

IETA input to the European Commission’s stakeholder consultation on policy options for market-based measures to reduce the climate change impact from international aviation

Efforts from international aviation:

- **Following the Paris Agreement and considering the agreed long-term goal, what kind of effort should come from international aviation and how should this develop over time?**

IETA input:

International aviation lends itself to an international carbon mitigation mechanism across all countries to address climate change. IETA views the Global Market-Based-Mechanism (GMBM) as an important contribution and encourages the adoption of ICAO’s resolution this year, so it can enter into force by 2020.

Key recommendations:

- Avoid “reinventing the wheel” in designing the GMBM. Existing carbon market mechanisms can be used to support the aviation sector in cost-effectively reaching its carbon neutral growth target. Lessons can be learned from earlier carbon markets in designing the global MBM.
- A pilot phase can help all parties grapple with the complexities of a carbon market through a phased approach, but we are concerned that delaying the full implementation of the GMBM would have negative consequences for the environment. Carbon markets are fully operational today and provide the infrastructure that could support the GMBM during a pilot phase starting shortly after approval of the resolution.
- Offsetting obligations for the aviation sector can be met with existing and future international credits. The mechanism established by the draft resolution would assure adequate supply by leveraging existing infrastructure and capacity. The GMBM should remain ‘open’ to future types of international credits, as discussions are ongoing about the future of existing asset classes and the recognition of new units, under the new Mechanism foreseen in the Paris Agreement. We do not believe that simply adopting a single offset scheme is necessarily appropriate, because competition amongst schemes will deliver supplies, drive efficiency, lower overall costs and spur innovation.
- However IETA is concerned by some potential inconsistency in reference to emission units that meet the Emission Unit Criteria on the one hand, and emission units generated from programmes, on the other. Our concern is that this could muddle the interpretation of what exactly can be used in terms of emissions units and where such units can come from. There is also a risk that this would open up the global MBM to consideration of individual units (or projects), which would make this administratively challenging.
- There should be clear reference in the ICAO Resolution which “requires” – rather than simply “promotes” – Greenhouse Gas programmes to meet Emission Unit Criteria to gain recognition under the global MBM. We also believe the resolution should clearly specify that the global MBM will not allow double-counting of reductions.



ICAO's General Assembly:

- **Which elements should emerge from the 2016 ICAO Assembly to provide for the implementation of a robust GMBM by 2020?**

IETA input:

- Robust emissions monitoring reporting and verification criteria and accounting rules to underline safeguard environmental integrity.
- A centralised registry is necessary in view of tracking trades and avoiding double-counting. In doing so the registry would be able to create shadow units to reduce transaction costs & enable greater liquidity and price discovery by allowing entities access to one single registry account rather than requiring entities to acquire a registry account for each particular offsetting mechanism that becomes eligible.
- Clarity on the asset classes that may be recognised in the GMBM, and efforts to encourage early action. Early action provides an important signal to investors and project developers, enabling them to make the necessary investments in project activities. It also enables the airline industry to engage with the carbon market and learn how best to operate within a compliance system based on environmental markets.
- Clarity on the process for raising ambition over time, including a clear timetable for full inclusion of all parties if a segregated approach is initially adopted.
- Governance considerations are important for the GMBM, as well as identifying the various bodies' responsibilities and market oversight.
- Some of these considerations will emerge after ICAO's General Assembly, but a clear timeline should be adopted to inform market participants of the next steps.

Regional action to address emissions from domestic aviation:

- **In what ways could action being taken by countries and groups of countries to achieve their respective climate goals, notably by addressing emissions from domestic aviation, complement and interact with a GMBM addressing emissions from international aviation?**

IETA input:

Action taken by countries or groups of countries to address emissions from domestic aviation should be *complementary* to the GMBM for international aviation. It is possible to foresee a mix of measures to reduce GHG emissions from aviation. However, efforts to reduce the administrative burden to those who operate in different jurisdictions need to be addressed.

Ideally global and domestic measures should be part of a single global scheme. However, as a minimum, any domestic action should not undermine global efforts and should at least be as ambitious as international efforts.



Review of the EUETS:

- **Which should be the main principles and criteria guiding a review of the EU ETS following the 2016 ICAO Assembly?**

IETA input:

The review of the EU ETS should take into account environmental considerations; progress of the international negotiations; and cost-effective means for the aviation sector to reduce its emissions.

The EU ETS could provide ICAO with an operational and proven international process and IT tools that registers verified emissions, units and transactions, and publishes compliance figures, in a single, centralised Registry. Lessons learnt from the EU ETS point at the importance of ensuring a very high level of security, reliability, and transparency of trades; as well as introducing a central registry.

The following basic principles should be taken into account, in order to create an effective GMBM, and for the review of the EU ETS:

- 1. Long-term, science- and environmentally-based goals should be set.**
 - This assumes a clear and stable regulatory regime that drives a stable market.
 - Supply and demand should create a dynamic market that drives the price.
 - Clear rules will provide confidence to participants and investors.
- 2. An open and broad market will perform the best.**
 - The design should promote broad participation to enhance liquidity.
 - An open market will allow entities to hedge their exposure and minimise costs.
 - Use of existing offset standards and asset classes will help assure adequate supply.
- 3. Sound market infrastructure should underpin the system.**
 - Solid measurement, reporting and verification techniques build confidence amongst market participants, regulators and other stakeholders.
 - Market information should be made available in a fair and transparent manner.
 - The registry must operate efficiently and securely.

- **Which options should be considered for the EU ETS for the period 2017-2020?**

IETA input:

It is important for all sectors to contribute towards the environmental target, and the aviation sector should also play its part.

IETA has identified 3 possible options that could occur in the EU between 2017 and 2020:

- Option 1: Extend the current rules of the EU ETS under 'stop the clock' for the aviation sector until 2020
- Option 2: Exempt the aviation sector from the EU ETS until 2020
- Option 3: Include all flights to/from the EU in the scope of the EU ETS until 2020

IETA recommends option 1 for the EU for the period 2017-20. Other options such as excluding



the aviation sector altogether from the EU ETS would put into question the contribution of the sector towards achieving the long-term target, and would represent a step back in terms of coverage of the EU ETS and environmental efforts. The option of including all flights (domestic and international) in the scope of the EU ETS for the period 2017-2020 risks undermining international negotiations and is considered to be counter-productive.

- **Which options should be considered beyond 2020?**

IETA input:

IETA has identified 3 possible post 2020 options. However, the priority must be to enact a global MBM for aviation.

- Option 1: Extend the current rules of the EU ETS for the aviation sector beyond 2020
 - Pros: Ensures emissions from all flights are covered, either via the EU ETS or via the GMBM for international flights.
 - Cons: Are intra-EU flights international? If not, extension of the current rules goes against the spirit of the Global MBM which covers international flights, leading to double-regulation.
- Option 2: Exempt the aviation sector from the EU ETS after 2020
 - Pros: One compliance mechanism for all flights simplifies the rules for aircraft operators.
 - Cons: Environmental concerns: Carbon Neutral Growth target is less ambitious than emission reductions in EU ETS. Other regions (e.g. China) are considering including domestic aviation in a national ETS.
- Option 3: Include all flights to/from the EU in the scope of the EU ETS after 2020
 - Pros: Extending EU ETS scope gives a greater opportunity for emission reductions.
 - Cons: High risk of political objection. Contradicts international efforts to reach a global agreement for the aviation sector.
- According to Regulation 421/2014, the Commission proposal following the 2016 ICAO Assembly should "swiftly propose measures in order to ensure that the international developments can be taken into account", and "give particular consideration to the environmental effectiveness of the EU ETS (...), including better alignment of the rules applicable to aviation and stationary installations respectively". **Which elements of EU ETS could be considered in order to take into account international developments as well as to improve its environmental effectiveness (e.g. review of auctioning shares, use of international offsets – including from the new mechanism established by the Paris Agreement, etc.)?**

IETA input:

Consider the timing of auctions: EUAA auctions are much more compliance-driven and this could be reflected in the timing of volumes. Previous EUAA auctions show that interest in the auctions is highest at the beginning of the year before 31 March compliance deadline, as well as in December for the settlement of futures. Instead of an even distribution of auction volumes



across the year, offering higher volumes in the first quarter of the year and in December, may be more suitable. This could increase participation, which is important given the relatively small size of the EUAA market. However, greater analysis is needed, as some operators may value auctioning to be evenly spread throughout the calendar.

Criteria for participation should be reviewed: IETA believes the list of eligible participants in auctions is adequate; however we would like to point out some further considerations. The paramount argument is to ensure market integrity and, whilst we don't think there is justification at this stage to modify the list of participants, further assessment of the following ideas could be worthwhile.

- Extending participation to other players: is there a case to be made for other participants to be involved in auctions? This could further improve liquidity in the auctions and the functioning of the overall market but needs to be assessed in the context of the implications for market integrity: there are concerns over involving more non-compliance actors if these players are not regulated in the same manner as those already participating in auctions.
- Reviewing participation criteria for operators, particularly for companies holding a minority shareholding of an operator: Under current rules a firm with up to 49% share in an operator cannot participate in the auctions. There may be merit in looking at this threshold in more detail.
- Allowing market participants based outside the EU ETS region (Switzerland, United States, other jurisdictions) to participate could be another aspect to reflect further upon, and whether extending participation to such players could strengthen the connection between the EU ETS and these regions, facilitating future cooperation. However, such actors can also be involved in trading futures and the benefits of them taking part in auctions are unclear.

Small aircraft operators:

- **Should small non-commercial aircraft operators (emitting less than 1000 tonnes of CO₂ per year) continue to be exempted from the EU legislation from 2021 onwards? If so, what alternative measures, if any, should be considered?**

IETA input:

IETA believes that it makes practical and operational sense to exclude small aircraft operators from EU legislation from 2021 onwards. However a discussion is needed on how excluded/exempted flights would be covered through other means or other parties, in view of reaching the carbon neutral growth target.

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ABOUT IETA. *IETA is dedicated to the establishment of market-based trading systems for greenhouse gas emissions that are demonstrably fair, open, efficient, accountable, and consistent across national boundaries. IETA has been the leading voice of the business community on the subject of emissions trading since 1999. Our 130 member companies include some of the world’s largest industrial and financial corporations—including global leaders in oil & gas, mining, power, cement, aluminium, chemical, pulp & paper, and investment banking. IETA also represents a broad range of global leaders from the industries of data verification and certification; brokering and trading; offset project development; legal and advisory services. For more information about IETA, visit www.ieta.org.*