

## **Covering note - Regulatory Impact Statement update for the Carbon Offsetting and Reduction Scheme for International Aviation (CORSA)**

### **Agency Disclosure Statement**

#### ***A previous Regulatory Impact Statement was completed for New Zealand's participation in CORSA in 2016***

This covering note updates the Ministry of Transport's (the Ministry) Regulatory Impact Statement (RIS) for the CORSA from September 2016. The 2016 RIS was prepared to support Cabinet's decision for New Zealand to participate in CORSA from its commencement.

The 2016 RIS evaluated a number of policy options regarding New Zealand's potential participation in the International Civil Aviation Organization (ICAO) market-based measure for the international aviation sector to mitigate its carbon emissions. New Zealand's participation was dependent on ICAO adopting the resolution for CORSA that aligned with our expectations and potential variations of the market-based measure.

ICAO adopted the resolution for the CORSA at the 39<sup>th</sup> Assembly meeting in October 2016, Resolution A39-3.

#### ***Cabinet has previously agreed New Zealand will participate in CORSA from 2021***

In September 2016 Cabinet agreed to New Zealand participating in CORSA from its commencement on 1 January 2021 (EGI-16-MIN-0232 refers).

Participating in the scheme demonstrates New Zealand's commitment to moving towards a path to a low emissions economy, as well as its commitment to the Paris Agreement's long-term temperature goals of limiting the global average temperature increase to well below 2 degrees Celsius, with efforts to limit this to 1.5 degrees Celsius above pre-industrial levels.

Shortly after Cabinet's decision, the Government publicly announced that New Zealand would participate in CORSA.

#### ***Decisions are needed to develop legislation for CORSA domestically***

States need to implement the standards and recommended practices for CORSA that were formally agreed by the ICAO Council in July 2018.

A Cabinet paper has been prepared seeking to reconfirm the 2016 Cabinet decision that New Zealand will participate in CORSIA from 1 January 2021; and seeks agreement to instruct the Parliamentary Counsel Office to commence drafting the legislation to give effect to CORSIA.

***We have reviewed the regulatory impacts identified in the 2016 RIS***

The Ministry considers the regulatory impacts for CORSIA are the same as those identified in the 2016 RIS. The key developments since the 2016 RIS was prepared are that ICAO adopted the Resolution, the standards and recommended practices were developed and finalised, and states are now implementing CORSIA. The Ministry does not consider that these developments have had a significant material effect on the regulatory impact on New Zealand. The regulatory impact of CORSIA remains in line with the analysis completed for the 2016 RIS.

The section titled *Variations to the proposed resolution and their impacts* (pages 7-11) is less relevant now that the standards and recommended practices have confirmed the policy design features of CORSIA. For clarity, the final standards and recommended practices confirmed that:

- a) the methodology for quantifying each operator's liability to offset is based on a model which blends sectoral and individual liability
- b) CORSIA will have a phased-in implementation. Participation is voluntary until 2027. From 2027 onwards, states must participate if they reach a threshold based on revenue/tonne/kilometres (RTKs)
- c) there a range of exclusions from CORSIA – the scheme does not apply to all international aviation activities and some countries are exempt, e.g. small island developing states, least developed countries and land locked developing countries.

As outlined in the 2016 RIS (pages 5-7), there will continue to be a regulatory impact on our trade and tourism sectors. The degree of impact remains uncertain as it will be dependent on the price paid for emissions units (i.e. the price of carbon). This also assumes that airline operators will pass on the cost of CORSIA to those that use international airlines, i.e. passengers and importers/exporters.

Air New Zealand will be impacted by CORSIA. Air New Zealand has updated its projected costs of CORSIA. [REDACTED]

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### ***The benefits of participating in CORSIA***

CORSIA is critical in achieving comprehensive global action on climate change from the international aviation sector and it is in New Zealand's overall interest to see CORSIA become an effective tool to mitigate international aviation emissions. New Zealand's participation in CORSIA contributes to the critical mass for the measure to succeed.

New Zealand's ability to advocate for and participate in an ambitious global collective action is dependent on implementing effective climate change policy domestically.

Implementing CORSIA would strengthen our international and domestic advocacy efforts by adding to our credibility as a climate change leader. It would also meet the expectations of our international allies, who expect New Zealand to participate from 2021.

New Zealand has been an active participant throughout the CORSIA process, from the initial negotiations at ICAO through to the recent ICAO-backed capacity building work we have led in the Pacific. Implementing CORSIA from 2021 will have the additional benefit of supporting our strategic engagement with the Pacific on climate change.

### ***Responsible Manager (signature and date):***

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