

Consultation on the policy options for market-based measures to reduce the climate change impact from international aviation

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This document has been prepared by the Commission services for consultation purposes. It is addressed to stakeholders and experts in the field of aviation or climate change with the objective of collecting experiences, suggestions and opinions related to international and EU policies tackling climate change impacts from international aviation emissions through market-based measures (MBMs). The consultation seeks input on questions concerning the problem to be tackled and policy options currently being developed at the International Civil Aviation Organisation (ICAO) and with respect to the EU's emissions trading system (EU ETS).

The importance of global action on aviation emissions

The aviation sector has a strong international character. Carbon dioxide (CO₂) emissions from international aviation are expected to grow by at least 250% from 2005 levels by 2050. A global approach to addressing these rapidly growing emissions would be the preferred and most effective way of reducing these emissions.

The international community reached a landmark climate agreement in Paris in December 2015, which affirms Parties' commitment to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C. The Paris Agreement requires all anthropogenic emission sources to be addressed to reach a global peaking of greenhouse gas emissions (GHG) as soon as possible and to undertake rapid reductions thereafter so as to achieve a balance between emissions by sources and removals by sinks in the second half of the century. This significant mitigation effort entails taking firm action on all emission sources, including aviation.

While acting through the EU ETS since 2008, the EU remains committed to seeking multilateral progress to address international aviation emissions. For more than 15 years, the EU has been involved in the discussions aimed at tackling aviation emissions through a global agreement. These discussions have been carried out under the United Nations, in particular at the ICAO.

The inclusion of aviation into the EU ETS

The EU action to address aviation emissions through a comprehensive approach includes facilitating and improving operational and technological developments. However, it is recognised that, faced with significant growth in air traffic worldwide, these measures alone will not be sufficient to achieve meaningful mitigation goals. Given that marginal abatement costs in the sector are generally high and the scope of technical measures available to slow the growth of emissions from aviation is limited, MBMs are a relatively low-cost and attractive choice for aviation. The EU ETS was the first market-based measure covering aviation, but other jurisdictions around the world (e.g. Republic of Korea, China (Shanghai)) are following a similar approach, and more may follow.

As reaffirmed by the [European Council in October 2014](#), the EU ETS is the cornerstone of the EU policy tools for reducing greenhouse gas emissions and thus will be one of the key policy instruments to deliver the EU's commitment for a 40% economy-wide reduction of GHG by 2030. EU ETS sets a mandatory cap on emissions from the sectors included. Companies within these sectors need to cover their emissions with allowances provided by governments for free or through auctioning. Participants can trade their allowances among each other. This facilitates cost effective emissions reductions.

The European Parliament and the Council adopted legislation that entered into force early 2009, making airlines liable for their emissions from 2012. The legislation applies to EU and non-EU airlines alike. Emissions from flights to and from Iceland, Liechtenstein and Norway (European Economic Area, EEA) are also covered. In this way the aviation sector contributes to the economy-wide emissions targets the EU has in place for 2020 and 2030. The EU ETS, thus, covers emissions from both domestic (within a country) and international (between two countries) flights.

ICAO is also working on the design of a global market-based measure (GMBM) to address emissions from international aviation. To support progress being made in the ICAO on its development of a GMBM, the EU introduced a temporary derogation from the application of the EU ETS compliance obligations for flights to and from countries outside the EEA (as well as flights to and from outermost regions). This is a temporary measure that will expire at the end of 2016. Any adjustment to the EU ETS thereafter will depend on progress made on the GMBM at the 2016 ICAO Assembly.

ICAO Global MBM scheme

ICAO Assemblies take place every 3 years and provide a forum through which the 191 Member States of the ICAO agree on the way forward in the form of Assembly Resolutions. At its last Assembly in 2013, ICAO Member States adopted Assembly Resolution A38-18. This Resolution decided that a GMBM to address international aviation emissions had to be developed for decision by the 39th Session of the Assembly, and requested the ICAO Council to finalise the work on it for its implementation from 2020.

It is widely recognised, including by ICAO, that despite progress achieved on aircraft technologies and operational improvements (the so called "basket of measures"), these alone may not deliver sufficient CO₂ emission reductions to achieve a meaningful mitigation outcome nor to meet the agreed target of keeping net CO₂ emissions from international aviation from 2020 at the same level (carbon neutral growth from 2020). For that reason there exists broad agreement on the necessity and desirability of market-based measures in order to achieve those goals. The aviation industry supports the role of market-based measures and the adoption of a single global MBM.

Following the agreement at the 38th Assembly, substantial work has been undertaken within ICAO through the so-called Environmental Advisory Group in order to assess and discuss the main design options for the GMBM on the basis of an offsetting scheme; in parallel, the ICAO's Committee on Aviation Environmental Protection has developed recommendations containing the essential technical rules needed for the implementation of the GMBM, namely as regards monitoring, reporting and verification of emissions and criteria for the eligibility of emission units.

In September 2016, ICAO Member States will convene for the 39th ICAO Assembly in Montreal. The EU expects this session of the Assembly to adopt the key design elements of a GMBM that allows the ICAO goal of stabilising net CO₂ emissions from international aviation at 2020 levels to be met and to establish a clear roadmap for an effective implementation from 2020.

ETS review

The experience in the EU with the ETS shows that market-based measures can be effectively designed and implemented to address aviation emissions. Under the EU ETS, companies from European and third countries are annually monitoring and reporting CO₂ emissions from their intra-European activity and surrendering the corresponding allowances to comply with the system. Compliance rates are currently above 99.6% of emissions covered by the ETS, and its mitigation impact under the current scope is estimated at 16 million CO₂ tonnes per year.

The scope of the EU ETS in the period after 2016 is linked to the development and adoption of a GMBM by ICAO. According to Article 28a of the ETS Directive the Commission shall inform the European Parliament and the Council of the progress made in the ICAO negotiations. In particular, the Article states that, "following the 2016 ICAO Assembly, the Commission shall report to the European Parliament and to the Council on actions to implement an international agreement on a global market-based measure from 2020, that will reduce greenhouse gas emissions from aviation in a non-discriminatory manner". As this provision also states, in its report, the Commission shall "consider, and, if appropriate, include proposals in reaction to, those developments on the appropriate scope for coverage of emissions from activity to and from aerodromes located in countries outside the EEA from 1 January 2017 onwards".

It is important to recall that in the absence of an amendment being adopted by the European Parliament and the Council, the EU ETS reverts to its original scope once the temporary derogation established by Article 28a of the Directive ceases to apply (end of 2016).

General information about respondents

*In what capacity are you completing this questionnaire?

- As an individual / private person
- Public authority
- Academic/research institution
- International organisation
- Civil society organisation
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- Other

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Questions for consultation

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?

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Emission reductions should be driven at both ICAO & EU level. Aviation should pay for all external costs, not just those above 2020 levels. In-sector reductions have to be promoted, e.g. by incentivising technology & operations improvements. ICAO's CO2 standard contributes nothing towards this and has perverse effects. The EU should fix or abolish. As well as ending fuel tax & state aid subsidies, demand management, VAT & ticket taxes should be introduced. Routes between developed countries should have more ambitious reduction goals. Increase ambition over time in line with the 1.5° Paris goal. EU measures should rely on domestic reductions, not on international credits which in ICAO must comply with strict quality criteria in line with the SDGs & the Paris commitment to no double-counting. EU should reject US/ICAO's attempts to constrain ambitious policies at state/regional level. Aviation will continue to drive climate change; the sector must contribute to climate finance.

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

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The Assembly Resolution must deliver an environmentally effective GMBM, i.e. true Carbon Neutral Growth 2020 (CNG2020) from 2021. A large emissions gap as at present is a showstopper. EU must ensure developed states/airlines MUST do more. It should set strict and mandatory criteria for emission units that comply with common social and environmental standards. All credits that are listed as lacking environmental integrity should be excluded. ICAO must commit to strengthen measures beyond CNG2020 at each review and encourage ambitious states to go further. An early MRV start is imperative. To avoid double-counting, stringent and environmentally sound accounting and MRV rules for alternative fuels and offset credits, linked to UNFCCC accounting rules, should be put in place. ICSA developed an exhaustive checklist to ensure an effective GMBM. ICAO needs to start work on non-CO2 emissions.

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?

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The GMBM should be a floor for ambition, not a ceiling. States, as a group or on a bilateral basis, should be empowered and encouraged to use the GMBM to increase ambition through e.g. discounting, including non-CO2 emissions, increasing ambition on route groupings such as the Atlantic. A single global MRV provides administrative simplicity for operators, but the environmental integrity of the MRV needs to be high, otherwise states will deviate. ICAO and UNFCCC registries should be coupled to avoid double-counting. Nothing in the Assembly Resolution should prohibit states to implement more ambitious measures (such as addressing non-CO2 emissions, addressing emissions below CNG2020, stricter standards). All Annex I countries, especially the USA, should make domestic aviation cuts in line with Paris. Parallel policies should be applied as appropriate, such as taxation, phase outs, technological standards, operational measures, etc.

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

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Combined ICAO & EU action should ensure a fair contribution to the 1.5° limit. Since early action is crucial, all aviation emissions from/to Europe should be covered. Stop the Clock is prejudicial. The Directive says that emissions from international flights to/from the EU should be fully covered from 2017 onwards. The combination of ICAO & EU measures must meet the EU 2030 reduction goal. Therefore, the share of emissions to be covered by the EU ETS from 2020 should be determined after the 2019 ICAO Assembly. The EU ETS must fill the ambition gap between the EU 2030 goal and the ICAO target, taking into account whether the ICAO ambition will be increased prior to 2030, as well as any gap in environmental integrity between EU ETS allowances and ICAO international credits. The EU should ensure a level playing field between transport modes in the single market. As other EU sectors cannot use international credits for ETS compliance, this option should not be accepted for aviation.

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

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Regulation 421/2014 stipulates that from January 1 2017, the EU ETS should cover all emissions from international flights from or to the EU. In the absence of other emissions trading systems for international aviation, other equivalent measures, or certainly if ICAO's ambition falls short - as things currently stand is surely will - , this provision should remain untouched. Early action is essential. Stop the Clock has already given ICAO 5 years.

Which options should be considered beyond 2020?

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The scope (routes) covered by the EU ETS should depend on a review of ICAO GMBM ambition and on measures implemented by other countries. EU ambition must achieve the 2030 -40% objective taking into account what ICAO does. Since the ETS has proven to be an effective method of reducing emissions, the intra-EU aviation ETS must be retained. The cap must be consistent with the 2030 goal and be subject to the common linear reduction factor. All allowances should be auctioned. Non-CO2 can be addressed through a multiplier or by levying a charge. The EU ETS should address all emissions of inbound and outbound flights that are not covered by the ICAO GMBM to ensure Paris-level ambition. International allowances and offsets should not be used for compliance with the EU ETS. Appropriate measures should be put in place to avoid double-counting. Since fuel tax & VAT exemptions and airport subsidies work at cross purposes to the ETS, they must be abolished.

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.)?

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The EU ETS should exclude international offsets in order to avoid market distortions. The EU should aim for a single MRV aligning ICAO and EU requirements provided no loss of environmental integrity. Free allowances should no longer play a role within the EU aviation ETS since there is no carbon leakage. The aviation cap should be reduced in line with the Paris Agreement ambition. Stop the Clock has given ICAO 5 years and since no GMBM is currently in place, the EU ETS should revert to its full scope in 2017 as part of pre-2020 ambition required by the Paris Agreement.

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?

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Small non-commercial aircraft operators could continue to be exempted from the EU ETS since fuel taxation and VAT are more effective measures and should be implemented. For small non-commercial aircraft there are fewer or no legal barriers to such policies.

Submit any other comments you may have.

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The ICAO CO2 standard fails to reduce in-sector emissions. Reform it immediately or reject & replace by EU phase-outs. EU tolerance of ICAO's lack of transparency breaches Aarhus. The EU must reform ICAO and accept its sovereign responsibility to reduce EU departing flight emissions. Outsourcing EU aviation climate policy to Airbus and ICAO betrays EU's Paris commitments. EU should develop complementary policies to reduce emissions, eg, a fuel tax, VAT & ticket taxes, improved efficiency standards. An ETS with 85% free allowances combined with the fuel tax & VAT exemptions, while charging busses & trains and thus distorting competition, is simply self-defeating. MS and EC Vice-Presidents must take responsibility for these failures and start to address aviation in a joined up way, not via silos where Directorates abrogate joint responsibility for addressing cross-cutting questions such as fuel tax, VAT or state aid scandals. Non-CO2 emissions must be taken seriously & measures prepared.

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