

## Regulatory Impact Statement

### A carbon offsetting and reduction scheme for international aviation

## Agency Disclosure Statement

- The Ministry of Transport (the Ministry) has prepared this Regulatory Impact Statement.
- It provides an analysis of options to respond to the proposed Resolution by the International Civil Aviation Organization (ICAO) for a carbon offsetting and reduction scheme for international aviation (CORSIA). The CORSIA is based on a global market-based measure that is designed to cap carbon dioxide emissions from international civil aviation at 2020 levels from 2021 (the proposed Resolution).
- The proposed Resolution is to be considered for adoption at the ICAO Assembly meeting, 27 September to 7 October 2016. The RIS is based on draft Resolution text as at 24 May 2016, which was considered at an ICAO High Level Meeting, in May 2016, on the proposed Resolution.
- Subsequent to that meeting, States have been continuing to discuss key aspects of the proposed Resolution in order to seek consensus. A revised Resolution text is expected to be available before the Assembly meeting.

#### *Key data gaps*

- There is no data on what the effect will be on New Zealand's tourism and trade sectors if the proposed Resolution is adopted and implemented. With regards to the tourism sector we can only compare the proposed Resolution with the effect of the border levy introduced by New Zealand on 1 January 2016.
- There is also no data on what the effect will be on New Zealand's tourism and trade sectors if the proposed Resolution is adopted by ICAO but not implemented by New Zealand.
- For the most part this RIS only considers the impact, on New Zealand, of the options available; it does not consider the acceptability of those options for the other member states of ICAO. The only exception to this is whether New Zealand should support a dynamic approach in quantifying an airline's liability under the scheme. This is because at this stage, with the exception of the dynamic approach, it is relatively uncertain what other countries' views are.

#### *Assumptions*

- The analysis in this RIS makes the following assumptions:
  - a. the international civil aviation industry will continue to grow, and that growth will outstrip the industry's ability to cap carbon dioxide emissions through new technology, more efficient operational procedures, and alternative fuels

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- b. with regard to demand for air freight, we consider that there will be only a minor effect as businesses use international air freight for time-sensitive or perishable items and will continue to do so as maritime freight is not a viable alternative for such items
- c. Air New Zealand will have, proportionally, lower carbon emissions in future years because of the relative fuel efficiency of its fleet compared with many other airlines.

### *Uncertainties*

- The analysis in this RIS has the following uncertainties:
  - a. the future price of carbon is unknown
  - b. the future fuel use of the international aviation industry is unknown
  - c. the future growth of Air New Zealand, and its future market share, is unknown
  - d. it is unknown whether the proposed Resolution will be adopted by ICAO members (although we consider that it is likely it will be adopted)
  - e. if the proposed Resolution is adopted, it is unknown how, and to what extent, airlines will pass on the offset costs to their customers (although we consider it likely that offset costs will be passed onto airline customers)
  - f. what the effect will be on airline customers if all or some of the offset costs are passed onto them
  - g. detail of how the proposed Resolution, if adopted, will be implemented by ICAO and the subsequent compliance by other member states is unknown
  - h. ICAO has yet to determine the monitoring, evaluation, and review process for CORSIA.

### *Timing*

- If the proposed Resolution is adopted, then it is expected that ICAO will ask its members to incorporate the proposed Resolution into domestic legislation by 2018.

██████████ ██████████ Adviser

6 September 2016

## Executive summary

- The Resolution, proposed by ICAO, is for a carbon offsetting and reduction scheme for international aviation (CORSIA). Options to respond to the proposed Resolution are based on a global market-based measure (GMBM) that is designed to cap carbon dioxide emissions from international civil aviation at 2020 levels from 2021.
- If the CORSIA is implemented airlines will be required to offset their carbon emissions that exceed the 2020 baseline level set by ICAO. ICAO will develop a methodology to determine how liability for offsetting will be assigned to airlines.
- ICAO has proposed the Resolution because it believes a GMBM scheme is necessary to help address carbon dioxide emissions from international aviation. ICAO believes that without a GMBM scheme, net carbon dioxide emissions will continue to grow because:
  - a. the international civil aviation industry will continue to grow
  - b. forecast growth will outstrip the industry's ability to cap or reduce carbon dioxide emissions through new technology, more efficient operational procedures and alternative fuels.
- The main variables in the proposed Resolution that New Zealand has to consider are:
  - a. whether the methodology for quantifying each operator's liability to offset should be based on a whole of sector liability model, or an individual airline liability model, or a blend of sector and individual liability; and
  - b. whether phased implementation of CORSIA should be based on airline revenue tonne kilometres (RTKs) or on a voluntary basis
  - c. what exclusions should apply to CORSIA.
- The Ministry considers New Zealand should support the proposed Resolution at the ICAO Assembly   
  
All major aviation states, and all developed states, will be expected to implement the proposed Resolution when it first comes into effect.

## Status quo and problem definition

- International aviation emissions currently account for less than 2 percent of total global CO<sub>2</sub> emissions, but are projected to grow because of the continued development of the sector. While the overall contribution may be small, emissions from international aviation are growing faster than almost any other sector. The aviation industry has been able to achieve significant improvements in fuel efficiency as a result of aircraft technology and more efficient operational procedures (such as more direct flight paths), but these improvements are more than offset by even stronger growth in demand for international air transport.

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- Over the next 20 years, the International Air Transport Association (IATA) predicts fuel efficiency to improve by around 1.5 percent per annum, while air passengers are expected to grow by around 4.5 percent per annum (to 7.4 billion in 2034). The Intergovernmental Panel on Climate Change estimates that aviation's contribution to climate change could grow to 5 percent by 2050 if no action is taken to control emissions.
- ICAO has advanced the proposed Resolution for a CORSIA that is designed to cap net carbon dioxide emissions from international civil aviation at 2020 levels. ICAO is proposing the Resolution because international aviation is not part of the Paris Agreement. The Paris Agreement set an expectation of universal participation in the global response to climate change. All Parties to the Agreement are obliged to reduce emissions under the jurisdiction of the United Nations Framework Convention on Climate Change (UNFCCC).
- CORSIA is a carbon offsetting and reduction scheme. If CORSIA is implemented airlines will be required to offset their carbon emissions if the following exceed the baseline level set by ICAO:
  - the carbon emissions from the international aviation sector,
  - a country's registered airlines international flights, or
  - an individual airline's international flights (depending on the model adopted)
- ICAO has proposed the Resolution because it believes CORSIA is necessary to cap carbon dioxide emissions. ICAO believes net carbon dioxide emissions, without CORSIA, will continue to grow because:
  - a. the international civil aviation industry will continue to grow
  - b. forecast growth will outstrip the industry's ability to cap carbon dioxide emissions through new technology and more efficient operational procedures.
- The status quo (no GMBM for international aviation) is used as a baseline for analysis, but is not presented as an option for New Zealand in this RIS because the proposed Resolution **will** be considered at the ICAO assembly. New Zealand only has the ability to:
  - a. support the proposed Resolution (and support or oppose variations to the proposed Resolution), or
  - b. oppose the proposed Resolution and refuse to implement it (if it is adopted).

## Objectives

- This paper assesses the proposed Resolution against the Government objectives to:
  - a. mitigate climate change
  - b. maintain and grow New Zealand's tourism and trade sectors

- c. grow the prosperity of New Zealand businesses (in this instance the consideration is more significant because the Government has a fiduciary interest and a majority shareholding in the business in question, namely Air New Zealand)
- d. maintain and improve New Zealand's international reputation.

## Options and impact analysis

### Option 1: Support and implement the proposed Resolution (if adopted)

- Under this option, New Zealand will support and implement the proposed Resolution at the ICAO Assembly (if adopted).

#### ***Standard impact of the proposed Resolution***

##### *Impact on climate change*

- If the proposed Resolution is adopted and implemented by ICAO member states it will cap carbon dioxide emissions for international aviation at 2020 levels. New Zealand has previously committed to capping carbon dioxide emissions to mitigate climate change. Supporting this proposed Resolution is consistent with New Zealand's previous commitments and New Zealand's objective to mitigate climate change.
- Because carbon dioxide emissions from international aviation only represent a small amount of global emissions, the proposed Resolution will only have a small effect on mitigating climate change. However, as outlined in the following paragraphs, the costs related to adopting and implementing the proposed Resolution are minimal. Therefore costs related to adopting and implementing the proposed Resolution are proportional to the effect the proposed Resolution will have on mitigating climate change.

##### *Impact on New Zealand's tourism and trade*

- It is unknown if and how offset liability costs will be passed onto airline customers, including passengers and businesses that use air freight. However, we do think it is likely that offset costs will be passed onto airline customers.
- If offset liability costs are passed onto airline passengers, this could have a negative effect on New Zealand tourism. There is no data on what the effect will be, however we estimate that the impact will be minimal. This estimate is based on a comparison with the border levy of \$18.76, introduced on 1 January 2016. We expect the offset liability costs to be broadly similar to this levy. Consequently, because the estimated impact of the border levy was expected to be minimal<sup>1</sup>, we also expect the offset liability costs to have a minimal effect, even if the offset liability costs have a cumulative effect on price tolerance.
- There is no data on what the effect will be on New Zealand's trade sector if the proposed Resolution is adopted and implemented. We expect, however, that if offset liability costs are passed onto businesses that use air freight, the resulting price increases will have only a minor impact on the demand for trade. This is because businesses use international airfreight often for time-sensitive or perishable items and

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<sup>1</sup> The estimated impact was 1.4% on visitor numbers and 0.9% on tourism spending.

maritime freight is not a viable alternative for such items. However, the indirect impacts are unknown and will be determined by:

- a. what the additional costs to a business using airfreight are, in relation to its competitors. In some cases New Zealand businesses will have a competitive advantage, in other cases they will not
  - b. how the demand for a product will be impacted if a business passes on the additional airfreight cost to their customers. This will be determined by:
    - i. the product's price elasticity
    - ii. whether the business's competitors are passing on that cost, and what the competitor's costs are.
- Additionally, changes to the price of aviation fuel and currency exchange rates are likely to have a significantly greater impact on the tourism and trade sectors than the offset costs.

Impact on New Zealand registered airlines

- Air New Zealand is the major New Zealand registered international airline that would be impacted by the proposal. Air New Zealand supports the proposed Resolution but prefers that:
  - a. offset liability is based on an individual airline liability model (as Air New Zealand believes its increase in carbon dioxide emissions is likely to be less than the sector)
  - b. any exclusions to the CORSIA take into account that competitors may gain an advantage, hence strong justification is required for exclusions.
- We have not consulted with Jet Connect (the only other New Zealand registered international airline) as it is part of the Qantas group. The Australian Government is consulting with Qantas.

- [REDACTED]

	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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[REDACTED]

Impact on New Zealand's international reputation

- Implementation of CORSIA is proposed to occur in two phases, by country. States that fall under Phase 2 of the revenue/tonne/kilometres (RTK) option will be able to voluntarily participate in Phase 1 (if phased implementation is based on RTKs). The effect on New Zealand's reputation is dependent on whether:
  - a. [REDACTED]
  - b. other countries in a similar situation, in terms of RTKs and economic capability, to New Zealand voluntarily participate in Phase 1.

***Variations to the proposed resolution and their impacts***

- There are several possible variations to the current draft text that affect the impacts outlined above. New Zealand will try to influence the final text of the proposed Resolution in terms of:
  - a. whether the methodology for quantifying each operator's liability to offset should be based on a whole of sector liability model, or an individual airline liability model, or a blend of sector and individual liability
  - b. whether CORSIA should be implemented based on revenue/tonne/kilometres (i.e. states with revenue/tonne/kilometres above a certain threshold will be required to implement CORSIA earlier), or whether the phased implementation should be on a voluntary basis (i.e. states voluntarily opt-in to implement CORSIA earlier)
  - c. what exclusions should apply to CORSIA.

Calculating offset liability

- New Zealand must consider whether the methodology for quantifying each operator's liability to offset should be based on a whole of sector liability model, or an airline liability model. Under a whole of sector liability model, offsets are calculated on total carbon dioxide emissions for international aviation, and airlines are collectively responsible for total sector carbon dioxide emissions over the baseline. Under an airline liability model, offsets are calculated on carbon dioxide emissions for each airline, and airlines are individually responsible for their carbon dioxide emissions over the baseline.

*Impact on Climate Change*

- If the offset liability is based on a whole of sector liability model, then airlines that have relatively low fuel efficiency, will have a reduced incentive to improve their efficiency. This is because, under this model, airlines with low fuel efficiency will have a lower responsibility for their carbon dioxide emissions and will be able to benefit from airlines that have proportionately high fuel efficiency.
- There would still be an incentive for airlines to increase fuel efficiency and reduce carbon dioxide emissions because of the savings in operational costs that could be made with greater fuel efficiency. However, if the offset liability is based on a whole of

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sector liability model this will reduce the strength of this incentive. Hence, airlines may be unwilling to invest the capital required to increase fuel efficiency, and could instead focus capital investment in other areas, such as growing the size of their fleet and the number of routes they operate.

- If the offset liability is based on an airline liability model, then the incentive for airlines to lower their carbon dioxide emissions and increase their fuel efficiency is maximised.
- Consequently, the objective of the proposed Resolution (i.e. to mitigate climate change) is best served by basing the offset liability on the airline liability model.

### *Impact on New Zealand's tourism and trade sectors*

- If offset liability is based on an airline liability model then the impact on the tourism sector is estimated to be less than the calculated estimates for offset liability based on a whole of sector liability model. [REDACTED] The degree that an individual airline liability model will have less of an impact on tourism will depend on:
  - a. Air New Zealand's market share of international aviation routes to and from New Zealand
  - b. whether competitors to Air New Zealand benefit from an individual airline liability model.
- Consequently, it is in the best interests of New Zealand's tourism sector if the offset liability is based on an airline liability model.

### *Impact on New Zealand registered airlines*

- [REDACTED]
- Under an airline liability model there is some risk of competitive disadvantage to new entrants, if sufficient an amnesty period is not in place to allow new entrants to develop a fair baseline (i.e. to not have a baseline of zero). Consequently, future New Zealand registered airlines may suffer a competitive disadvantage if such an amnesty period is not included.
- It is in the best interests of New Zealand registered airlines if the offset liability is based on an airline liability model, with a sufficient amnesty period for new entrants to establish a fair baseline.

### *Impact on New Zealand's reputation*

- There is no impact on New Zealand's reputation, with respect to this variation, which requires consideration.

### *International political considerations*

- There is considerable resistance from some countries to adopt an offset liability based on an airline liability model. The next best position would be for New Zealand to

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advance a mixed approach, which could start with a sector liability model and transition to an airline liability model.

### *Conclusion*

- Although the objective of the proposed Resolution, and New Zealand's interests, are best served by an offset liability based on an airline liability model (with a sufficient amnesty period for new entrants to establish a fair baseline), this is unlikely to be supported at the ICAO Assembly. Therefore, New Zealand would ideally support a mixed approach.

### *Phased implementation alternatives*

- Implementation of CORSIA will probably occur on a phased basis by country in two phases. New Zealand must consider whether phased implementation should be based on RTKs (i.e. states with RTKs above a certain threshold will be required to implement CORSIA earlier), or whether phased implementation should be voluntary (i.e. states volunteer to implement CORSIA earlier). If phased implementation is based on RTKs, states that fall under a later phase will be able to voluntarily participate earlier.

### *Impact on climate change*

- There is a risk that voluntary phased implementation will not be in the best interests of the objective of the proposed Resolution. This is because it would give countries whose international aviation sectors make the most contribution to carbon dioxide emissions the right to implement the proposed Resolution in a later phase.
- Consequently, it is in the best interests of the objectives of the proposed Resolution if phased implementation is based on RTKs (i.e. states with RTKs above a certain threshold will be required to implement CORSIA in an earlier phase).

### *Impact on New Zealand's tourism and trade sectors*

- There may be an impact on New Zealand's tourism and trade sectors, irrespective of whether phased implementation is based on RTKs, or voluntary participation. This is because states, which fall under later phase of the RTK option, will be able to voluntarily participate in earlier (if phased implementation is based on RTKS). The effect on New Zealand's tourism and trade sectors is dependent on whether:
  - a. New Zealand elects to enter a Phase 1
  - b. other countries New Zealand has air links with enter Phase 1.

### *Impact on New Zealand registered airlines*

- There may be an impact on New Zealand's registered airlines, irrespective of whether phased implementation is based on RTKs or voluntary participation. This is because states, which fall under later phase of the RTK option, will be able to voluntarily participate in earlier (if phased implementation is based on RTKS). The effect on New Zealand's registered airlines is dependent on whether:
  - c. New Zealand elects to enter Phase 1
  - d. other countries New Zealand has air links with enter Phase 1.

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### *Impact on New Zealand's reputation*

- There may be an impact on New Zealand's international reputation, irrespective of whether phased implementation is based on RTKs or voluntary participation. This is because states, which fall under later phase of the RTK option, will be able to voluntarily participate in earlier (if phased implementation is based on RTKS). The effect on New Zealand's reputation is dependent on whether:
  - a. there is pressure from the international community for New Zealand to voluntarily participate in Phase 1
  - b. other countries in a similar situation, in terms of RTKs and economic capability, to New Zealand voluntarily participate in Phase 1.

### *Conclusion*

- It is in the best interests of the objective of the proposed Resolution if phased implementation is based on RTKs.
- It is in the best interest of New Zealand if New Zealand participates in phase one on the condition other countries:
  - a. in a similar situation, in terms of RTKs and economic capability, to New Zealand voluntarily participate in Phase 1
  - b. other countries that New Zealand has air links with voluntarily participate in Phase 1.

### *Exclusions from CORSIA*

- Under the phased implementation based on RTKs option, Least Developed Countries (LDCs), Small Island Developing States (SIDSSs), and Landlocked Developing Countries (LLDCs) are excluded from CORSIA unless their RTKs are above a 0.5% of total sector RTKs.
- Under the phased implementation based on voluntarily participation proposal, LDCs, SIDSSs, and LLDCs are excluded from CORSIA.
- Flights to and from excluded countries are also excluded from CORSIA. There are sound reasons for the exclusions and there is no concern around these, provided excluded countries are included in CORSIA if their RTKs are above 0.5% of total sector RTKs. However, a consequential effect of the current draft Resolution regarding exclusions means a flight is excluded if it transits through an excluded country, even if the point of original departure, and the final point of arrival, are not in excluded countries.

### *Impact on Climate Change*

- Excluding LDCs, SIDSSs and LLDCs from CORSIA, where those countries have RTKs above 0.5% of total sector RTKs, is detrimental to the integrity of CORSIA as it means countries are excluded without strong justification.
- Provided excluded countries are included in CORSIA if their RTKs are above 0.5% of total sector RTKs, there would be no significant effect on climate change as the number of excluded flights would be low.

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- Consequently, it is in the best interests of the objective of the proposed Resolution if LDCs, SIDSS, and LLDCs are included in CORSIA if their RTKs are above 0.5% of total sector RTKs (irrespective of the phased implementation option adopted).

### *Impact on New Zealand's tourism and trade sectors*

- There would be no effect on New Zealand's tourism and trade sectors due to flights being excluded because of transit points, or the exclusion of LDCs, SIDSs and LLDCs.

### *Impact on New Zealand registered airlines*

- New Zealand is a long haul destination. The competitiveness of New Zealand airlines would be affected by international flights being excluded because competitor airlines use excluded countries as transit routes.
- This effect could be eliminated by amending the draft text so an airline incurs offset costs only for passengers who travel the entire route (i.e. for a flight that travels A to C via B; the airline would incur offset costs based on the proportion of seats sold to passengers who depart from A with a final destination of C). This would, however, add significant complexity to the scheme and airline compliance requirements.
- If LDCs, SIDSS, and LLDCs are excluded in CORSIA, and if their RTKs are above 0.5% of total sector RTKs, it will create an unjustified competitive advantage for airlines registered to those states.
- Consequently, it is in the best interests of New Zealand registered airlines if:
  - a. consideration is given to advancing a proposal that airlines cannot completely avoid paying offset costs if their flights transit through an excluded country, if offset costs would otherwise be incurred if the flight did not transit through that country, and
  - b. LDCs, SIDSs, and LLDCs are included in CORSIA if their RTKs are above 0.5% of total sector RTKs (irrespective of the phased implementation option adopted).

### *Risks to New Zealand's reputation.*

- There would be no effect on New Zealand's reputation due to flights being excluded because of transit points, or the exclusion of LDCs, SIDSs and LLDCs.

### *Conclusion*

- Consequently, it is in the best interests of the objective of the proposed Resolution and New Zealand if:
  - a. consideration is given to advancing a proposal that airlines cannot completely avoid paying offset costs if their flights transit through an excluded country, if offset costs would otherwise be incurred if the flight did not transit through that country, and
  - b. LDCs, SIDSs, and LLDCs are included in CORSIA if their RTKs are above 0.5% of total sector RTKs (irrespective of the phased implementation option adopted).

**Option 2: Oppose proposed Resolution and refuse to implement it**

- Under this option, New Zealand would oppose the proposed Resolution and not implement it (if it is adopted).

*Impact on climate change*

- New Zealand, is a signatory to the Paris agreement, and has previously committed to capping carbon dioxide emissions in order to mitigate climate change. Opposing the proposed Resolution would be inconsistent with New Zealand's previous commitments and New Zealand's objective to mitigate climate change.
- Carbon dioxide emissions, from international aviation, only represents a small amount of global emissions, and the proposed Resolution will only have a small effect on mitigating climate change. The costs related to adopting and implementing the proposed Resolution are also minimal and are consequently proportional to the aims of the proposed Resolution, and hence it is difficult to justify opposing the proposed Resolution.

*Impact of this option on tourism and trade*

- There is no data on what the effect would be on New Zealand's tourism and trade sectors if:
  - a. the proposed Resolution is adopted
  - b. other members of ICAO implement the proposed Resolution and New Zealand does not, and
  - c. airlines registered in other countries pass on their additional operating costs to their customers.
- However, we expect the impact would be minimal and the impact on the tourism and trade sectors will be less than if New Zealand was to implement the proposed Resolution. The degree to which it would be less, will largely depend on Air New Zealand's market share on international aviation to and from New Zealand (i.e. the greater Air New Zealand's market share the less of an impact to the tourism and trade sector). This assumes Air New Zealand will not have the option to, or will choose not to, voluntarily participate in CORSIA without being required to under New Zealand law.
- It also assumes there will be little, or no, impact on New Zealand's tourism and trade sectors because of the reputational harm incurred from New Zealand refusing to implement the proposed Resolution if it is adopted by ICAO.
- It is not known whether there would be an impact on New Zealand's tourism and trade sectors because of the reputational harm incurred from New Zealand refusing to implement the proposed Resolution if it is adopted by ICAO.

*Impact on New Zealand registered airlines*

- The only major New Zealand registered airline the proposal impacts is Air New Zealand. Air New Zealand supports the proposed Resolution but proposes that:
  - a. offset liability is based on an individual airline liability model with a sector baseline (as Air New Zealand believes its increase in carbon dioxide emissions is likely to be less than the sector's)

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- b. any exclusions to the CORSIA take into account that competitors may gain an advantage, hence strong justification is required for exclusions.
- There may be both negative and positive pressures on Air New Zealand's revenue under this option. There may be a negative pressure because people who have substantial environmental concerns may choose to pay a small amount more and fly with an airline that is part of CORSIA.
- There may be a positive pressure because people may choose to pay a small amount less despite Air New Zealand not being part of CORSIA. Prices are influenced by other market factors so these pressures are entirely speculative. If these speculations are correct it cannot be reasonably predicted whether negative pressure would outweigh positive pressure.

### *Impact on New Zealand's international reputation*

- New Zealand's international reputation will be harmed if the proposed Resolution is adopted and New Zealand does not implement it. This is because other countries are likely to implement the proposed Resolution if adopted (and even more so if it is made into a standard) and other countries will believe New Zealand is not doing its 'fair share'. Additionally, New Zealand is a signatory to the Paris Agreement<sup>3</sup> and opposing and not implementing the Proposed Resolution is contrary to the spirit of the Paris Agreement.

## Consultation

- The Ministry has consulted the Ministry of Business, Innovation and Employment (Tourism Policy), the Ministry of Foreign Affairs and Trade, the Ministry of Primary Industries, the Ministry for the Environment, Air New Zealand (primary impacted airline), Tourism Industry Aotearoa and had a discussion with The Customs Brokers and Freight Forwarders Federation of New Zealand.
- The Department of Prime Minister and Cabinet has been informed.
- It was raised during departmental consultation that there is a risk that airlines will pass on the full cost of carbon exposure to customers, despite their compliance responsibility to only buy emissions over the baseline set by ICAO. Consequently some incumbent airlines may be able to use the CORSIA design to make higher profit margins than would otherwise be possible. Assuming that market competition does not address this risk, it is our opinion that the risk may be mitigated domestically by Commerce Commission oversight, and the Fair Trading Act 1986; and these will prevent airlines from stating they are increasing prices because of CORSIA to an extent which exceeds their offset costs. However, application of New Zealand law to the international component of the measure may not be a straightforward process. If there is a gap in the law, and our opinion is incorrect, then this matter can be addressed by the legislation that introduces the scheme into New Zealand.
- Air New Zealand has been asked to provide qualitative and quantitative information for this RIS and the associated Cabinet paper.
- We have not consulted Jet Connect (the only other New Zealand registered international airline) as it is part of the Qantas group. The Australian Government is consulting with Qantas.

- The Customs Brokers and Freight Forwarders Federation of New Zealand see that the effect of the global measure on its industry will be on exports and imports. Further, it notes that the global measure may have an impact on the Business Growth Agenda's goal to increase the ratio of exports to GDP to 40 percent by 2025.

## Conclusions and recommendations

- The Ministry considers New Zealand should support the proposed Resolution at the ICAO Assembly as it is in our national interest and reflects New Zealand's commitment to the Paris Agreement. The table in Appendix 1 outlines the impact of the options and text variations.

## Implementation plan

- The implementation plan is as follows:
  - a. September 2016 – Cabinet paper submitted seeking a mandate for international transport and climate change discussions on a GMBM proposed Resolution at the ICAO Assembly in September 2016.
  - b. September/October 2016 – proposed Resolution considered (and potentially adopted) at the ICAO Assembly meeting
  - c. 2017 (month TBC) – If the proposed Resolution is adopted, it may then be issued as a standard (if this occurs then New Zealand will be obligated to implement the GMBM or file a difference to the standard)



## Monitoring, evaluation and review

- ICAO has not yet determined the monitoring, evaluation, and review process for CORSIA. New Zealand can be responsible for the monitoring, evaluation, and review process for its international airlines. It may be feasible to link the monitoring, evaluation and review process to that of other states to reduce the compliance burden.
- The ICAO Council will develop standards and recommended practices for the monitoring, reporting and verification elements of the global measure in 2017. New Zealand would need to consider how it implements the standards and recommended practices. These are usually made as an amendment to the Civil Aviation Rules and the Civil Aviation (Offences) Regulations 2006

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Appendix 1: Summary of analysis

	<b>Impact on climate change</b>	<b>Impact on tourism and trade</b>			<b>Impact on airline businesses</b>	<b>Impact on New Zealand's reputation</b>
		<i><b>Impact on tourism</b></i>	<i><b>Impact on air-freight demand</b></i>	<i><b>Impact on business that use air-freight</b></i>		
Support and implement Proposed Resolution (comparison to current state)	Small positive	Small negative	Small negative	Unknown (dependent on various market factors)	Small negative	Neutral as New Zealand is expected to support and implement the Proposed Resolution
Oppose and don't implement Proposed Resolution (comparison to current state)	Small negative	Small negative (but less than if Proposed Resolution is supported and implemented)	Small negative (but less than if Proposed Resolution is supported and implemented)	Unknown (dependent on various market factors)	Small positive from cost advantages/ Small negative from reputational harm	Medium negative
<b>Possible variations on text</b>						
Implementation phases are voluntary based (as opposed to RTK based)	Small negative	Not dependent on phased implementation basis, but dependent on whether NZ enters Phase 1 and what other countries do that NZ has airlinks with	Not dependent on phased implementation basis, but dependent on whether NZ enters Phase 1 and what other countries do that NZ has airlinks with	Not dependent on phased implementation basis, but dependent on whether NZ enters Phase 1 and what other countries do that NZ has air links with	Not dependent on phased implementation basis, but dependent on whether NZ enters Phase 1 and what other countries do that NZ has air links with	Reputation not dependent on phased implementation basis, but NZ reputation is dependent on expectations of NZ to enter Phase 1 and what other countries do

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Exclusion of LDCs, SIDSs and LLDCs	Small negative but justifiable if countries with 0.5% of total sector RTKs are included	Neutral	Neutral	Neutral	Small negative but justifiable if countries with 0.5% of total sector RTKs are included	Neutral
Calculating offset liability on an airline liability basis	Small positive	Small positive	Small positive	Small positive	Small positive	Neutral