



WORKING PAPER

ASSEMBLY — 39TH SESSION

EXECUTIVE COMMITTEE

Agenda Item 22: Environmental Protection – International Aviation and Climate Change – Policy, Standardization and Implementation Support

KEY DESIGN ELEMENTS OF THE GLOBAL MARKET-BASED MEASURES FOR INTERNATIONAL CIVIL AVIATION: BRAZIL'S POSITION

(Presented by Brazil)

EXECUTIVE SUMMARY

Brazil understands that key criteria must be fulfilled for the Global Market-based Measure (GMBM) scheme to be meaningful and successful in the global effort against climate change. Among those criteria, the GMBM must seek to achieve environmental integrity (from design to implementation), simplicity, cost-effectiveness, differentiation without discrimination, and to avoid excessive cost/administrative burdens. Below is a summary of Brazil's position in relation to the key design elements of global market-based measure scheme of international civil aviation, taking into account those requirements.

Action: The Assembly is invited to:

- a) Take note of the Brazilian position in relation to the key design elements of the GMBM.

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objective E - Environmental Protection
<i>Financial implications:</i>	No additional resources requested.
<i>References:</i>	ICAO Resolution A38-18: Consolidated statement of continuing ICAO policies and practices related to environmental protection – Climate Change.

1. INTRODUCTION

1.1 The Assembly Resolution A38-18 decided to develop a Global Market-Based Measure (GMBM) scheme for international aviation. According to item 20 of the Resolution, the scheme should take into account the special circumstances and respective capabilities of States, in particular developing States, while minimizing market distortion. Brazil understands that key criteria must be fulfilled for the GMBM scheme to be meaningful and successful in the global effort against climate change. Among these criteria, the scheme must seek to achieve environmental integrity (from design to implementation), simplicity, cost-effectiveness, differentiation without discrimination, and to avoid excessive cost/administrative burdens. Below is a summary of Brazil's position in relation to the key design elements of global market-based measure scheme of international civil aviation, taking into account the criteria outlined above.

1.2 Brazil welcomes the adoption of the Paris Agreement under the United Nations Framework Convention on Climate Change and related decisions adopted by the Paris Conference on Climate Change. This historic agreement was possible mainly due to an innovative approach that was centred on nationally determined contributions, while reaffirming the principle of common but differentiated responsibilities and respective capabilities and the differentiation between developed and developing countries. The work of ICAO related to a GMBM scheme and its implementation must be fully aligned with and support the implementation of the Paris Agreement, with a view to avoid any incoherences between two intergovernmental organizations under the United Nations.

2. BRAZIL'S POSITION ON SOME OF THE MAIN DESIGN ELEMENTS OF THE GMBM

2.1 **Phased implementation.** It is Brazil's belief that a phase-in implementation using a route-based approach is essential to take into account the States different responsibilities, capabilities and circumstances, while minimizing market distortions. Brazil supports a two-phased approach for the implementation of the GMBM, with a minimum five-year gap between them as proposed in the original proposal of the President of The Council. Brazil has advocated for a classification of States in each phase based primarily on aviation sector criteria such as revenue tonne-kilometre (RTK), air operator certificate (AOC), reflecting also different states of development. While Brazil is still comfortable with this approach, the difficulties presented by some States in applying such criteria to define which countries would be in each phase are acknowledged. Taking into consideration their level of market maturity and their larger responsibilities and capabilities towards addressing climate change, it is paramount that developed countries take the lead in joining the GMBM from the very first phase of the scheme; along with other countries with larger levels of aviation activity, with a view to minimizing market distortions.

2.2 In order to avoid regional imbalances, Brazil strongly believes that all countries from South and Central America that do not fall under the exemptions should join the scheme together in the second phase, thereby managing potential market distortions in the international traffic to and from the region.

2.3 **The distribution of offsetting obligations.** The draft Assembly Resolution presented by the President of the Council proposes the 100% sectoral approach as the basic calculation for the distribution. Despite the broad support for the 100% sectoral approach, the issue remains unresolved. Brazil supports the 100% sectoral approach for the distribution of offsetting obligations since it accommodates potential market distortions and balances countries' historical responsibilities with the Chicago principle of non-discrimination.

2.4 Developing country aviation markets have a large potential for growing, considering their sensitivity to income elasticity. Considering that the international air traffic to and from developing countries tends to have a growth rate higher than the world average and significantly higher than mature markets, if the obligation distribution is based on individual growth rates, airlines from countries with non-mature markets would carry a higher burden than the ones from countries with mature markets – which have already contributed most to the emissions by the aviation sector. The adoption of the 100% sectoral approach helps addressing that unbalance.

2.5 During the Environment Advisory Group (EAG)/15 meeting, in January 2016, the Committee on Aviation Environmental Protection (CAEP) presented the results of a series of analyses conducted on the Market-based Measure (MBM) design elements. One of the analyses carried out at the request of the Council was a comparison of the potential market distortion across schemes for offset obligation distribution. According to CAEP's conclusions, the use of an individual approach would generate more market distortions, with a large difference in relative offsets costs across routes. Besides that, in the same route, two air carriers could have different offsetting obligations. The adoption of the 100% sectoral approach can avoid that situation, since all routes (and all operators in the same route) would see the same impacts. The 100% sectoral approach for offsetting obligation distribution leads to a lower chance of creating distortions, including for “fast growers” and “new entrants”. It is therefore the most appropriate way of preserving ICAO's principle of non-discrimination while taking into account the countries special circumstances and respective capabilities.

2.6 A working paper containing detailed technical arguments in support to the 100% sectoral approach has been presented separately by Brazil.

2.7 **Revision and implementation:** The implementation of GMBM must be responsive to environmental integrity and aligned with the regime under the United Nations Framework Convention on Climate Change Conference (UNFCCC), the primary multilateral forum to address global climate change. Further work to be commissioned to CAEP with respect to the implementation of GMBM, in particular on emissions unit criteria, must be guided by consistency with UNFCCC and its Paris Agreement. Developments under CAEP should not conflict or overlap with the UNFCCC rules and guidances on market-based measures. ICAO and UNFCCC, being two intergovernmental organizations, cannot achieve different outcomes on the same subject.

2.8 In order to operationalize this logic in the Assembly resolution, States, on one side, must decide that emission reduction units generated under the Clean Development Mechanism of the Kyoto Protocol and the mechanism established under paragraph 4, Article 6 of the Paris Agreement will not be subject to further monitoring, reporting, and verification (MRV) by CAEP/ICAO, i.e. are automatically eligible for complying with GMBM requirements. On the other side, the text presented by the president of the High Level Meeting (Montreal, 10-13 May 2016) must be further refined to ensure that the work under CAEP on other types of emission units will be developed coherently with UNFCCC regime. Since guidance and rules to enable the implementation of Article 6 of the Paris Agreement will be developed over the coming years, therefore coinciding with CAEP's future work on the subject, it is reasonable to say that both can be articulated. The Assembly must provide for this coherence while mandating future work under CAEP.

2.9 The Brazilian government is concerned that, among the units evaluated by CAEP as potentially eligible for GMBM, are standards whose environmental integrity is questionable, that adopt approaches that have been consistently rejected under the UNFCCC or which are not subject to authorization by host national States. In line with its intended nationally determined contribution under the Paris Agreement, "Brazil will not recognize the use by other Parties of any units from mitigation

results achieved in Brazil that are acquired through any mechanism, instrument or arrangement that has not been established under the Convention, its Kyoto Protocol or its agreement to Paris. " The Brazilian Government also emphasizes that "any transfer of units from mitigation results achieved in Brazil shall be subject to prior and informed consent of the Federal Government". From the outset, Brazil expresses its reservation towards the use of any units that do not meet such conditions.

3. **ACTION BY ASSEMBLY**

3.1 The Assembly is invited to:

- a) Take note of the Brazilian position in relation to the key design elements of the GMBM

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