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Aviation Update

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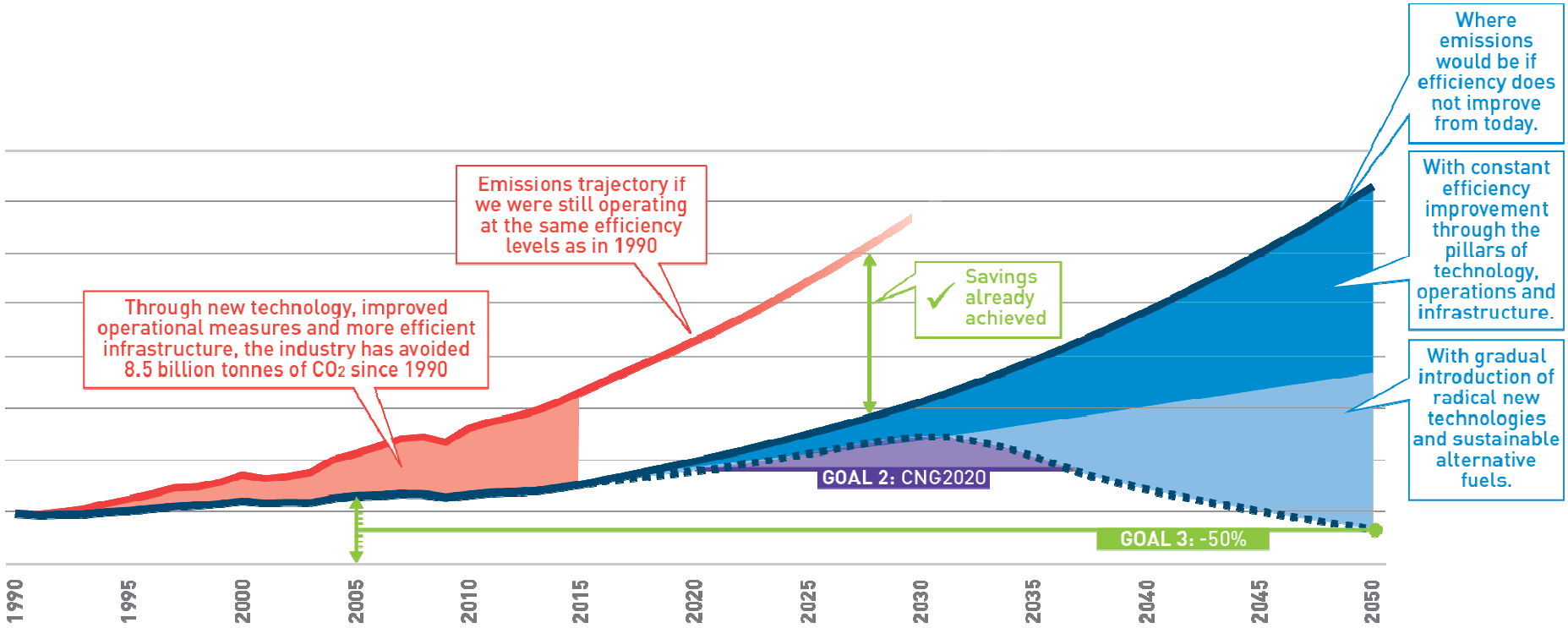
Aviation update

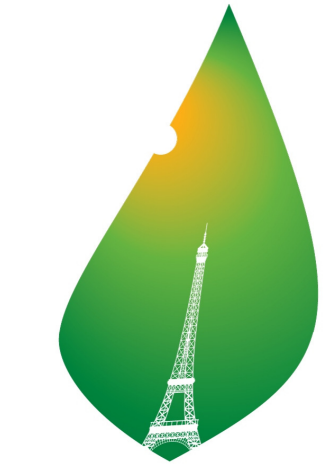
- Historic decision by 39th ICAO Assembly on 6 October 2016
- Culmination of several years collaborative action by States, industry and civil society
- Ensures aviation industry can continue to grow sustainably

Tackling the climate challenge

MARKET-BASED MEASURE



Paris Agreement provided momentum to ICAO discussions



- Paris Agreement expected to enter into force from 2020
- Based on 'bottom-up' principle through INDCs
- Secures use of market instruments for climate action
- Leaves aviation and shipping out – to be progressed through ICAO and IMO

Aviation's global market-based measure has been agreed

CORSIA
CARBON OFFSETTING AND REDUCTION SCHEME FOR INTERNATIONAL AVIATION

Historic decision at ICAO Assembly

Nearly all 191 ICAO States supported 'CORSIA'

Industry was instrumental in agreement

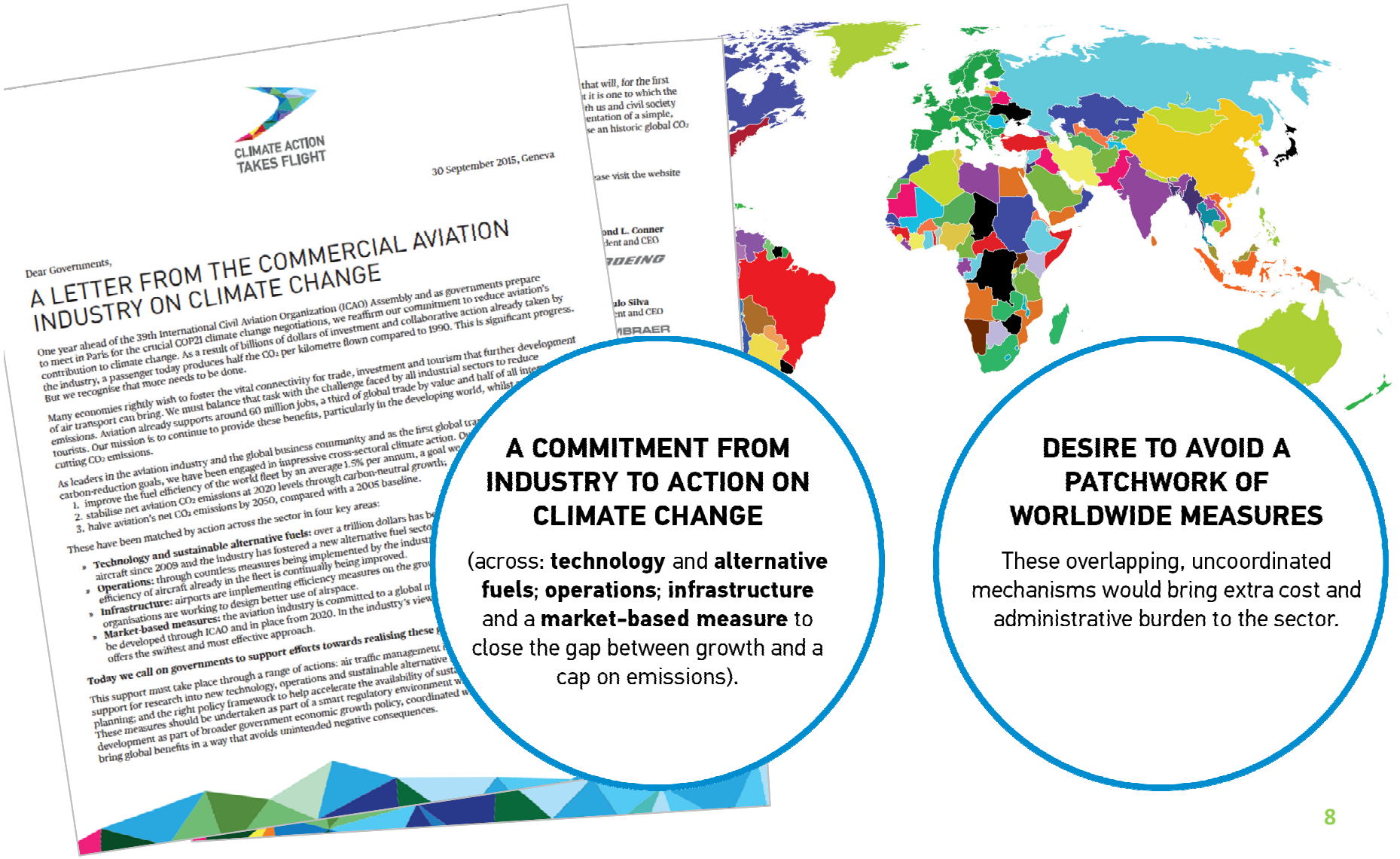
Seven years since industry set goals and started pushing for a global MBM

Aviation's global market-based measure has been agreed

CORSIA
CARBON OFFSETTING AND REDUCTION SCHEME FOR INTERNATIONAL AVIATION

- Addresses increase in CO2 emissions from international civil aviation above 2020 levels
- The market-based measure applying to CO2 emissions from international aviation
- Complements a broader package of measures to achieve CNG2020
- Phased-implementation to address principles of Common but Differentiated Responsibilities (CBDR) and Special Circumstances and Respective Capabilities (SCRC)

Why did the industry support such action?



A COMMITMENT FROM INDUSTRY TO ACTION ON CLIMATE CHANGE

(across: **technology** and **alternative fuels**; **operations**; **infrastructure** and a **market-based measure** to close the gap between growth and a cap on emissions).

DESIRE TO AVOID A PATCHWORK OF WORLDWIDE MEASURES

These overlapping, uncoordinated mechanisms would bring extra cost and administrative burden to the sector.

ICAO had considered three MBM options

Global levy

Global emissions trading scheme

Global offsetting

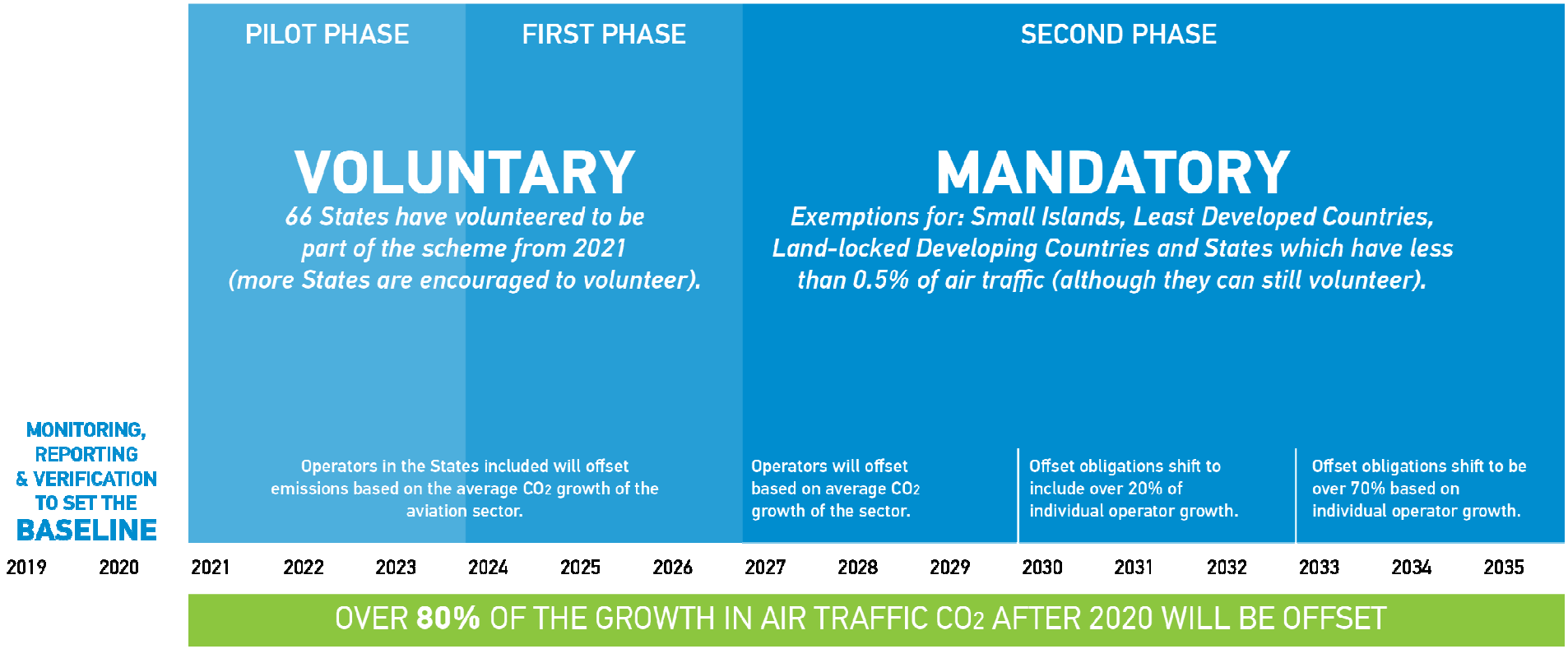
ICAO had considered three MBM options

Offsetting:

- Ties in with existing UNFCCC infrastructure
- Is simple enough to be implemented by all countries by 2020
- More cost-effective than a tax or levy
- Less complex than an emissions trading scheme
- Provides environmental integrity through funding of offset projects worldwide

Global offsetting

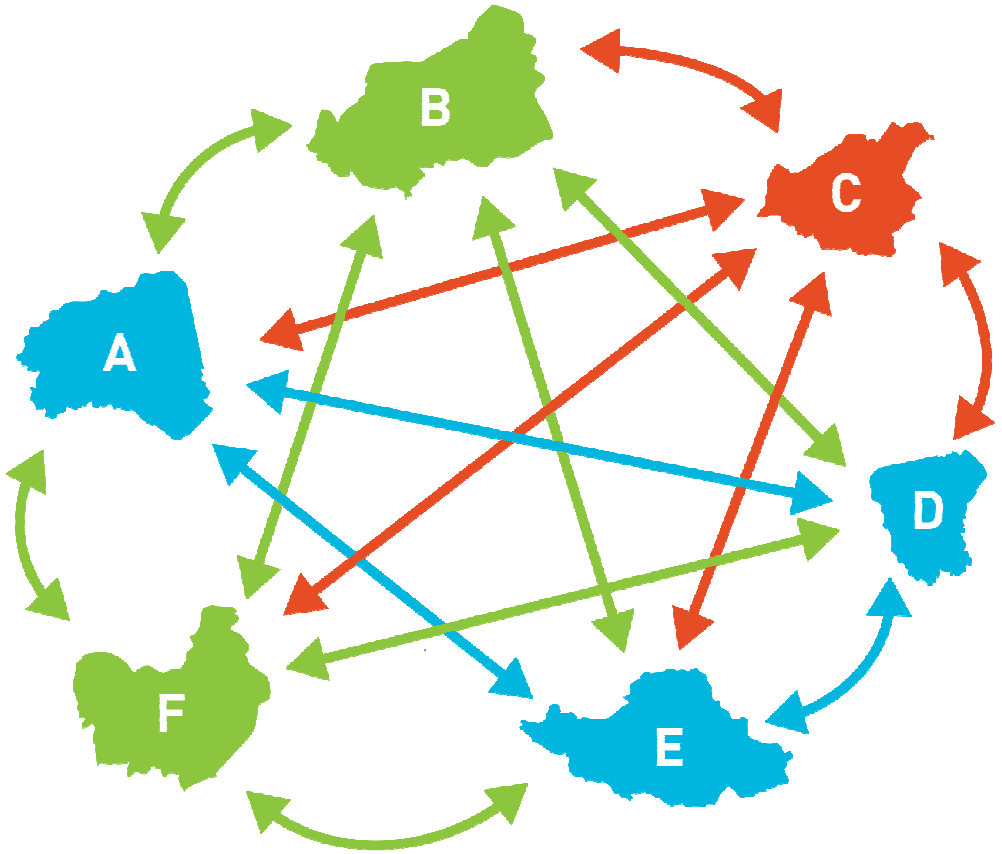
How does CORSIA work?



Which States are included in the first (voluntary) phases?

AS OF 12 OCTOBER 2016, **66 STATES** HAVE
VOLUNTEERED TO BE PART OF CORSIA FROM THE START.

Route-based approach means market distortion is limited



Included from 2021

Included from 2027

Exempt from CORSIA

Other considerations of the CORSIA

TECHNICAL EXEMPTIONS	NEW ENTRANTS	TIMELINE FOR MRV
Humanitarian and fire-fighting flights Small operators (under 10,000 tonnes of CO_2 each year) Aircraft under 5.7 tonnes Military and State aircraft	Exempt for first three years of operation or unless they reach 0.1% of global RTKs	**2017:** ICAO to develop SARPs, guidance and templates **2018:** States to implement national regulatory frameworks **2019/2020:** monitoring, reporting and verification for baseline **2021:** Scheme starts

ONGOING ACTIONS				
	Operators: develop, verify and submit annual CO_2 reports	**States:** verify reports and transmit data to ICAO	**ICAO:** 3-year reviews undertaken by Council / Assembly	**Operators:** Surrender offsets at least every 3 years

How much will the CORSIA cost?

CORSIA
CARBON OFFSETTING AND REDUCTION SCHEME FOR INTERNATIONAL AVIATION

HOW MUCH WILL CORSIA COST PER FLIGHT?

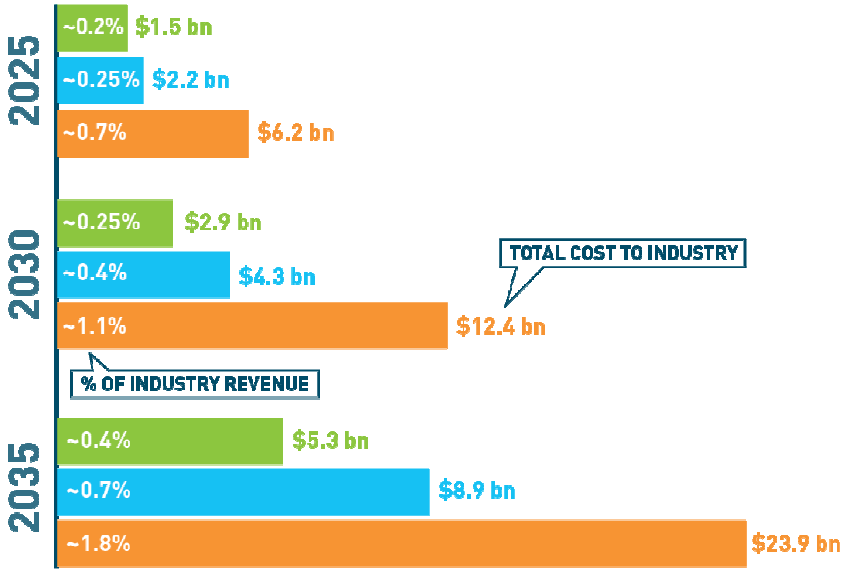
Sample flights (2030, operator growing at average industry growth rate)	Offsets *Low estimate*	Offsets *High estimate*	Fuel *Cost, summer 2016 price*	Fuel fluctuation *(Cost of $10/barrel increase)*
Casablanca → Madrid *737-800*	$51	$131	$1,656	$278
Frankfurt → Addis Ababa *787-800*	$578	$1,497	$18,920	$3,172
Mexico → Buenos Aires *A350-900*	$910	$2,357	$29,799	$4,996
Dubai → Sydney *A380*	$2,542	$6,585	$83,248	$13,957

It is difficult to determine the exact per passenger price impact, as airlines must individually determine how to allocate the cost of purchasing offsets.

Airlines operate in a hyper-competitive industry and cannot always pass on their full costs to their passengers.

However, based on the estimates above, we do not expect the cost of the scheme to adversly impact traffic growth. It is an additional cost, but it is manageable.

ICAO projections of the cost of the global offsetting scheme to industry and percentage of industry revenues



How will offsetting work for aviation?

Next steps in the implementation of CORSIA by 2020

- **Capacity building** to help States / operators to prepare for MRV and offset purchasing
- Finalisation of two remaining technical standards and guidance material:
  - **Monitoring, reporting and verification** protocols
  - **Emissions unit criteria** to determine credit eligibility under CORSIA
- The **architecture** of the scheme: national and global registries

Key take-aways from the industry

- Aviation sector is fully committed to climate action
  - Across all pillars: technology, operations, infrastructure
  - A market-based measure in the form of a global mandatory offsetting scheme is a vital part of that plan
  - Industry is already undertaking significant action
  - But is not enough to meet goals of industry, expectations of global community vis-à-vis Paris Agreement

- A well-designed single MBM to support our sustainable growth
  - To meet the needs of the world economy, responsibly

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