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INITIAL UNICE STATEMENT ON THE POSSIBLE INCLUSION OF THE AVIATION SECTOR IN THE EU ETS

The European Commission in its September 27th communication *Reducing the Climate Change impact of aviation* has proposed the inclusion of the aviation sector in the European Union Emissions Trading Scheme (ETS). It has also set up a Working Group under the 2nd Phase of the European Climate Change Programme (ECCP II). UNICE has followed the debate on the inclusion of aviation, a sector which share of overall greenhouse gas emissions is about 3%¹, into the EU ETS and offers the following considerations:

CLIMATE CHANGE IS A GLOBAL ISSUE

A comprehensive global framework that includes all regions and countries is paramount to combating climate change, is essential to environmental effectiveness and economic efficiency and is also necessary for the efficient and cost-effective functioning of emissions trading. A global approach is also necessary when handling emissions from the aviation sector and its possible inclusion in the EU ETS.

PROCEED WITH CAUTION

Secondly, UNICE would urge that a cautious approach should be adopted. The EU ETS and the Kyoto mechanisms are still becoming established. There are still huge challenges to be faced and lessons to be learned. Before the EU proceeds with broadening the scope of the ETS it should, as a priority, ensure first and foremost that it is working properly and as was intended. Only a well-functioning and easily understood emission trading system can result in promoting emissions reduction at least cost.

It is also vital, when considering the inclusion of aviation in the EU ETS, that the impacts of its inclusion on the other industrial sectors and on the emissions market are thoroughly assessed and taken into account. In particular:

- The costs of abatement;
- The impacts of the introduction of a net buyer of allowances, such as the aviation² sector, on the allowance price and subsequent indirect effects such as those of increasing power prices;
- The differing possibilities of passing through the costs of allowances to customers.

Furthermore, it is important to investigate whether or not the incorporation of aviation into the EU ETS will lead to a change in the behaviour of the users of this mode of transport and to consider the potential impacts on other forms of transport.

¹ Commission's communication *Reducing the Climate Change impact of aviation*, 27.9.2005

² It should be noted that, according to the Commission's calculations, including aviation in the scheme would, for example, add 20 million tonnes a year to the estimated 80-100 million tonnes shortfall in the scheme in 2005-2007.

MAKE POLICY OPTIONS BASED ON A THROUGH REVIEW OF THE SCIENCE AND TECHNOLOGY

Thirdly, the impacts of the aviation sector on global climate change can be reduced directly through the adoption of improved fuel and aircraft efficiency and indirectly through, for example, improved air traffic control procedures such as flying the most efficient route, flying at the most efficient speed and operating at the most economical altitude³. At present, considerable scientific and technological work is underway to improve that efficiency. However, it is vital that policies that are put in place now, such as the inclusion of aviation in the ETS, are based on what is scientifically and technologically available today and in the near future, not ten years down the road. These policies can be adjusted based upon growing experience and knowledge.

COMPETITIVENESS

Implementation of these proposals must take into account their impacts on the global competitiveness of Europe and must not disadvantage EU business with respect to its global competitors.

If aviation is ultimately included in the EU ETS then the level of emission allowances allocated must balance the possible disruptive influence which its incorporation will have on the competitiveness of those sectors currently in the EU ETS.

Finally, from a competitiveness point of view, European industry objects strongly to the concept expressed in the wording “*subject to mutual agreement, fuel taxation can also be introduced for flights between two Member States under existing Community legislation*”⁴. This would allow for double taxation with no guarantee that revenue raised would be used to improve the environment. Furthermore, this would further penalise European companies and place them at an even greater disadvantage vis-à-vis their global competitors.

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³ ICAO February 2004 Circular 303: ‘Operational opportunities to minimise fuel use and reduce emissions’

⁴ Commission Communication “Reducing the Climate Change Impact of Aviation”, Brussels, 27 September 2005, page 6.