International Civil Aviation Organization

HLM-GMBM-WP/12
6/05/16
English only

WORKING PAPER

HIGH-LEVEL MEETING ON A GLOBAL MARKET-BASED MEASURE SCHEME

Montréal, 11 to 13 May 2016

Agenda Item 1: Review of Draft Assembly Resolution text on a global MBM scheme for International Aviation

COMMENTS ON THE COST IMPACT OF THE PROPOSED GLOBAL MARKET-BASED MEASURE (GMBM)

(Presented by the International Air Transport Association)

EXECUTIVE SUMMARY

This paper sets out IATA's comments on the cost impact of the proposed GMBM.

Action by the HLM-GMBM is in paragraph 3.

1. INTRODUCTION

1.1 In 2009, the aviation industry set three global goals to address its climate impact:

— a short-term efficiency improvement goal of 1.5% per annum;

— a mid-term goal to stabilise net CO_2 emissions at the 2020 level through carbon-neutral growth; and

— a long-term goal to halve aviation CO_2 emissions by 2050 when compared with 2005 levels.

It is in respect of the second of these goals where a global offsetting scheme has a fundamental role to play.

1.2 A global carbon offsetting scheme for international aviation is intended to be a complementary and temporary emissions gap-filler in addition to the basket of measures available to the sector. It is not intended to replace efforts to improve fuel efficiency through new technology and improved operational and infrastructure measures. Nor would the scheme make fuel efficiency any less of a day-to-day priority for operators.

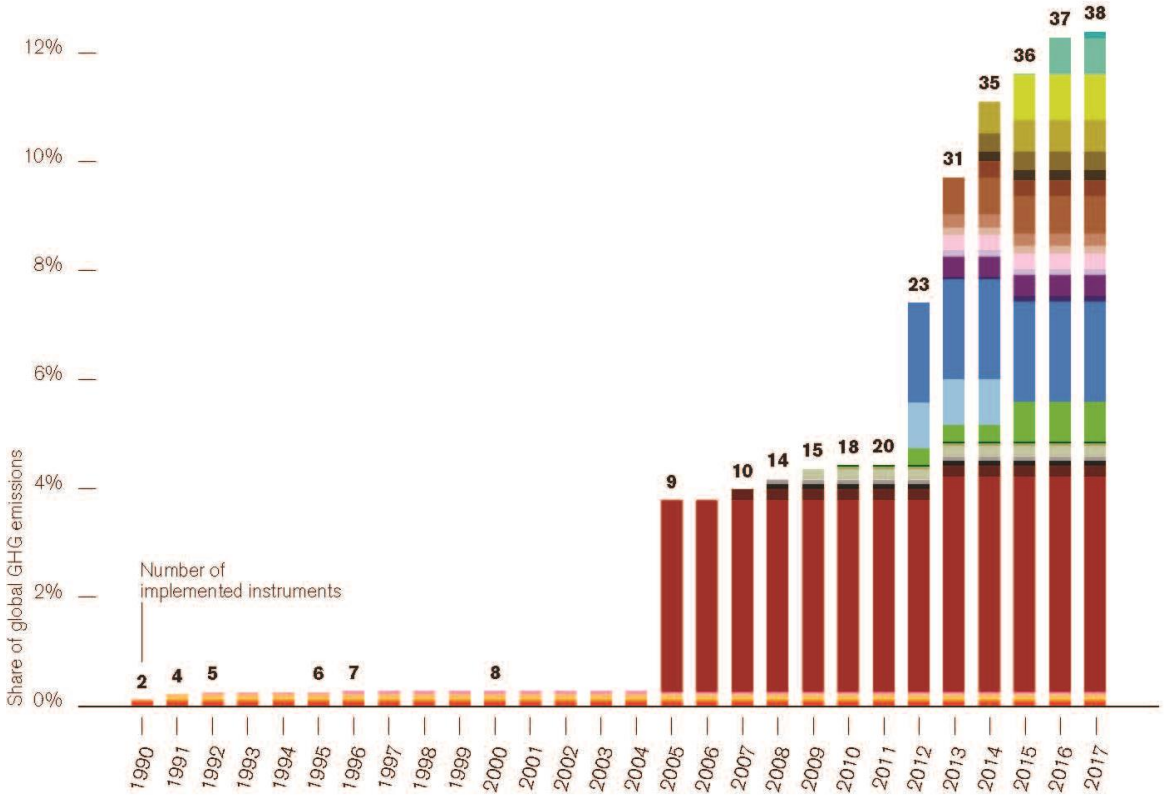
1.3 There are, understandably, questions around the cost impact of the current policy proposal to the economy at large and the potential effect this may have on air connectivity. Thorough analysis by CAEP and by the industry, has shown that a single, global carbon offsetting scheme would provide a cost-effective option for a market based measure for the sector with low impact on the economy at large.

1.4 On the other hand, the absence of such a globally-agreed mechanism will lead to a costly and complex patchwork of national and regional policy measures. This would have a much more significant impact on economic development than the GMBM by reducing connectivity, trade and tourism.

2. DISCUSSION

2.1 The safe, orderly and efficient functioning of today's air transport system relies on a high degree of uniformity in regulations, standards and procedures. The use of unilateral measures, particular economic measures, undermines this foundation, particularly when associated with economic measures. Particular attention needs to be given to avoid duplication with existing measures, or the layering of measures within a State or a group of States.

2.2 There has been a marked increase in the number of carbon pricing instruments, such as CO_2 taxes or emissions trading schemes, applied around the world in recent years, as illustrated below by the World Bank analysis[1]:



[1] Source : World Bank Group, State and Trends of Carbon Pricing 2015

2.3 A similar proliferation of carbon pricing instruments specifically on aviation would result in an unsustainable patchwork of measures for operators and for governments. Indeed, there are strong indications that a number of States around the world have considered the adoption of economic measures in this area and the International Monetary Fund has specifically called for a tax on CO_2 on aviation and shipping.

2.4 In our view, there is a significant risk that policy-makers will use the absence of agreement in ICAO as a justification for the introduction of unilateral measures. In the same way, a scheme under ICAO, implemented on a voluntary rather than a mandatory basis could have the same result.

2.5 It is on this basis that industry broadly supports the proposal set out in the Appendix to HLM-GMBM-WP/2 to implement a global offsetting scheme as the single, mandatory market based measure to address aviation's CO_2 emissions. A single mechanism will obviate the need for existing and new economic measures to be applied to international aviation emissions on a regional or national basis.

2.6 We believe that if the ICAO GMBM, in the broad form proposed in HLM-GMBM-WP/2 is the sole, global measure to address CO_2 emissions from international aviation, the costs for the industry, whilst significant, would be more manageable.

2.7 At an industry level, according to the CAEP analysis,2 a global, mandatory offsetting scheme would cost a total of between USD 2.2 billion and USD 6.2 billion in 2025. This would increase to between USD 8.9 billion and 23.9 billion in 2035. Depending on the assumptions and year of reference, this means that operators would be able to achieve the 2020 Carbon Neutral Growth goal and pay on average between USD 2.66 and 18.82 per ton of CO_2 emitted.

2.8 The airline industry has been able to manage similar global increases in operating costs in the past, with minimal impact on traffic growth. In contrast, increases in costs on a national or regional level are more difficult for the industry to adapt to because of the potential market distortions that they create. Again, this underlines the need for a global offsetting scheme instead of national or regional measures.

2.9 In order to illustrate the magnitude of the impact of the proposed GMBM at an individual flight level, we have set out in Appendix A below, some indicative examples of the estimated cost in 2030 of the GMBM per flight on certain selected routes. For the purposes of comparison, the cost of fuel and airport charges is indicated, along with a comparison with a USD 10 per barrel oil price increase on the same routes.

2.10 The examples in Appendix A are provided for illustrative purposes only and an individual operator would of course be free to decide whether or not to pass on such cost to its own passengers and freight customers.

3. ACTION BY THE HLM-GMBM

3.1 The HLM-GMBM is invited to consider the below analysis.

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[2] *See EAG/15, 20-21 January 2016 – Presentation of Results of Technical Analysis by CAEP, pp3-5.*

APPENDIX

	Cost per flight				
	CNG 2020 GMBM		Fuel	Impact of $10 per barrel fuel price increase	Total airport charges
	Low estimate [2]	High estimate [2]			
London-Beijing A380-800 4415 nm 515 passengers 121t of fuel	$ 1,740	$ 4,523	$ 43,560	$9,658	$ 28,639
Santiago–Miami B787-800 3578 nm 200 passengers 49t of fuel	$ 704	$ 1,832	$ 17,640	$3,911	$ 11,565
Dubai-Delhi B777-300ER 1181 nm 360 passengers 23t of fuel	$ 331	$ 860	$ 8,280	$1,836	$12,593
Singapore-Denpasar A320 901 nm 150 passengers 6t of fuel	$ 86	$ 224	$ 2,160	$479	$ 3,612
Moscow–New York A330/B777 4050nm 267 passengers 40t of fuel	$366	$804	$14,400	$3,193	$11,205
Johannesburg-Frankfurt A340/A380/B747 4675nm 303 passengers 81t of fuel	$658	$1447	$29,160	$ 6,465	$16,692

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