviation. Additional support would be needed in the form of funding by public (national, regional and/or international) sources, which is a modality of means of implementation integral to and a well-established practice in the multilateral environmental regimes, including those specifically related to climate change.

In this context, one possible source of public resources in support of a possible LTAG would be the existing multilateral and regional financial institutions, environmental funds and/or mechanisms. They can certainly play a role in addressing the needs of stakeholders in developing countries in their efforts to decarbonize civil aviation. However, there are clear limitations, both regulatory and financial, for these funding sources to be used in the aviation sector in a magnitude commensurate with the needs associated with achieving a potential LTAG.

Some examples are useful here:

- a) In 2021, the World Bank Group established the Climate Change Action Plan 2021-2025. For the fiscal year 2022, the group has reserved USD 14.4 billion to finance projects with a climate change benefit on mitigation in all areas of activities, there being no specific facility for the aviation;
- b) Under the Green Climate Fund (GCF), USD 9.7 billions are currently available for projects in all sectors, with the expectation of a balance in the allocation of funds for mitigation (where the vast majority of possible LTAG-related needs would be felt) and adaptation. No specific facilities exist for aviation; and
- c) The Global Environment Facility (GEF), in its 8th replenishment period (2022-2026), is expected to have at its disposal USD 5.25 billion, out of which approximately USD 800 millions (app. 16% of the total) devoted to climate change, again in all sectors/industries.

A preliminary analysis indicates that in none of the institutions or funds mentioned above it is likely that current regulations would be easily amended to provide for sector-specific funding or funds would be augmented to cater for the needs of aviation decarbonization.

A similar situation is found in regional development banks or similar financial institutions, where, according to available information, no specific facilities exist for aviation and even lesser resources are available or are expected to be increased for stakeholders in developing countries.

In this context, the proper funding of actions required to help achieve a potential LTAG, especially by stakeholders in developing countries, would be highly uncertain (given the fierce competition for limited resources) and undoubtedly insufficient, with a serious risk of failure in fully implementing any goal to be adopted.

Therefore, there is a real and objective need to ensure a clear correlation between sector-specific decarbonization commitments in international aviation and sector-specific funding. The MFSA would help to do precisely that.

Governance and institutional arrangements

The MFSA would be fully accountable and report to the ICAO Assembly.

An Executive Committee would be established to manage the operations of the MFSA through, among other functions:

- a) establish and apply criteria for funding eligibility and priorities, according to any LTAG to be adopted and the needs of beneficiaries;
- b) determine criteria for eligibility of implementing agencies that would act as MFSA partners and accredit them according to such criteria;
- c) review and approve projects submitted for funding;
- d) oversee and assess the implementation of projects;
- e) oversee the disbursement of resources;
- f) ensure transparency and accountability in the use of resources;
- g) operationalize clearing house functions;
- h) assess the effectiveness of the MFSA on a regular basis; and
- i) report regularly to the ICAO Assembly.

The Executive Committee would be integrated by 16 ICAO Member States, to be elected by the ICAO Assembly. There would be equal representation of States of developed and developing³ countries in the Executive Committee.

The Executive Committee may establish an advisory technical group to assist in the review, approval and oversight of projects.

In order to reduce costs associated with and expedite the establishment and functioning of the MFSA, it would partner with existing international organizations and financial institutions.

Given its expertise and experience in international climate finance, the World Bank would act as the Trustee of the MFSA. It would be appropriately remunerated with resources from the Fund, based on current practice in the similar mechanisms.

A small and functionally independent Secretariat would be established to manage the MFSA. Such Secretariat would be structured and function in a manner similar to what currently applies to the Secretariat of the Global Environment Facility (GEF).

³ For the purposes of this document, developed countries are those listed in Annex I to the UNFCCC, in addition to ICAO Member States to be possibly determined. Developing countries are all countries not mentioned in such Annex. Using this definition of developed and developing countries has no bearing either on the status of any State (party or not party) with regard to any international legal instrument or in any other international organization.

Modalities of operation of the MFSA

Through its Trustee, the MFSA would disburse financial resources to public and private stakeholders in developing countries in the following modalities: grants (exclusively to States), concessional loans and guarantees (including as part of blended financing) to fund public or private policies, strategies, programs, investment projects or other actions that may contribute to the implementation of commitments related to a potential LTAG.

The resources could be accessed by stakeholders in all developing countries.

This set of actions financed by the MFSA would be executed through implementing UN agencies and programs and other reputable and qualified institutions to be properly accredited.

The ICAO Technical Cooperation Bureau (TCB) would be eligible to act as an implementation agency in technical cooperation and assistance projects that involve ICAO Member States.

The Executive Committee would establish modalities of financing that are responsive to the needs and priorities of beneficiaries, while avoiding excessive rates of co-participation in policies, programs, strategies and projects that aim at developing enablers for technology, operations and fuels consistent with any LTAG to be adopted.

The disbursement of resources would be made with the concurrence of the beneficiaries.

Initial mobilization and replenishment of the MFSA

The multilateral fund would receive mandatory contributions from developed States.

The amount envisaged for the initial mobilization of resources is contingent upon the levels of ambition in any LTAG, if adopted. The multilateral fund shall cover the incremental costs entailed by any outcome from that process, which means that any financial goals must match the ambition levels derived from any LTAG to be adopted.

The Assembly resolution that would establish the MFSA would request the Council to determine the initial amount to be mobilized for the MFSA on the basis of technical analysis by CAEP and a structured consultation with developing States, regarding their financial and technological needs and priorities associated with the ambition levels of an LTAG, if adopted. A report containing the findings and recommendations of the structured dialogue would, together with the CAEP analysis, would serve as the basis for the Council to determine the initial amount to be mobilized.

The MFSA would be replenished at each ICAO Assembly until any LTAG, if adopted, is achieved, on the basis of the methodology described above.

Transparency and accountability

In consultation with the Trustee, the Executive Committee would establish appropriate processes and procedures to ensure the operational and financial transparency and accountability of the MFSA.

A common agreed definition of climate finance and methodology for accounting climate finance for sustainable aviation would also be established by the Executive Committee.

The Trustee would prepare financial reports on investments and the use of resources to the consideration of the Executive Committee and the ICAO Assembly.

Setting up the MFSA

The Assembly resolution that would establish the MFSA would direct the ICAO Secretariat to enter into an agreement with the World Bank as Trustee of the Fund in no later than 12 months and to facilitate the establishment and initial functioning of the MFSA Secretariat.

— END —