AIR NEW ZEALAND

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Climate Change Commission
Level 21, 1 Willis Street
WELLINGTON 6011

AIR NEW ZEALAND'S SUBMISSION ON THE CLIMATE CHANGE COMMISSION'S REVIEW OF THE INCLUSION OF INTERNATIONAL AVIATION EMISSIONS IN NEW ZEALAND'S DOMESTIC 2050 TARGET

1. Air New Zealand welcomes the opportunity to submit on the Climate Change Commission's (the **Commission's**) discussion document *Review on whether emissions from international shipping and aviation should be included in the 2050 target and if so how*.

2. International aviation emissions contribute to climate change and the global aviation sector is expected to be one of the largest emitting sectors in 2050, even if strong progress is made on decarbonisation technologies.

3. Given New Zealand's distance from key markets and economic reliance on aviation for trade, tourism and connectivity, addressing aviation emissions is strategically important to New Zealand.

4. Air New Zealand **supports** the inclusion of international aviation emissions in New Zealand's 2050 target, (measured using the "refuelling" methodology), **provided** this is underpinned by urgently needed long-term and targeted policy approaches that limit competitive risks and focus on supporting and accelerating the aviation sector's transition away from fossil fuels to lower impact alternatives, thereby building resilience in New Zealand's international connectivity over the longer term. This should include policy support for alternative aviation fuels (referred to as "sustainable aviation fuel" by the aviation industry), and carbon removal solutions to address residual emissions.

5. Including international aviation emissions in domestic targets, is complementary to New Zealand's international commitments. The primary policy approach to international aviation emissions should be via the International Civil Aviation Organization (**ICAO**) as this is the platform most capable of limiting competitive distortions and raising the collective performance of the global aviation industry. Care will need to be taken to prevent double counting of regulated emissions and to adapt domestic policies if changes occur at the ICAO level. Notwithstanding, New Zealand also has a role introducing supplementary domestic measures that will give effect to its international ICAO commitments and support New Zealand's transition to a lower emissions aviation model (for example, domestic policy support for alternative aviation fuels[1] and carbon removal solutions to address residual emissions).

6. It is important that the "how" component of the Commission's advice, is carefully managed to limit perverse outcomes and any competitive distortions that could arise due to the international nature of aviation. A regime in New Zealand that is more onerous than that undertaken by other progressive nations, has the potential to disproportionately impact Air New Zealand – the

[1] Referred to as "sustainable aviation fuel" or "SAF" by the aviation industry.

airline's ability to compete needs to be maintained. In light of this, Air New Zealand **does not** support the inclusion of these emissions if the "how" results in policy that introduces material competitive distortions that will disproportionately impact Air New Zealand. This includes the use of the New Zealand Emissions Trading Scheme (**ETS**) as the primary tool for regulating international aviation if it is included in New Zealand's 2050 target.

7. Air New Zealand has only commented on the aviation components of the discussion document and acknowledges that positions suitable for aviation may not be appropriate for shipping. Notwithstanding, it is important that an equal level of ambition is applied to each sector through this analysis.

8. Commentary on the airline's position and responses to the Commission's questions are outlined in **schedule 1**. We welcome constructive discussion on the content of this submission and look forward to working with the Commission as it prepares its final advice. Please contact Jenny Sullivan (jenny.sullivan@airnz.co.nz) if you require further information.

Ngā mihi

Kiri Hannifin
Chief Sustainability Officer

Schedule 1: Consultation questions

Consultation question
Is there any further information or evidence the Commission should consider on the national and global context or technology opportunities for making decisions on including international shipping and aviation emissions in the 2050 target?

1. Access to markets

1.1. Air New Zealand notes that climate considerations are increasingly the subject of border levies and international trade negotiations. The discussion document notes the European Unions' Carbon Border Adjustment Mechanism (**CBAM**) but does not note the other CBAM style measures being considered in other jurisdictions, including the United Kingdom, Australia, and Taiwan[2]. Air New Zealand notes the emerging trend and the impact that this may have on New Zealand's ability to remain competitive if it does not adapt or do enough to keep up.

1.2. Air New Zealand notes the recent discussion at the Sustainable Aviation Congress, in Amsterdam in May 2024, where it was noted the European Commission plans to evaluate a CBAM for the transport sector (including aviation and maritime).

2. Global targets

2.1. ICAO should remain the primary platform for addressing international aviation emissions. ICAO is best placed to direct change in a manner that minimises global carbon leakage and prevents competitive distortions. To this end, ICAO's Carbon Offsetting and Reduction Scheme for International Aviation (**CORSIA**) remains the current tool for regulating international aviation with broad global coverage. While the scope of the current CORSIA requires expansion, the scheme has already been implemented and was designed to lift the performance of the global aviation sector, minimise competitive distortions and reduce the administrative complexity arising from different countries establishing bespoke regulatory regimes for emissions that occur in international airspace.

2.2. Air New Zealand continues to be supportive of the New Zealand Government working to strengthen the ICAO policy framework for international aviation emissions, both by supporting the long-term aspirational goal for international aviation emissions (**LTAG**); and advocating for a strengthened CORSIA regime with increased global participation, ambition and scope.

2.3. Notwithstanding, there is an important role for New Zealand to introduce supplementary policy to give effect to its international commitments, particularly the LTAG, in a manner that does not create competitive distortions (for example, comprehensive support for developing and accessing alternative aviation fuel[3] in New Zealand and developing a market for carbon removal solutions).

[2] Aotearoa Circle (2024). *Protecting New Zealand's Competitive Advantage*. Available online here.
[3] Referred to as "sustainable aviation fuel" or "SAF" by the aviation industry.

3. Focused policy support

3.1. The inclusion of international aviation emissions in a domestic target, would need to amplify and accelerate the domestic policy response to decarbonising international aviation, via more targeted policy support and investment in aviation decarbonisation technologies. Air New Zealand is supportive of government interventions (policy, regulation, and investment) that accelerate and enable aviation decarbonisation technologies. Some of these interventions are mentioned at 8.2. We are happy to provide more detail on these interventions and how they would support aviation decarbonisation and New Zealand meeting its LTAG commitments.

4. Alternative fuel production in New Zealand

4.1. LanzaJet in partnership with Air New Zealand and the New Zealand Government, is assessing the commercial viability and sustainability of domestic alternative aviation fuel[4] production. The output of this study will allow the Government to assess the viability of alternative aviation fuel production in New Zealand with a greater degree of accuracy than other desktop generated assessments, including those referenced in the Commission's discussion document. The outputs from these studies are expected in the second half of the 2024 calendar year and are likely to call for policy support to underpin feasibility.

Consultation question
Is there any further information or evidence the Commission should consider on the potential impacts or policy options if international shipping and aviation emissions were included in the target?

5. Emissions Trading Scheme

5.1. Air New Zealand does not support the use of the ETS as a tool for regulating international aviation emissions, if included in New Zealand's 2050 target. This is primarily due to the competitive distortions it will introduce, which will disproportionately impact Air New Zealand and limit the airline's ability to fund the technologies that will deliver gross emission reductions.

5.2. In its current form, the ETS is not capable of driving decarbonisation in the aviation sector. Inclusion of international aviation emissions in the ETS would likely result in Air New Zealand diverting funds from alternative aviation fuels[5] (that result in gross emissions reductions) to meet compliance obligations. The best outcome for New Zealand and Air New Zealand is to focus on gross emission reductions – which would not be facilitated via the ETS.

5.3. Air New Zealand also notes potential legal constraints on the use of the ETS as a tool to address international aviation emissions - the Chicago Convention on International

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Civil Aviation from 1944, supported by an ICAO resolution from 1993, renders the fuel, lubricants and other consumable technical supplies taken on board for consumption during the flight, exempt from all customs and other duties.

5.4. Air New Zealand is happy to provide more commentary on this issue if useful.

6. Target achievability relies on access to removals

6.1. Air New Zealand has already set a target to achieve net-zero carbon emissions by 2050. As there is no currently known technology mix that can enable the aviation industry to absolutely decarbonise by 2050, the airline will need to rely on "out of sector" greenhouse gas removals units to address residual emissions to achieve this target.

6.2. New Zealand will need to have access to a sufficient volume of appropriate greenhouse gas removals units and an understanding of how, and where, these removals units will be generated. If international aviation emissions are included in domestic targets, New Zealand may be incentivised to scale up its investment in nature-based greenhouse gas removal solutions and should investigate the suitability of other forms of greenhouse gas removals units (such as direct air carbon capture with storage) to ensure a sufficient and cost-effective supply of removals units are available.

7. Clarity on "double counting"

7.1. While the benefits of absolute emissions reductions will be shared by New Zealand and Air New Zealand, the treatment of residual emissions addressed through the cancellation of removals units could be less equitable if both New Zealand and Air New Zealand have to source and cancel removals units to achieve respective goals.

7.2. Undoubtably, the governance and regulation guiding greenhouse gas removals will evolve in the decades to 2050. However, under current practice, achievement of Air New Zealand's net-zero target (to the extent the activity relates to residual emissions addressed through out of sector removals) will not be capable of also being recognised by New Zealand under a potential domestic target due to the 'no double counting' principle. Policy clarity on the treatment of residual emissions is sought - if international aviation emissions are to be included in the domestic target, the traditional principles of additionality and double counting will require revision to ensure investment funds are not diverted from solutions enabling absolute emissions reductions benefiting both the airline and New Zealand in the achievement of respective targets.

8. Alternative Jet Fuel

8.1. If international aviation emissions are included in the domestic target, the use of alternative jet fuels[6] will be the primary technology lever available to reduce gross emissions. In this respect, Air New Zealand strongly supports a strategic long-term

[6] Referred to as "sustainable aviation fuel" or "SAF" by the aviation industry.

policy package to support access to alterative aviation fuel, domestic alternative fuel production and New Zealand's ICAO commitment to net-zero carbon emissions from aviation by 2050.

8.2. In particular, the airline supports:

a) Mandating an obligation on jet fuel suppliers to blend an increasing portion of alternative jet fuel[7] into the fuel supply. It should be emissions-intensity based, technology neutral and applied to all New Zealand departing flights from the start of 2026 to align with regional peers. Additionally, it should scale with supply realities, include a punitive non-compliance penalty (buyout price) for the obligated party, and be coupled with incentives.

b) Incentives should focus on affordability and should consider capital grants, research and development grants, tax incentives / deductibility, and revenue support, with levels of support to be determined based on evidence from the New Zealand domestic production feasibility studies.

c) Alternative fuel[8] sustainability criteria should include a minimum 60 percent life cycle assessment (**LCA**) saving, a requirement for RSB or ISCC certification, and feedstock-specific controls to manage wider sustainability impacts including bans on palm and soy.

d) Monitoring and verification should build on existing monitoring regimes like the global CORSIA scheme, to minimise administrative complexity, and should include support for book-and-claim methodologies and ETS eligibility for SAF.

e) Regular reviews at 3-5 year intervals to ensure the package remains relevant.

f) Trans-Tasman alignment on relevant areas of the policy package which would accelerate regional production and potentially support the wider South Pacific region.

Consultation question
Which of these options for whether international shipping and aviation emissions should be included in the 2050 target do you support? What are your reasons and evidence for that?

- *Include in the 2050 target.*
- *Do not include in the 2050 target at this point.*
- *Amend the Climate Change Response Act to reconsider this issue in future reviews of the 2050 target*

9. Include in 2050 target, with complementary policy

[7] Referred to as "sustainable aviation fuel" or "SAF" by the aviation industry.
[8] Referred to as "sustainable aviation fuel" or "SAF" by the aviation industry.

9.1. Air New Zealand supports the inclusion of international aviation emissions in the domestic 2050 target, so long as primary responsibility for international aviation emissions remains with ICAO and domestic policy is focused on supplementary measures that give effect to ICAO commitments with limited competitive risk (such as comprehensive support for developing and accessing alternative aviation fuel[9] in New Zealand and developing a market for carbon removal solutions).

9.2. It is important that the "how" component of the Commission's advice, is carefully managed to limit perverse outcomes and any competitive distortions that could arise due to the international nature of aviation. A regime in New Zealand that is more onerous than that undertaken by other progressive nations, has the potential to disproportionately impact Air New Zealand – the airline's ability to compete needs to be maintained. In light of this, Air New Zealand does not support the inclusion of these emissions if the "how" results in policy that introduces material competitive distortions that will disproportionately impact Air New Zealand. This includes the use of the ETS as the primary tool for regulating international aviation if it is included in New Zealand's 2050 target.

Consultation question
If international shipping and aviation emissions were included in the 2050 target, which of these options for counting the emissions would you support? What are your reasons and evidence for that?

Option 1: Refueling – fuel sold in this country.
Option 2: To/from next port – for the specified travel leg.
Option 3: To/from final port – for the entire journey.
Option 4: Fuel use within the Exclusive Economic Zone.
Option 5: Share of global emissions.
Option 6: Fuel used by operators based in this country.

10. Methodology preference

10.1. Air New Zealand supports option 1 – Refueling (fuel sold in this country) as the most appropriate method for measuring international aviation emissions. This is due to the existing frameworks for measuring these emissions (reducing the administrative burden), New Zealand's ability to influence these emissions through domestic policy levers (compared to fuel uplifted in other countries) and to reduce the risk of double counting as more countries seek to include international aviation emissions in domestic policy frameworks.

10.2. Options 2 and 3 are not administratively practical to establish or manage for aviation, are unclear in scope and if adopted at 100 percent, would raise the risk of double counting as more countries seek to include international aviation emissions in domestic processes.

10.3. Option 4 is not practical for aviation.

[9] Referred to as sustainable aviation fuel or SAF by the aviation industry.

10.4. Option 5 would introduce administrative complexity and would be difficult to develop and manage.

10.5. Option 6 would have a disproportionate and negative impact on Air New Zealand relative to other airlines flying to or from New Zealand.

Consultation questions
Is there any further information or evidence the Commission should consider on other impacts from international shipping and aviation contributing to climate change?
If international shipping and aviation emissions were included in the 2050 target, which of these options for addressing other impacts would you support? What are your reasons and evidence for that?

Option 1: Include other impacts through a multiplier.

Option 2: Exclude other impacts from the target at this point.

Option 3: Reconsider in future 2050 target reviews – or possibly earlier if there was a significant change.

11. Other impacts

11.1. Air New Zealand acknowledges the importance and significance of non-CO2 effects. However, until the science supporting these findings evolves and settles, the airline supports option 3.

11.2. Given the potential magnitude and competitive distortion risk associated with non-CO2 effects, ICAO should be the primary body for regulating these emissions until a consistent and appropriate approach for dealing with these impacts evolves and settles.

Consultation question
If international shipping and aviation emissions were included in the 2050 target, which of these options for the structure of a target would you support? What are your reasons and evidence for that?

Option 1: Include in the net zero component of the target.

Option 2: Separate combined international shipping and aviation gross component of the target.

Option 3: Separate gross international shipping and aviation components of the target.

Option 4: Separate net international shipping and aviation components of the target.

12. Target Structure

12.1. Air New Zealand supports option 1. While the airline is clear that domestic policies must exist to enable gross emission reductions, it is also aware that the aviation sector is unlikely to reach zero absolute emissions by 2050. Therefore, the sector requires a "net" target for practical purposes.

Consultation questions
Different global models have put the gross emission reductions possible for shipping at up to 91% and for aviation up to 65% accounting for emissions involved in the production of their fuels. If not accounting for emissions involved in producing fuels, reductions could be up to 100% if full adoption of alternative fuels is achieved.

If international shipping and aviation emissions were included in the 2050 target, are those more ambitious levels of gross emissions reductions appropriate to target or are there other circumstances that should be considered? What are your reasons and evidence for that?

- *High ambition of emissions reduction – near or at what models have shown is possible.*
- *Moderately ambitious emissions reduction.*
- *Emissions remain the same or increase.*

If international shipping and aviation emissions were included in the 2050 target, should the existing net zero component of the target's level of emissions reduction be changed to match any residual international shipping and aviation emissions?

13. Reduction pathways

13.1. Air New Zealand refers to the scenarios developed by ICAO to inform the LTAG[10]. These scenarios provide a useful starting for understanding potential pathways. Ultimately, these pathways depend on the development and scaling of technologies, which in part rely on an enabling policy landscape.

13.2. The reference to Air New Zealand's roadmap to 2050 (from its 2021 Sustainability Report) should be removed[11]. The airline is evolving this roadmap with new information and intends to publish revised potential pathways in due course. The new roadmaps should be referred to as they use more up to date information. These roadmaps rely on evolving assessments of current and forward-looking information, incomplete or estimated data, and related judgements, opinions and assumptions. Air New Zealand cautions against reliance being placed on representations that are necessarily subject to significant risks, uncertainties and/or assumptions.

[10] ICAO (2022). *CAEP Report on the Feasibility of a Long-Term Aspirational Goal for International Civil Aviation CO2 Emissions reductions (LTAG)*. Available here.
[11] Page 80 of the Commission's discussion document.