



Aviation Global Deal Group

Contribution to a sectoral approach

UNFCCC, Bonn

09 June 2009

Agenda

- Observations on aviation & climate change: Erik Haites
- Introduction to the Aviation Global Deal Group
- ICAO & GIACC
- Overview of the AGD proposal
- Scenarios for international aviation emissions targets
- Recommendations
- Discussion, questions, feedback



Introduction to the Aviation Global Deal (AGD) Group

Members of AGD Group



- Established in the second half of 2008, publicly launched in February 2009 in Hong Kong
- Small and effective working group

Objectives of the AGD Group

- Demonstrate that airlines are prepared to engage
- Input to designing a global sectoral approach based on industry's needs
- Avoid poor policy design, layering & patchwork of instruments around the world
- Support industry dialogue on emissions management, specifically through ICAO and IATA
- Develop a policy proposal as contribution to debate

Assumptions of the AGD Group

- Aviation's role in socio-economic development must be balanced with its contribution to climate change
- Environmental costs should be “internalised”
- Despite industry focus on efficiency, future growth means absolute emissions will continue to grow
- As well as technological and operational efforts, economic measures will be needed
- Aviation's emissions can only increase if other industries' emissions reduce

ICAO & GIACC

ICAO

- United Nations designated ICAO as the appropriate body to address international aviation emissions
- International aviation emissions not included in emissions inventories under Kyoto Protocol
- ICAO assessed taxes charges and emissions trading, but no political agreement on policy introduction
- September 2007: ICAO created Group on International Aviation and Climate Change (GIACC)

ICAO GIACC

- GIACC mandated to develop and recommend to the ICAO Council a strategy prior to COP15
- Action plan announced 04 June 2009
- Global aspirational goal of 2% annual fuel efficiency improvement
- Process to develop a framework for market-based measures in international aviation
- Agreement that GIACC decisions should not prejudice outcome of UNFCCC negotiations



Overview of the AGD Proposal

AGD Principles (1)

- Environmental integrity
 - Provides positive net effect on environment and avoids carbon leakage
- A global policy
 - Aviation sector treated as indivisible total, avoiding distortion and conflicting policy
- Non-duplicative policy
 - Sectoral approach replaces existing policy measures such as EU ETS
- Continued competitiveness between airlines
 - Airlines must face equal treatment in all markets

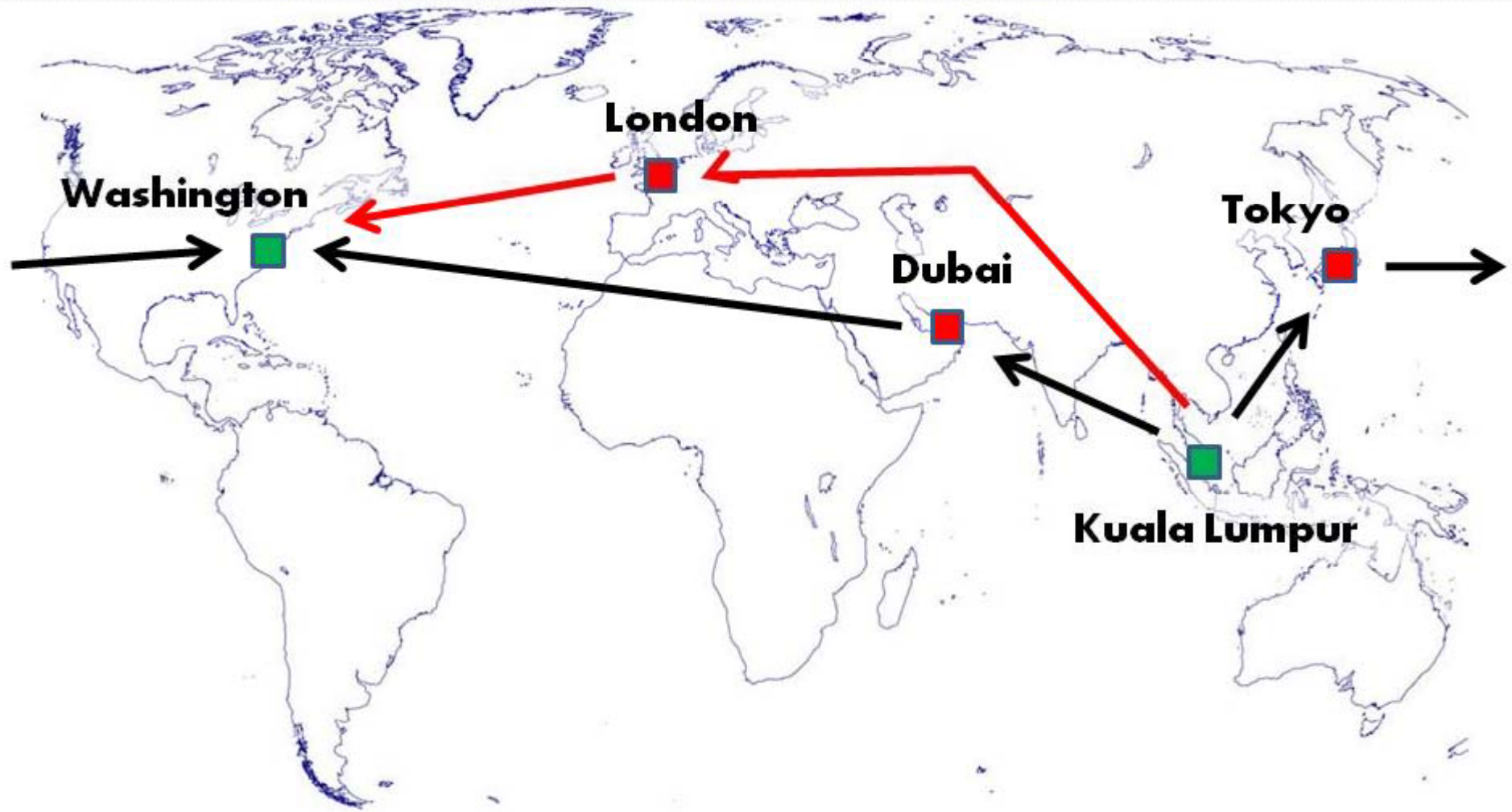
AGD Principles (2)

- Equity between countries
 - Reflecting “common but differentiated responsibilities”
- Cost-effective economic measures
 - Open access to carbon markets through trading system
- Revenue hypothecation
 - To environmental activities, not treated as general revenue by national governments
- Scientifically based
 - CO₂ emissions initially whilst science on aircraft non-CO₂ effects develops

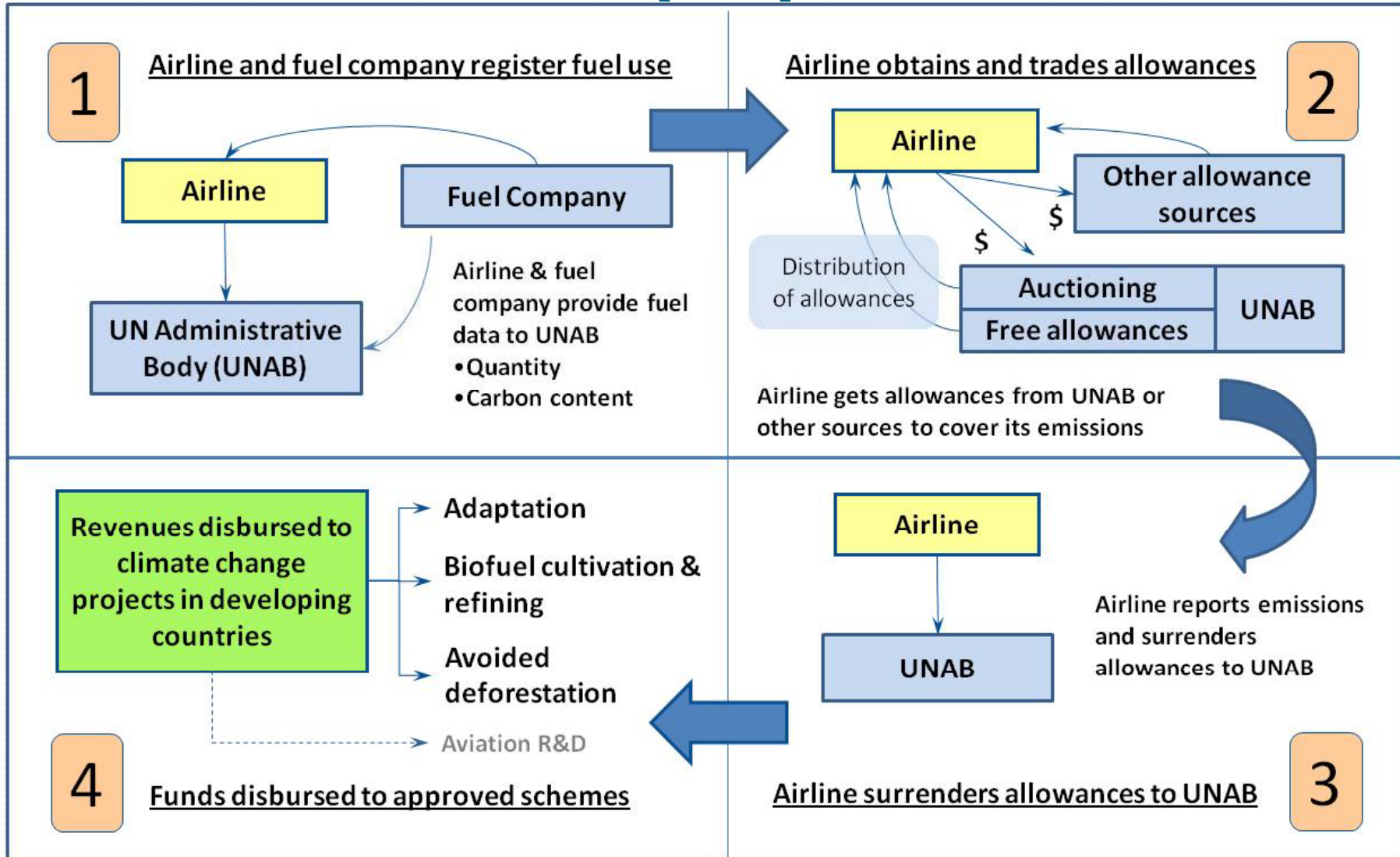
Competitiveness principle

- Airlines must face equal treatment and equal exposure to environmental compliance
- In most air transport markets, journey can be made from origin to destination by a range of routings
- When climate policy applied to some, but not all, flight stages, competitive distortion occurs
- Climate change policy must be **equal in any given origin-destination market** regardless of routing, intermediate journey points or operator nationality

Example of origin-destination market



Schematic of AGD proposal



Open emissions trading

- ICAO has endorsed emissions trading as the most cost-effective instrument
- Taxes, levies and charges offer significantly less environmental benefit
- Aviation has high mitigation costs
- The atmosphere has no preference where emissions cuts are from or how costly they are
- Our objective must be to reduce emissions at least cost to global society

Airline obligations

- Airlines required to surrender allowances
 - In proportion to fuel purchased
 - Taking into account lifecycle carbon footprint of biofuels
- Acquisition of allowances:
 - Free allocation from UNAB based on benchmarking
 - Auction of allowances by UNAB
 - UNFCCC-compliant trading systems such as EU ETS
 - Flexibility mechanism credits such as CDM
 - Deforestation (REDD) credits as these markets develop

Hypothecation of auction revenues

- Central UN Administrative Body
 - New legal entity for credit assignment and compliance
 - Disbursement of funds (potentially UNFCCC role)
- Funds finance environmental projects in developing countries (to address CBDR)
- UN-approved, clearly defined and transparent projects:
 - Adaptation
 - Seed funding for sustainable biofuel feedstock cultivation
 - Avoided deforestation initiatives
 - Contestable fund for innovative low carbon technology in aviation

Summary of AGD Proposal

- Aviation treated as 'separate country'
- ICAO, UNFCCC set binding CO₂ targets 2013-2020
- UN Body allocates allowances to all airlines through benchmarking and auctioning
- Airlines submit allowances in proportion to carbon content of fuel purchased
- System is fully linked to global carbon markets
- Auction revenues collected by UN and used for climate initiatives in developing countries - CBDR



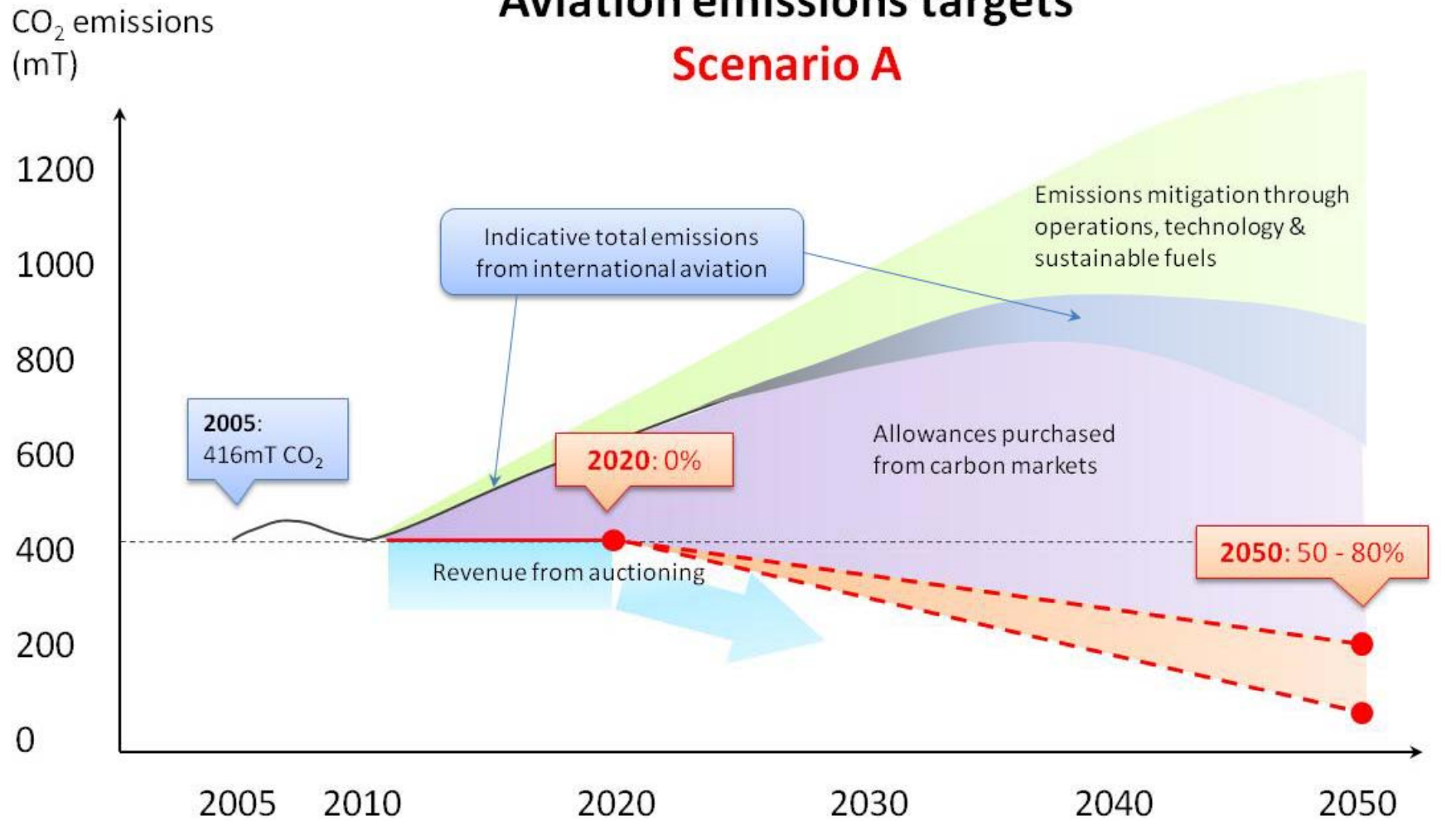
Scenarios for international aviation emissions targets

Sectoral emissions targets

- ICAO would propose to UNFCCC a global net emissions reduction target for international aviation
- Indicative scenarios chosen by AGD to represent different views about targets
- Scenarios represent 0% growth, 5% reduction and 20% reduction in net emissions by 2020 relative to 2005
- Average annual auctioning revenues are illustrated for 10, 20 and 30% auctioning

Aviation emissions targets

Scenario A



Auctioning	\$bn*
10%	1.7
20%	3.3
30%	5.0

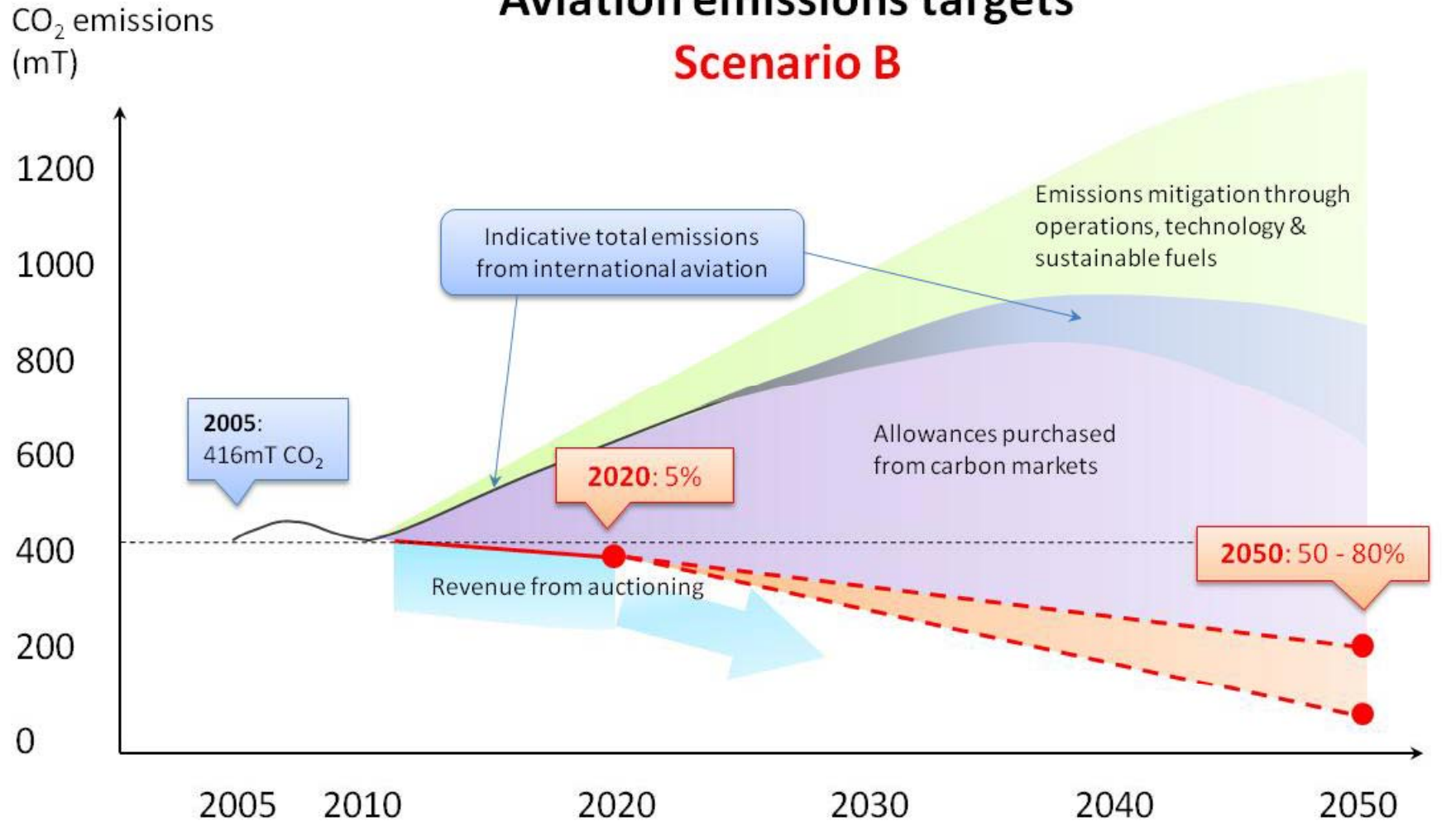
Net emissions at 2005 levels by 2020

Long term target, 50-80% net emissions reduction by 2050

* Average annual revenue from auctioning 10, 20 and 30 per cent of allowances in billions of US dollars for the period 2013 - 2020. Allowance price assumed to be \$40 USD per tonne of CO₂

Aviation emissions targets

Scenario B



Auctioning	\$bn*
10%	1.6
20%	3.2
30%	4.9

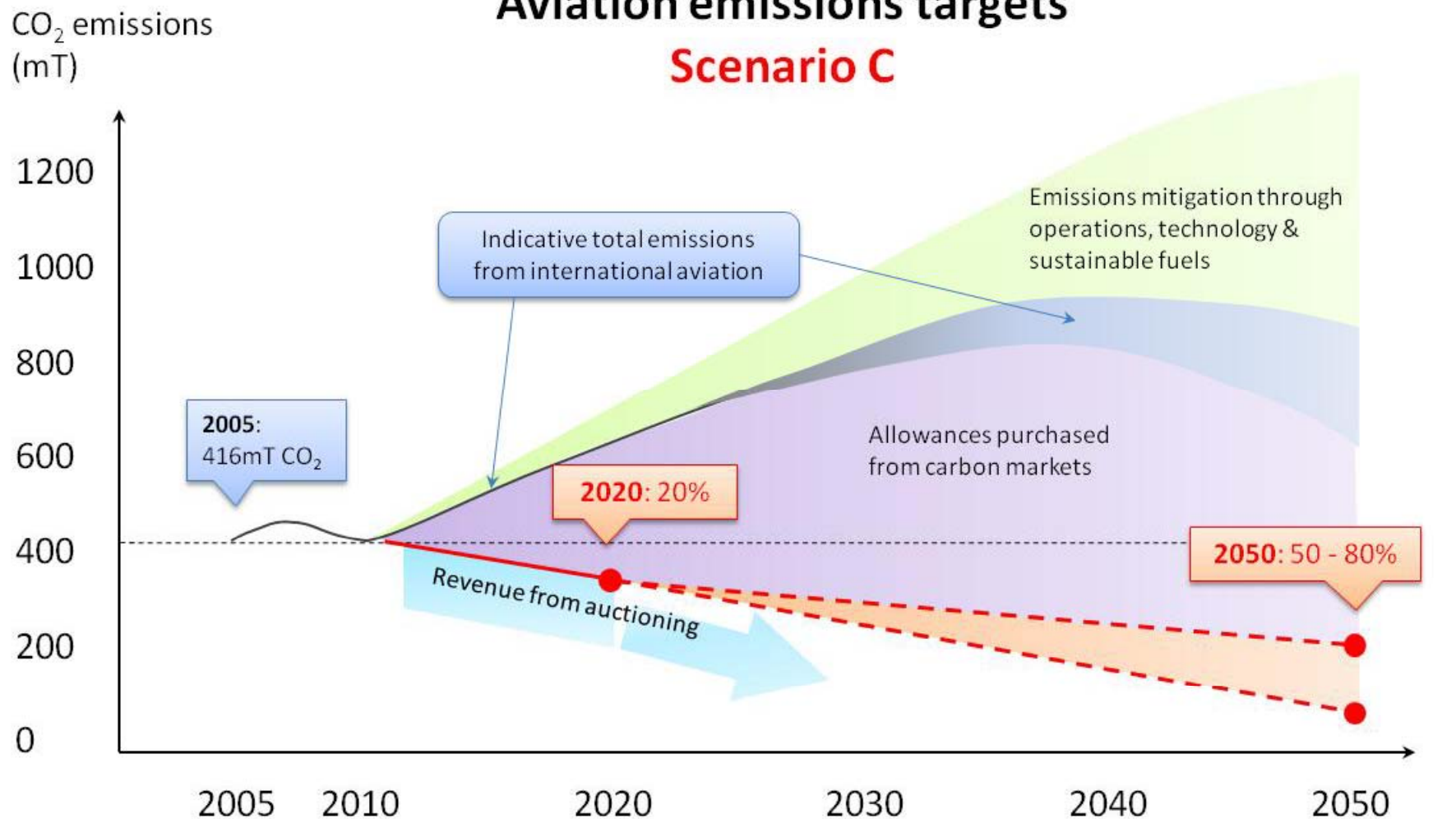
5% net emissions reduction by 2020 compared to 2005

Long term target, 50-80% net emissions reduction by 2050

* Average annual revenue from auctioning 10, 20 and 30 per cent of allowances in billions of US dollars for the period 2013 - 2020. Allowance price assumed to be \$40 USD per tonne of CO₂

Aviation emissions targets

Scenario C



Auctioning	\$bn*
10%	1.5
20%	3.0
30%	4.5

20% net emissions reduction by 2020 compared to 2005

Long term target, 50-80% net emissions reduction by 2050

* Average annual revenue from auctioning 10, 20 and 30 per cent of allowances in billions of US dollars for the period 2013 - 2020. Allowance price assumed to be \$40 USD per tonne of CO₂

Scenario summary

- Absolute emissions from international aviation projected to rise into the medium term
- Targets reduce net emissions to 2005 levels or below by 2020 and 50-80% below by 2050
- Regardless of the target level, aviation will create demand for extra allowances from carbon markets
- Revenues from auctioning of up to USD\$5 billion per annum could be generated to support climate activities in developing countries

Recommendations

Copenhagen Mandate

- Countries should agree to text at Copenhagen mandating need for global sectoral solution
 - Treats all airlines equally
 - Sets an emissions target for the sector
 - Requests all Parties to work through ICAO to develop and implement an agreement that is operating from January 2013

Possible formulation

- “Parties request that ICAO develop and present to the COP no later than COP16 a proposal for a global sectoral agreement for aviation bunkers, which ensures net CO2 emissions ... are [limited to 2005 levels from 2013 to 2020] [reduced to 5% below 2005 levels by 2020] [reduce to 20% below 2005 levels by 2020]. The agreement should ensure equal treatment of all airlines and should not lead to competitive distortions or carbon leakage.”

Key policy requirements

- Equal treatment of all airlines
- Cost-effective open emissions trading
- Full hypothecation of auctioned revenue to appropriate and transparent funds
- Continued development of broad and deep global carbon market
- Creation of new responsibilities for administering international aviation

Thank you



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