



HIGH-LEVEL MEETING ON A GLOBAL MARKET-BASED MEASURE SCHEME

Montréal, 11 to 13 May 2016

Agenda Item 1: Review of draft Assembly Resolution text on a global MBM scheme for international aviation

Agenda Item 2: Recommendations to the 208th Session of the Council

(Presented by the Chairperson)

DRAFT ASSEMBLY RESOLUTION TEXT ON A GLOBAL MARKET-BASED MEASURE (GMBM) SCHEME

Whereas Assembly Resolution A38-18 decided to develop a global market-based measure (GMBM) scheme for international aviation, for decision by the 39th Session of the Assembly; *{Existing text from A38-18, paragraph 18}*

Recalling that Assembly Resolution A38-18 requested the Council, with the support of Member States, to finalize the work on the technical aspects, environmental and economic impacts and modalities of the possible options for a GMBM scheme, including on its feasibility and practicability, taking into account the need for development of international aviation, the proposal of the aviation industry and other international developments, as appropriate, and without prejudice to the negotiations under the UNFCCC; *{Existing text from A38-18, paragraph 19 a)}*

Also recalling that Assembly Resolution A38-18 requested the Council, with the support of Member States, to identify the major issues and problems, including for Member States, and make a recommendation on a GMBM scheme that appropriately addresses them and key design elements, including a means to take into account special circumstances and respective capabilities, and the mechanisms for the implementation of the scheme from 2020 as part of a basket of measures which also include technologies, operational improvements and sustainable alternative fuels to achieve ICAO's global aspirational goals; *{Existing text from A38-18, paragraph 19 c)}*

Recognizing **that ICAO is the appropriate forum to address emissions from international aviation, and** the significant amount of work undertaken by the Council, its Environment Advisory Group (EAG) and its Committee on Aviation Environmental Protection (CAEP) to develop a recommendation for a GMBM scheme and its design elements and implementation mechanisms, including the analyses of various approaches for distribution of obligations; *{New text to reflect the work since A38}*

Further recalling that Assembly Resolution A38-18 requested the Council, with the support of Member States, to organize seminars, workshops on a GMBM scheme for international aviation participated by officials and experts of Member States as well as relevant organizations; *{Existing text from A38-18, paragraph 19 b)}*

Recognizing the convening of two rounds of Global Aviation Dialogues (GLADs) seminars held in 2015 and 2016 for all regions; *{New text to reflect the work since A38}*

Noting the support of the aviation industry for a single global carbon offsetting scheme, as opposed to a patchwork of State and regional MBMs, as a cost effective measure to complement a broader package of measures including technology, operations and infrastructure measures; *{Existing text from A38-18 preamble}*

Recognizing that MBMs should not be duplicative and international aviation CO₂ emissions should be accounted for offset only once; *{Based on text from A38-18, Annex paragraph f}*

Emphasizing that the decision by the 38th Session of the Assembly to develop a global MBM scheme for international aviation reflects the strong support of Member States for a global solution for the international aviation industry, as opposed to a possible patchwork of State and regional MBMs; *{Reflecting the background for a global solution compared to patchwork of MBMs}*

Reaffirming the concern with the use of international civil aviation as a potential source for the mobilization of revenue for climate finance to the other sectors, and that MBMs should ensure the fair treatment of the international aviation sector in relation to other sectors; {Based on text from A38-18, paragraph 30, and guiding principle h}

Recalling the UNFCCC and the Paris Agreement and acknowledging its principle of the principles and provisions on common but differentiated responsibilities and respective capabilities, in light of different national circumstances and with developed countries taking the lead under the UNFCCC and the Kyoto Protocol; {Updated to reflect Paris Agreement Existing text from A38-18 preamble}

Also acknowledging the principles of non-discrimination and equal and fair opportunities to develop international aviation set forth in the Chicago Convention; *{Existing text from A38-18 preamble}*

~~*Whereas the Kyoto Protocol provides for different flexible instruments (such as the Clean Development Mechanism — CDM) which would benefit projects involving developing States; {Existing text from A38-18 preamble}*~~

Welcoming the adoption of the Paris Agreement under the UNFCCC and recognizing that the work related to a global MBM scheme for international aviation and its implementation should support the achievement of the long-term temperature goals of the Paris Agreement; {Recognition of the Paris Agreement}

~~*Whereas the UNFCCC provides for market-based mechanisms and other programmes, such as the Clean Development Mechanism (CDM), and COP21 Paris Agreement provides for a new market mechanism under the Paris Agreement, to contribute to the mitigation of GHG emission to support sustainable development, which would benefit projects involving developing States in particular; {New text reflecting Paris Agreement}*~~

Welcoming the cooperation between the United Nations Framework Convention on Climate Change (UNFCCC) and ICAO ~~Secretariats~~ on the development of CDM methodologies for aviation; *{New text on CDM methodologies}*

The Assembly:

1. *Acknowledges* the progress achieved on all elements of the basket of measures available to address CO₂ emissions from international aviation, including aircraft technologies, operational improvements, sustainable alternative fuels and a GMBM scheme and any other measures, and *affirms* the preference for the use of aircraft technologies, operational improvements and sustainable alternative fuels that provide the environmental benefits within the aviation sector; *{Basket of measures and preference for non-MBM measures}*

2. *Also acknowledges* that, despite this progress, the environmental benefits from aircraft technologies, operational improvements and sustainable alternative fuels may not deliver sufficient CO₂ emissions reductions to address the growth of international air traffic, and-in time to achieve the global aspirational goal of keeping the global net CO₂ emissions from international aviation from 2020 at the same level; *{Recognition of not achieving CNG 2020 by non-MBM measures}*

3. *Emphasizes* the ~~complementary~~ role of a GMBM scheme to complement a broader package of measures to the other elements of a basket of measures, as a temporary instrument an emissions gap filler to achieve the global aspirational goal, ~~without imposing inappropriate economic burden on international aviation~~; *{Complementary role of GMBM to achieve CNG 2020}*

4. *Decides* to implement a GMBM scheme in the form of the Carbon Offsetting Scheme for International Aviation (COSIA) to address any annual increase in total CO₂ emissions from international aviation (i.e. civil aviation flights that depart in one country and arrive in a different country) above the 2020 levels, taking into account special circumstances and respective capabilities; *{GMBM is Carbon Offsetting Scheme for International Aviation (COSIA)}*

Note by the HLM-GMBM: Paragraph 4 may require adjustment once paragraphs 7-9 are agreed.

4.bis *Determines* that the COSIA is to be the exclusive market-based measure applying to CO₂ emissions from international aviation, unless agreed otherwise between affected States; *{No duplicative application of MBMs beyond COSIA}*

5. *Requests* the Council to continue to ensure all efforts to make further progress on aircraft technologies, operational improvements and sustainable alternative fuels be taken by Member States and reflected in their action plans to address CO₂ emissions from international aviation, and to monitor the progress on implementation of action, and that a mechanism should be developed to ensure that an operator's emissions from flights covered by the COSIA in a given year can be reduced through the use of sustainable alternative fuels; *{Further progress on non-MBM measures}*

6. *Acknowledges* special circumstances and respective capabilities of States, in particular developing States, in terms of vulnerability to the impacts of climate change, economic development levels, and contributions to international aviation emissions, while minimizing market distortion; *{Recognition of special circumstances of States}* – **Support Differentiation**

7. *Decides* the use of a phased implementation for the COSIA to accommodate the special circumstances and respective capabilities of States, in particular developing States, while minimizing market distortion, as follows: *{Phased implementation}* – **Support Differentiation**

a) First implementation phase applies from 2021 to the following States:

1)2) States that either have an individual share of international aviation activities in Revenue Tonnes Kilometers (RTKs) in year 2018 above 1.0 per cent of total RTKs, or whose cumulative share in the list of States from the highest to the lowest amount of RTKs reaches 80 per cent of total RTKs; or

2)1) ~~States that are classified as high income States in terms of gross national income (GNI) per capita in year 2018 (as calculated and published by the World Bank method)–[possible additional criterion, e.g. ICAO Scales of Assessment, developed/developing countries];~~

- b) Second implementation phase applies from 2026 to the following additional States:
- ~~1)2)~~ States that either have an individual share of international aviation activities in RTKs in year 2018 above 0.5 per cent of total RTKs, or whose cumulative share in the list of States from the highest to the lowest amount of RTKs reaches 95 per cent of total RTKs; or
 - ~~2)1)~~ States that are classified as upper middle income States in terms of GNI per capita in year 2018 (as calculated and published by the World Bank method) – [possible additional criterion, e.g. ICAO Scales of Assessment, developed/developing countries];
- c) the COSIA does not apply to States which are classified as the Least Developed Countries (LDCs), Small Island Developing States (SIDS) or Landlocked Developing Countries (LLDCs), unless those States meet both criteria 1) and 2) in sub-paragraphs a) ~~or and~~ b) above; *{Exemptions of LDCs, SIDS and LLDCs}*
- d) ~~nevertheless,~~ States that are exempted or not included in covered by the provisions ~~in sub-paragraph a) or b)~~ above are strongly encouraged to voluntarily ~~determine to~~ participate in the scheme, and States included in the second implementation phase are strongly encouraged to participate in the first implementation phase, in particular those States that are members of a regional economic integration organization; *{Voluntary participation}*

Note by the HLM-GMBM: The following ideas have been put forward for paragraph 7 as alternative approaches with the support of a few States:

- i) create a pre-implementation phase;*
 - ii) allow States to set their own offset requirements for their operators during a pre-implementation phase;*
 - iii) do not finalize the implementation details until experience has been gained in pre-implementation;*
 - iv) change the approach from “all States are out until they phase in” to one in which “all States are in unless those States identified as allowed to opt out choose to do so”;*
 - v) align the phase in cycle with the compliance cycle; and*
 - vi) change the current basis for the calculation of RTKs (AOC) to one based on departing flights.*
8. *Decides* that the COSIA shall apply to all aircraft operators on the same routes between States with a view to minimizing market distortion, as follows:
- a) all international flights on the routes between States, both of which are included in the COSIA by paragraph 7 above, are covered by the offsetting requirements of the COSIA;
 - b) all international flights on the routes between a State that is included in the COSIA and another State that is not included in the COSIA by paragraph 7 above are exempted from the offsetting requirements of the COSIA, while retaining simplified reporting requirements; and – **Support Differentiation**

- c) all international flights on the routes between States, both of which are not included in the COSIA by paragraph 7 above, are exempted from the offsetting requirements of the COSIA, while retaining simplified reporting requirements; *{Minimize market distortion}* – **Support Differentiation**

Note by the HLM-GMBM: Working with proposal ii) under paragraph 7 would necessitate a review of this paragraph.

9. *Decides* that the amount of CO₂ emissions required to be offset by an aircraft operator in a given year from 2021 is calculated every year as follows:

- a) *amount of offsets = an operator's emissions covered by COSIA in a given year × sector's growth factor in the given year;*
- b) *where the sector's growth factor = (total emissions covered by COSIA in the given year – total emissions covered by COSIA at the 2020 levels) / total emissions covered by COSIA in the given year; and*
- c) *the operator's emissions and the total emissions covered by COSIA in the given year do not include emissions exempted from the scheme in that year;*
- d) *recognising that the COSIA will apply to additional routes in the second implementation phase, the scope of emissions of those aircraft operators that are subject to offsetting requirements in the first implementation phase will be recalculated at the start of the second implementation phase to take into account each aircraft operator's routes to and from all States that will be included in the second implementation phase; {Distribution with 100% sectoral rate, without adjustments for fast growers or early movers}* – **Support Differentiation**

Note by the HLM-GMBM: While many States support 100% sectoral approach, some States have suggested that a dynamic approach beginning with 100% sectoral and adjusting over time to an individual operator approach could be used. Others supported having developed country based operators responsible for offsetting a larger multiple of their share of reduction requirements than those operators based in developing countries.

10. *Decides* that a new entrant¹ is exempted from the application of the COSIA for three years or until the year in which its annual emissions exceed 0.1 per cent of total emissions in 2020, whichever occurs earlier. From the subsequent year, the new entrant is included in the scheme and treated in the same way as the other operators. *{New entrants}* – **Support Differentiation**

11. *Decides* that, notwithstanding with the provisions above, the COSIA does not apply to low levels of international aviation activity with a view to avoiding administrative burden: aircraft operators emitting less than 10,000 metric tonnes of CO₂ emissions from international aviation per year; aircraft with less than 5,700 kg of Maximum Take Off Mass (MTOM); or humanitarian, medical and firefighting operations; *{Technical exemptions}*

12. *Decides* that the emissions that are not covered by the scheme, as the results of phased implementation and exemptions, are not assigned as offsetting requirements of any operators included in the scheme; *{No redistribution of exempted emissions}* – **Support Differentiation**

¹ A new entrant is defined as any aircraft operator that commences an aviation activity falling within the scope of the scheme on or after its entry into force and whose activity is not in whole or in part a continuation of an aviation activity previously performed by another aircraft operator.

13. *Notes* the work of the Council, with the technical contribution of CAEP, on: a) the monitoring, reporting and verification (MRV) system; b) recommended criteria for emissions units to be purchased by aircraft operators that take into account developments in the UNFCCC process and other relevant international organizations; c) and registries under the COSIA, and requests the Council, with the technical contribution of CAEP, to complete its work as soon as possible including the provision of capacity building and assistance, so as to enable the full implementation of the COSIA from 2020; *{MRV, EUC, Registries – CAEP recommendations }*

14. *Decides* a three year compliance cycle, starting with the first cycle from 2021 to 2023, for within which aircraft operators to reconcile their offsetting requirements under the scheme, while they report the required data to a single State authority every year; *{Compliance cycle}*

15. *Recognizes* ~~*Decides*~~ the need to provide for safeguards in the COSIA to ensure the sustainable development of the international aviation sector and against inappropriate economic burden on international aviation ~~due to market failure, such as excessive pricing of emissions units or restrictions to carbon market access; where under such circumstances, the Council should intervene,~~ and requests the Council to decide on the basis and criteria for triggering such action to review the COSIA and consider possible means to address these issues; *{Cost safeguard}*

16. *Decides* that ~~the design elements of the COSIA apply until the end of 2035, with a periodic review of the COSIA is undertaken every three years from 2022 to contribute to the sustainable development of the international aviation sector and the effectiveness of the scheme. This will involve, inter alia: including the need for suspension of the scheme as a result of achieving the global aspirational goals through non-MBM measures, and the cost impact of the scheme such that it may affect the sustainable development of the aviation industry, and a review for any extension of the scheme beyond 2035 is undertaken by end 2032~~

- a) assessment of: progress towards achieving the ICAO's global aspirational goal; the scheme's market and cost impact on aircraft operators; and the functioning of the scheme's design elements;
- b) consideration of improvements necessary to support the temperature goals of the Paris Agreement; and update the scheme's design elements to improve implementation, increase effectiveness, and minimize market distortion; and
- c) a special review of any extension or termination of the scheme beyond 2035, undertaken by the end 2032, including consideration of the contribution made by aircraft technologies, operational improvements and sustainable alternative fuels towards achieving the ICAO's environmental objectives; {Duration and Review}

17. *Requests* the following actions be taken, with a view to establishing necessary mechanisms for implementation of the COSIA from 2020:

Regarding the implementation of the MRV system,

- a) the Council to develop, with the technical contribution of CAEP, the SARPs and related guidance material for the implementation of the MRV system under the COSIA, for adoption by the Council by June 2017; *{MRV rules development}*
- b) all Member States whose aircraft operator undertakes international flights to develop the necessary arrangements ~~for the implementation of the MRV system from 1 January 2018,~~ in accordance with the MRV SARPs, for pilot implementation and testing of the MRV system from

1 January 2018, followed by the full implementation from 1 January 2020; {MRV rules implementation}

Regarding the Emissions Unit Criteria (EUC),

- c) the Council to develop, with the technical contribution of CAEP, the SARPs and related necessary guidance material for Emissions Unit Criteria (EUC) to support the purchase of appropriate emissions units by aircraft operators under the scheme, taking into account developments in the UNFCCC process and other relevant international organizations, for adoption by the Council as soon as possible but not later than by 2018; *{EUC guidance development}*
- d) the Council to establish, with the technical contribution of CAEP, a standing technical advisory body on the Emissions Unit Criteria (EUC) to make recommendations to the Council on the eligible emissions units for use by the COSIA ~~support the application of the EUC by Member States~~; *{Eligible programmes }*

Regarding the establishment of Registries,

- e) the Council to develop, with the technical contribution of CAEP, necessary guidance material to support the establishment of registries under the scheme, for adoption by the Council by 2018; *{Registry guidance development}*
- f) the Council to establish a consolidated central registry under the auspices of ICAO, for operationalization no later than 1 January 2021; *{Central registry establishment }*
- g) Member States ~~included in the scheme at the first implementation phase~~ to develop necessary arrangements for the establishment of their own registries or group registries established by groups of States, or to arrange for participation in the registries of other States, in accordance with the ICAO guidance, ~~for operationalization no later than 1 January 2021~~; *{Registry establishment for 1st phase States}*
- ~~h) Member States newly included in the scheme at the second implementation phase to develop necessary arrangements for the establishment of their own registries or group registries established by groups of States, in accordance with the ICAO guidance, for operationalization no later than 1 January 2026; {Registry establishment for 2nd phase States}~~

Regarding the governance of the COSIA,

- i) the Council to oversee the functioning of the COSIA, with support provided by the standing technical advisory body and CAEP, as needed, including the review of the design elements of the scheme; *{Governance}*

Regarding the regulatory framework,

- j) Member States to take necessary action to ensure that the necessary national regulatory framework be established for the compliance and enforcement of the scheme by 2020. *{Regulatory framework}*

18. *Decides* that ICAO and Member States take all necessary actions in providing the capacity building and assistance and building partnerships for implementation of the COISA from 2020, including:

– Support Differentiation

Regarding the implementation of the MRV system,

- a) the Council to take necessary action to expand the provision of capacity building and assistance for the preparation and implementation on Member States' action plans, in order to accommodate capacity building and assistance for implementation of the MRV system by Member States from 1 January 2018, including organization of seminars and training in all regions from 2017, and facilitation of financial support where needed; *{Capacity building on MRV}*
- b) Member States to build partnerships among themselves to cooperate on the implementation of the MRV system; *{Partnerships on MRV}*

Regarding the establishment of Registries,

- c) the Council to take necessary action to expand the provision of capacity building and assistance for the preparation and implementation on Member States' action plans, in order to accommodate capacity building and assistance for establishment of registries by States, including organization of seminars and training in all regions from 2017, and facilitation of financial support where needed; *{Capacity building on Registry }*
- d) Member States to build partnerships among themselves to cooperate on the establishment of their own registries or group registries established by groups of States, and possible pilot implementation; *{Partnerships on Registry}*

19. *Decides that the COSIA will use emissions units that meet the Emissions Unit Criteria (EUC) in paragraph 17 above, and requests* the Council to promote the use of emissions units generated from programmes that ~~meet the Emissions Unit Criteria (EUC) and would~~ benefit ~~projects involving~~ developing States ~~by the COSIA~~, including emissions units generated from the CDM, new market mechanisms or other programmes under the UNFCCC, and *encourages* States to develop domestic aviation-related projects; *{Further actions on the use of emissions units}* – **Support Differentiation**

20. *Requests* the Council to explore further development of aviation-related methodologies for use in offsetting programmes, including mechanisms or other programmes under the UNFCCC, and *encourages* States to use such methodologies in taking actions to reduce aviation CO₂ emissions, which could further enable the use of credits generated from the implementation of such programmes by the COSIA, without double-counting of emissions reduction; *{Further actions on aviation-related methodologies }*

— END —