

## APPENDIX I

### **Market-based measures regarding aircraft engine emissions**

*Whereas* Appendix H of this Resolution sets the general context in which policy options including market-based measures are considered as a means of limiting or reducing the environmental impact of aircraft engine emissions;

*Whereas* market-based measures are policy tools that are designed to achieve environmental goals at a lower cost and in a more flexible manner than traditional regulatory measures;

*Whereas* in recent years there has been increasing recognition by governments of the need for each economic sector to pay the full cost of the environmental damage it causes and the subject of market-based measures for protecting the environment, including charges or taxes on air transport, an emissions trading system or voluntary measures, has been raised, for example, in the context of controlling greenhouse gas emissions;

*Whereas* Principle 16 of the Rio Declaration on Environment and Development (1992) states that ‘National authorities should endeavour to promote the internalization of environmental costs and the use of economic instruments, taking into account the approach that the polluter should, in principle, bear the cost of pollution, with due regard to the public interest and without distorting international trade and investment’;

*Whereas* the Kyoto Protocol treats international and domestic emissions from the aviation sector differently, the potential advantages of harmonizing treatment of the two categories of emissions have been noted and it has been acknowledged that some Contracting States or groups of States are already taking action to design options for reducing emissions from domestic sectors, including domestic aviation emissions;

*Whereas* ICAO policies make a conceptual distinction between a charge and a tax, in that “a charge is a levy that is designed and applied specifically to recover the costs of providing facilities and services for civil aviation, and a tax is a levy that is designed to raise national or local government revenues which are generally not applied to civil aviation in their entirety or on a cost-specific basis”;

*Whereas* ICAO has developed policy guidance to Contracting States on taxation (*ICAO’s Policies on Taxation in the Field of International Air Transport*, Doc 8632), which recommends *inter alia* the reciprocal exemption from all taxes levied on fuel taken on board by aircraft in connection with international air services, a policy implemented in practice through bilateral air services agreements, and also calls on Contracting States to the fullest practicable extent to reduce or eliminate taxes related to the sale or use of international air transport;

[*Noting* that the ICAO policy on exemption of aviation fuel from taxation has been called into question in some Contracting States which impose taxes on other transport modes and other sources of greenhouse gases;]

*Whereas* Article 15 of the *Convention on International Civil Aviation* contains provisions regarding airport and similar charges, including the principle of non-discrimination, and ICAO has developed policy guidance for Contracting States regarding charges (*ICAO's Policies on Charges for Airports and Air Navigation Services*, Doc 9082) including specific guidance on noise-related charges;

*Whereas* the ICAO Council has adopted on 9 December 1996 a policy statement of an interim nature on emission-related charges and taxes in the form of a resolution wherein the Council strongly recommends that any such levies be in the form of charges rather than taxes, and that the funds collected should be applied in the first instance to mitigating the environmental impact of aircraft engine emissions;

*Whereas* such charges should be based on the costs of mitigating the environmental impact of aircraft engine emissions to the extent that such costs can be properly identified and directly attributed to air transport;

*Noting* that the Council has received reports from its Committee on Aviation Environmental Protection (CAEP) on possible options regarding the use of market-based measures to limit or reduce aircraft engine emissions, initially focussing on carbon dioxide, and that further work is planned;

*Noting* that further studies and guidance are needed for the use of an emissions-trading system for international civil aviation ~~in the long-term~~;

*Noting* that a template agreement and associated guidance has been prepared by CAEP for the use of voluntary measures by Contracting States and interested parties in the short-term; ~~and~~

*Recognizing* that the extensive studies which have been undertaken to provide additional guidance to Contracting States regarding emission-related levies have identified a large number of outstanding issues on which there are different views; and

*Whereas* Contracting States have legal obligations, existing agreements, current laws and established policies;

*The Assembly:*

1. *Requests* the Council to continue to develop guidance for Contracting States on the application of market-based measures aimed at reducing or limiting the environmental impact of aircraft engine emissions, particularly with respect to mitigating the impact of aviation on climate change; and to develop concrete proposals and provide advice as soon as possible to the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC);

2. *Encourages* Contracting States and the Council, taking into account the interests of all parties concerned, including potential impacts on the developing world, to evaluate the costs and benefits

of the various measures, including existing measures, with the goal of addressing aircraft engine emissions in the most cost-effective manner and to adopt actions consistent with the framework outlined below, with Contracting States striving to take action in a consistent manner to both domestic and international aviation emissions:

a) Voluntary measures

- 1) *Encourages* action by Contracting States, and other parties involved, to limit or reduce international aviation emissions, in particular through voluntary measures and to keep ICAO informed; and
- 2) *Requests* the Secretary General to facilitate such actions by making available guidelines that ICAO has developed for such measures, including a template voluntary agreement, and to work to ensure that those taking early action would benefit from such actions and would not subsequently be penalized for so doing;

b) Emission-related levies

- 1) *Recognizes* the continuing validity of Council's Resolution of 9 December 1996 regarding emission-related levies;
- 2) *Urges* States to follow the current guidance contained therein;
- 3) ~~*Recognizes that existing ICAO guidance is not sufficient at present to implement the application of greenhouse gas emissions charges;*~~
- 4) ~~*Urges States to refrain from unilateral action to introduce emission-related levies; and*~~
- 5) ~~*Requests the Council to carry out further studies and develop additional guidance on the subject, with a particular focus on the outstanding issues identified in earlier studies;*~~
- 3) *Recognizes* that existing ICAO guidance is not sufficient at present to implement greenhouse gas emissions charges internationally, although implementation of such a charge by mutual agreement of States members of a regional economic integration organization on operators of those States is not precluded, and *requests* the Council to:
  - a) carry out further studies and develop additional guidance on the subject;
  - b) place a particular focus on the outstanding issues identified in earlier studies and by the Assembly; and
  - c) aim for completion by the next regular session of the Assembly in 2007;

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- 4) *Urges* Contracting States to refrain from unilateral implementation of greenhouse gas emissions charges [prior to] the next regular session of the Assembly in 2007;
  - 5) *Requests* the Council to study the effectiveness of, and to develop further guidance on emissions levies related to local air quality by the next regular session of the Assembly in 2007, and *urges* Contracting States to actively participate and share information in this effort; and
  - 6) *Urges* Contracting States to ensure the highest practical level of consistency with ICAO policies and guidance on emissions levies related to local air quality;
- c) Emissions trading
- 1) *Endorses* the further development of an open emissions trading system for international aviation; and
  - 2) *Requests* the Council, in its further work on this subject, to focus on two approaches. Under one approach, ICAO would support the development of a voluntary trading system that interested Contracting States and international organizations might propose. Under the other approach, ICAO would provide guidance for use by Contracting States, as appropriate, to incorporate emissions from international aviation into Contracting States' emissions trading schemes consistent with the UNFCCC process. Under both approaches, the Council should ensure the guidelines for an open emissions trading system establish address the structural and legal basis for aviation's participation in an open emissions trading system, including key elements such as reporting, monitoring and compliance.

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