



## INTERNAL INDUSTRY BRIEFING

# GLADs 2016 #5: MEXICO CITY and WRAP-UP

The International Civil Aviation Organization (ICAO) is running a series of Global Aviation Dialogues (GLADs) as part of its outreach to member states on the process to develop a global market-based measure (GMBM) set to be agreed at the 2016 ICAO Assembly. The second round of GLADs is taking place across the ICAO regions in Cairo, Dakar, Denpasar, Utrecht and Mexico City throughout March and April 2016.

The Mexico City GLAD was well attended with over 100 participants from Argentina, Mexico, Nicaragua, Trinidad and Tobago, Chile, Brazil and Jamaica joined from outside the region by representatives of the United Kingdom, United States, Netherlands, Canada, France, Norway and Singapore.

A number of intergovernmental and non-governmental organisations participated including ATAG, IATA, COCESNA, ICASA, IBAC, ACL, CASSOS, IETA, ICCAIA and the World Bank.

At the Mexico City GLAD, there was little overt questioning on the intent or merit for developing an MBM. Interventions were generally supportive, similar to those voice in the earlier GLADs, although there were some isolated expressions of concern, particularly from some of the larger Latin American States during the final panel discussion.

- » All documents are available on the ICAO website: [www.icao.int/Meetings/GLADs-2016/Pages/default.aspx](http://www.icao.int/Meetings/GLADs-2016/Pages/default.aspx)

### THE PRESIDENT'S PROPOSAL

There was a divergence in the general understanding of different components

of the President's proposal which was not surprising given the wide range of States involved in this GLAD, ranging from the extremely active, to those States that have been observing from the sidelines. It is clear that the process and language used in the President's proposal would benefit from clearer and more precise explanations, particularly for the benefit of States that have not been directly involved so far.

There were some specific concerns raised which included the coverage of the scheme. There was one suggestion from the audience that in phase one (2021-2026), only 60% of CO<sub>2</sub> emissions would be covered. ICAO acknowledged that coverage initially would be less than 100% but stated it is likely to be 70%-80% in phase one (and over 90% in phase two) which is a lower figure than stated in the previous GLADs. Some further quantitative support from ICAO concerning the RTK criteria would be beneficial in verifying this.

Similar questions concerned the environmental integrity and the degree to which the MBM could achieve carbon neutral growth.

Like previous GLADs, some countries expressed support for emission

reduction projects to come from developing states. This should be considered subject to an overarching theme explored by states and operators in all sessions that emission units available to operators should be cost-effective as a priority.

Some views in the audience highlighted the importance of ensuring that no double counting can occur from emission units and the need for third party auditing on fuel / emission reporting, in particular for the breakdown by route.

### SMALL GROUP BREAKOUTS

The group breakout sessions delivered nothing too surprising, with key themes being similar to previous GLADs. There was general agreement that an offset-based system contributes to simplicity. The relationship between cost-effectiveness and environmental integrity was raised with some participants emphasising that the scheme should cover as close to 100% of emissions while not putting an undue burden on operators. There was a suggestion from one State, which was picked up by others, that all States should be covered by the scheme with the possibility to 'opt out'. Another



suggestion is that there should be a cost limitation to operators of no more than 1% of income.

Most groups felt that 100% sectoral rate used in the proposal is conceptually simple although some raised the ‘free rider’ problem whereby individual operators may be less incentivised to decrease their own emissions and highlighting the fact that not all operators in developing States are fast growers. It was also suggested from some quarters that the administrative burden is similar under the 100% sectoral and the 50:50 sectoral / individual approach.

In the discussion on implementation, nearly all groups identified the same primary roles for the different actors in the sector and the preferences for sources of offset credits remained similar to previous GLADs. There was unanimous support for operators to be able to access the most cost effective credits (subject, of course, to their meeting defined quality criteria) and also for credits from developing and least developed economies.

Some States, including major aviation States, indicated they have existing experience with registries, while all other States requested technical and financial support for the development and implementation of an MRV scheme. Some States suggested that IATA could facilitate the establishment of a registry function as the next logical step, in addition to the data collection function.

### FINAL PANEL SESSION

While the final panel session did not challenge the merit for the development of a GMBM, it did raise some matters for clarification. Some developing States were interested in what the determination process was for the phase one and phase two criteria and whether GNI-per-capita is the most appropriate economic filter.

Pleasingly, ICSA were encouraging about the overall process and endorsed the positive spirit from industry as the importance of robust MRV systems. That said, some concern was expressed about the paragraph 7 formula suggesting it would exempt over a third of CO<sub>2</sub> emissions that would otherwise be covered in the first five years.

The NGO community reinforced their view that the phase in should not sacrifice environmental integrity and they appear to favour the idea that all States should be invited to participate, with potential exemptions granted. They also suggested that the review mechanism should be something that can both assess unintended negative aspects of the scheme, but also bring the MBM in line with the goals of the Paris agreement.

The industry, represented by Michael Gill, reinforced the big picture theme of the GMBM, namely the importance of a cost-effective scheme that will offer a license for continued growth and advocated the importance of reaching a global agreement at the ICAO Assembly.

Concerning carbon markets, the IETA representative emphasised the importance of clear unambiguous signals from the aviation industry to ensure the markets can respond appropriately by 2021.

Finally, there was a clear call from less developed States represented on the panel for technical and financial capacity building for both MRV and development of registries in countries. Some State representatives suggested that regional groups of countries could help each other with common systems or even a central ICAO registry could be sufficient. And there were again suggestions that IATA may have a role to play in the monitoring, reporting and verification of emissions (as well as the registry process).

## OVERALL OBSERVATIONS FROM THE 2016 GLADS

The second round of GLADs were an important step in the process of development of the global offsetting scheme, enabling industry to contribute to the dialogue and ICAO to obtain feedback from States that have not taken part in the discussions thus far. Many of the industry’s views on the substantive aspects of the proposed scheme were indeed shared by State representatives.

It is clear that the key political issues which still need to be resolved relate to the exact details of the phased in implementation of the scheme; and the distribution of offsetting obligations between operators. These will likely be guided by considerations of SCRC and CDBR and we will need to see how the high level meeting plays out in this regard. Also of key note is the need to help some of the larger developing nations find a way to play their role in any global offsetting scheme – we need to balance environmental integrity with minimising market distortion.

Whilst the attendance at the GLADs was reasonable, concerns must remain over the positions of those States who were not able to attend but will have an important voice at the ICAO Assembly. Further outreach in the coming months will be a vital component of any agreement and as an industry, we should review our plans in the light of the GLADs and high level meetings.

However, it was encouraging that this year’s GLADs included State representatives from foreign affairs and environment ministries, in addition to colleagues from transport and civil aviation authorities.

The need for training, capacity building and implementation mechanisms for States and operators remains a key priority, especially as we look beyond 2016 and the first stage of the scheme. This is an area in which industry should continue to focus and assist ICAO as they plan the implementation from the government side.

*We would like to thank colleagues who joined the industry delegation. It is vital to have their support as we represent the industry position and help government understanding of the importance of a well-designed and truly global MBM.*