



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

Montréal, 11 to 13 May 2016

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

THE PARIS AGREEMENT ON CLIMATE AS BASIS TO REACH CONSENSUS ON THE DRAFT FUTURE GLOBAL MARKET-BASED MEASURE SCHEME

(Presented by the Russian Federation)

EXECUTIVE SUMMARY

On December 12, 2015, despite serious and fundamental international discords in the course of drafting the “Kyoto 2 Protocol”, which have been a subject of rather intense and long discussions, 21st meeting of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC) has adopted the new “Paris Agreement” on climate **by consensus**.

Mr. Laurent Fabius, COP/21 President and the Minister of Foreign Affairs of France has declared that “*this text, which we have built together, ... is the best balance possible, a balance which is both powerful and fragile*”. “*This text will mark a historic turning point*” on our way of Global Warming slowing down. This International community historic Agreement has become possible as a result of a fundamentally new and more mature approach to solving Global challenges. “*The new Agreement is a demonstration of solidarity*. As UN Secretary General Ban Ki-moon stated: “*This ambitious, authoritative document is both flexible, long-lasting and credible*.”²

The positive experience of the Conference COP/21, as well as the lack of a significant progress in achievement of a consensus decision at the ICAO level with regard to the basic elements of the future Global Market-Based Measures scheme (GMBM) attest to the urgent need for a conceptually new approach to addressing this issue. In this connection the HLM-GMBM is invited to consider a fundamentally different approach of GMBM developing GMBM, which fully corresponds to the “United Nations Sustainable Development Goals” (SDGs), unanimously adopted by World leaders, including Heads of States and Governments, during the 70th Anniversary Session of the UN General Assembly on September 15, 2015.

Action: Actions by the HLM-GMBM are presented in paragraph 4.

<i>Strategic Objectives:</i>	This working paper relates to ICAO Strategic Objectives “ <i>Environmental Protection</i> ” and “ <i>Economic Development of Air Transport</i> ”
<i>Financial Implications:</i>	Reduction of contributions of Member States to the ICAO Regular program budget
<i>References:</i>	Doc 10022, <i>Assembly Resolutions in Force (as of 4 October 2013)</i> FCCC/CP/2015/L.9, <i>Adoption of the Paris Agreement</i> A/RES/70/1, <i>Transforming our world: the 2030 Agenda for Sustainable Development (Resolution adopted by the UN General Assembly on 25 September 2015)</i> EAG/11-WP/3, <i>The Clean Development Mechanism for the International Civil Aviation</i>

¹ English and Russian versions provided by the Russian Federation

² <http://www.un.org/apps/news/story.asp?NewsID=52802#.VyLAPY-cGHv>

1. INTRODUCTION

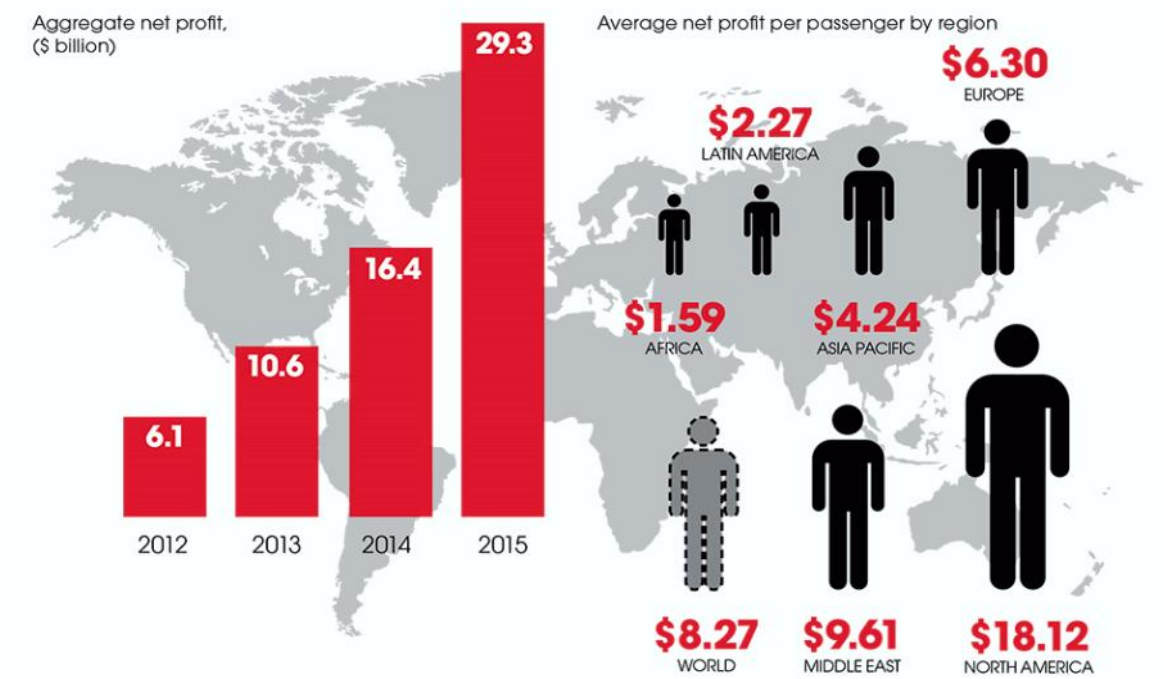
1.1 Despite an intensive two-year work within the frame of the 15 meetings of the Environment Advisory Group of the Council ICAO (EAG) which were held with the support of a wide range of experts of ICAO Committee on Aviation and Environmental Protection (CAEP), the Second Meeting of the High-level Group on a Global Market-Based Measure (MBM) Scheme (HLG-GMBM/2 – April 13 - 15, 2016), as well as HLG-GMBM/1 failed to conciliate contradictory points of view on a number of key elements of the draft “climate” resolution of the forthcoming 39th Session of ICAO Assembly. It should be added that for the past 15 years ICAO’s expert community had executed a significant amount of profound technical and economic researches connected with attempts to introduce the “market-based climate measures” to the sector of the international civil aviation. However, up to the present moment the all those efforts have not allowed to find a solution, which would allow to settle in a befitting way the basic issues of economic mutual relations of participants of the international market of air transportation.

1.2 The analysis of consequences of implementation of the GMBM based on the “offsetting mechanism” indicates significant risks of market distortion in the field of international air transportation, an emergence of conditions for unfair competition directed at suppression of quickly growing air transportation markets of developing Countries, that inevitably creates risks of stagnation of their national civil aviation development process. This, in turn, will lead to ousting out of the international air transportation market of those countries' airlines and, most likely, to their subsequent bankruptcy. Such negative consequences for developing countries would hardly match the ICAO “No Country Left Behind” (NCLB) initiative.

26 August 2015 | Global | Economics | Industry Data | IATA

Overall industry profits rise - but regional differences

IATA has announced an upward revision of its 2015 industry outlook to a \$29.3 billion net profit. On expected revenues of \$727 billion, the industry would achieve a 4% net profit margin. There are, however, significant regional differences, as shown in the infographic below.



1.3 At the 9th meeting of its 207th Session the ICAO Council once again confirmed that “...clear concern, through the UNFCCC process, on the use of international aviation as a potential source for the mobilization of revenue for climate finance to the other sectors...”. (para 6, C-DEC 207/9). At the same time, the proposed “offsetting mechanism” will actually lead to the ever-increasing outflow from the industry of considerable financial resources for recovery of investments into environmental projects that have already been completed in other industrial sectors. Along with that, the total emission of all industrial sectors will increase due to the delay of technological development of aviation sector, mainly in developing Countries, and it inevitably will lead to a decrease of Global flight safety level.

1.4 Reluctance of developed as well as developing Countries to impose an increasing financial burden on their national civil aviation sectors without obvious benefits relating to real greenhouse gases emissions reduction and a sustainable economic development is both understandable and justified. Even in a first approximation, it is evident that the proposed draft GMBM scheme is in direct conflict with 13 out of 17 UN Sustainable Development Goals stated at the preamble of the Paris Agreement on climate. Along with that, despite the efforts made, the proposed GMBM project is still in mutual contradiction with the principles of “non-discrimination” and “common but differentiated responsibilities” (CBDR).

1.5 The stated above considerations inevitably lead to the conclusion that achievement of the international agreement on a future GMBM would only be possible on the basis of principles agreed upon in the text of the Paris Agreement, which are providing for voluntary participation of the parties in combined efforts of the international community to overcome the negative consequences of climate change, including the achievement of UN Sustainable Development Goals “to strengthen universal peace in larger freedom”, to “eradicate poverty in all its forms and dimensions” as “the greatest global challenge and an indispensable requirement for sustainable development”. This approach, together with tangible actions to reduce emissions should foster rather than suppress the sustainable development of the international air transport system “...in a safe and orderly manner...” “...on the basis of equality of opportunity...”, as it stated in the preamble to the Convention on International Civil Aviation.

2. MAIN TERMS AND CONDITIONS OF A FUTURE GMBM AGREEMENT

2.1 Participants of the two rounds of ICAO Global dialogs on Market-Based Measures to address climate change (GLADs) have agreed that the future GMBM scheme should meet the requirements of environmental integrity, cost effectiveness, take into account the principles of “common but differentiated responsibilities” (CBDR) and the “non-discrimination”, and at the same time it should be administratively simple.

2.2 Unfortunately, the proposed GMBM project does not fully match any of these requirements. It is hard to imagine how the multi-level bureaucratic superstructures creation, beginning with airlines, national civil aviation authorities and ending with the “ICAO Central Emissions Register”, including a new ICAO’s expert body for an assessment “quality” or, in other words, legality of the “Emission Units,” offered at the World Carbon markets, can meet the requirements of the “administrative simplicity”. Along with that, one should mention the establishment of independent “third party verification entities” which will do ongoing verification of the integrity of the emissions data provided by national operators. In addition, such “accounting” will also be complicated via so-called “route-based approach”, when emissions will be taken into account on certain routes, while it will not be counted on the others. This approach certainly makes it difficult to speak about “ecological integrity”. It is also evident that the level of expenses for an establishment of such a multilevel accounting system and its operational costs will be quite considerable.

2.3 It should be taken into account that the proposed GMBM project envisages the establishment of the above mentioned global system for emissions data monitoring, reporting and verification (MRV) in the next triennium. Irrespective of participation in the first stage of GMBM introduction, all ICAO Member States, except for the Small Island States, will be obligated to make appropriations in their budgets for deployment of their national or regional MRV systems.

2.4 It should also be noted that, to date, the costs for the establishment of the "ICAO's Emissions Central Register" and an "evaluation body" of "Emissions Units" are not estimated yet and therefore not included into the ICAO draft budget proposal for the next triennium. Taking into account the principled opinion of a number of major paying Member States in respect to freezing the ICAO budget growth, it is appropriate to assume that the costs of establishing the "Central Register" and related ICAO's structural units will be sought at the expense of cuts of other ICAO programmes financing. In this case all expenses mentioned above should be classified as overheads and not directly related to actual emissions reduction. For these reasons, the proposed GMBM approach cannot be considered as a "cost-effective".

3. THE CLEAN DEVELOPMENT MECHANISM FOR INTERNATIONAL CIVIL AVIATION

3.1 In the course the 11th meeting of the Environment Advisory Group of the ICAO Council (26-27 May, 2014), delegations of India, China and Russia had presented the working paper EAG/11-WP/3, which conceptually describes proposed basic elements of a "Clean Development Mechanism for Aviation" (ACDM), viewed as a reasonable alternative to the GMBM scheme based on the "offsetting mechanism".

3.2 The proposal was to establish a mechanism, which would be able to mobilize available resources of the international civil aviation sector for financing environmentally efficient aviation projects in developing Countries. As a potential source of funding it has been suggested to consider an introduction of an Environmental Contribution of Member States into ICAO "ecological budget" in an amount set by the ICAO Assembly that could be calculated by multiplication of an established coefficient on each tone of jet fuel, refueled for international flights. It is important to note that, in the same way that in the Paris Agreement, ACDM considers the principle of voluntary participation of Member States while understanding that the provision of assistance to developing Countries is a matter of the existence of their national Emission Reduction Actions plans, as well as their participation in the ACDM programme.

3.3 It is important to note that unlike GMBM based on the "offsetting mechanism", ACDM establishes a direct correlation between the amount of the Environmental Contributions to the ecological budget of the ICAO Environmental Programme and real actions to reduce emissions in aviation sector. Such a direct relationship between cost and result does not exist by default in the context of open markets trading by the "emission units".

3.4 The introduction of ACDM does not require to create any costly bureaucratic superstructures. The only thing that ICAO Assembly has to do is to call upon Member States to provide to ICAO on a regular basis standard statistics data, including statistic form M "*Fuel Consumption and Traffic - International and Total Services, Commercial Air Carriers*"³.

3.5 For the integrity control of the provided data similar statistical data generated by the main ICAO's partners – IATA (International Air Transport Association) and ACI (Airports Council

³ <http://www.icao.int/sustainability/pages/eap-sta-excel.aspx>

International) can be used. For those reasons, it can be concluded that the ACDM meets the requirements of the administrative simplicity and cost effectiveness, as well as ACDM overhead cost will be negligible.

3.6 The proposed draft GMBM resolution contains the “Safeguard clause”, which assumes the possibility to reconsideration of the GMBM operation parameters in case if the adverse changes at “carbon markets” will put on an excessive burden on the aviation sector. Obviously, among the first affected countries will be the weakest developing Countries. It is also obvious that the withdrawal from or revision of GMBM scheme will be accompanied by another very painful and devastating resurgence of market distortions for international civil aviation.

3.7 Unlike proposed GMBM the “Clean Development Mechanism for Aviation” is characterized by complete predictability and transparency. At the same time, it cannot affect in any way the existing balance of economic relations at the global aviation market. Also, ACDM takes fully into account the principles of non-discrimination, CBDR, “special conditions and respective capabilities” (SCRC) of developing Countries. It is expected that in each international “ACDM participating” airport the Environmental Contribution, included in the price of aviation fuel, will be equal for all operators irrespective of their nationality, and, consequently, it will not be a cause of market distortions. The principle of voluntary participation together with the ICAO’s technical assistance to developing Countries, which have expressed their political will through making national Emission Reduction Actions plans, fully conforms with the CBDR principle. Therewith these infrastructural improvements in the developing Countries will obviously have a positive effect on the global flight safety level, and that will also contribute to the sustainable development of civil aviation in all ICAO Member States.

3.8 It would seem that a global environmental contribution fuel surcharge will be approved by the ICAO Assembly on a triennium basis taking into account a projected scope of finance required for funding ICAO Environmental Projects program, approved by the ICAO Council and adopted by the ICAO Assembly. For example, if in 2020, the price of each tone of jet fuel will comprise the environmental surcharge of one US dollar, the ICAO Environmental Projects programed budget would amount to approximately 300 million US dollars, that is almost three times the size of the ICAO regular programme budget. ICAO Technical Cooperation Bureau will implement ecological projects in developing countries through the Technical Assistance programmes, while making the ICAO “No Country Left Behind” (NCLB) slogan fully meaningful in full compliance with the UN Sustainable Development Goals.

3.9 ACDM also recognizes the efforts of the “early mover” airlines who have already invested in improving of the fuel efficiency of their aircraft fleet, as well as other early actions of airlines (prior to the introduction of ACDM) and their civil aviation administrations aimed at emissions reduction (“less burned (fuel) – less pay”). On the contrary, the year 2020 emission baseline level, founded in the proposed GMBM project will encourage airlines to increase their emission before year 2020 up to the highest possible level in order to relieve the GMBM “tax burden” after that date. It is important to note that the proposed two-stage approach to GMBM implementation excludes possibility of achieving the global aspirational goal of “carbon neutrality” after the year 2020 (CNG2020) even at the imaginary level (see HLM-GMBM-WP/2, Appendix, resolving clause 12 of the proposed draft resolution on GMBM).

4. ACTIONS BY HLM-GMBM

4.1 In order to reach a consensus and taking into account the fact that the proposed GMBM scheme based on the “offsetting mechanism” contradicts to the spirit of the Paris Agreement on Climate and the UN Sustainable Development Goals, and it would have an adverse effect on the ability of

international civil aviation sector to achieve **real** emissions reduction together with negative impact on an overall flight safety level due to the technological development slowdown, HLM-GMBM is invited to:

- a) *declare* the unconditional support to the Paris Agreement on Climate and the UN Sustainable Development Goals (SDG) by the international aviation community;
- b) *reaffirm* the unacceptability of the use of international civil aviation as a potential source for mobilization of revenue to finance climate change activities in other industrial sectors;
- c) *recognize* the inappropriateness of the development of GMBM scheme based on the “offsetting mechanism” basis;
- d) *request* the ICAO Council, as a matter of priority, to develop a conceptual framework of the “Clean Development Mechanism for Aviation” in accordance with the spirit of the Paris Agreement on Climate and the UN SDG as basis for the developing future GMBM, and submit it for approval by the 39th Session of the ICAO Assembly;
- e) *urge* the ICAO Member States, when designing new and implementing existing MBMs to include the international civil aviation into them only on the basis of new bilateral and/or multilateral agreements included inter alia in the Air Services Agreements;
- f) *encourage* ICAO Member States to fully support their air operators, air navigation service providers, airport operators, aviation administrations in the efforts to take urgent actions to reduce greenhouse gas emissions in the civil aviation sector.

— END —