BUSINESSEUROPE

COMMENTS

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BUSINESSEUROPE'S VIEWS ON THE INCLUSION OF AVIATION IN THE EU EMISSIONS TRADING SCHEME

Executive summary

BUSINESSEUROPE recognises that climate change is a major challenge and that the aviation sector has a role to play in helping to meet that challenge. We therefore support in principle the inclusion of aviation within European Union Emissions Trading Scheme (EU ETS) as a first step towards the development of a coordinated international approach. However, given the importance of a healthy aviation sector to the EU economy, and the fact that EU ETS is still a comparatively new policy instrument, the integration of the sector into the Scheme must be done in a way which minimises the risk of unintended consequences.

To take these concerns into account BUSINESSEUROPE's believes that changes are necessary to the proposed Directive which has been put on the table. These include:

- The starting point for aviation inclusion should be 2013 . Its early inclusion will only exacerbate the already difficult situation experienced by those sectors subject to the EU ETS. If the numerous problems cannot be resolved, it would be far better to link its inclusion to the reviewed and revised EU ETS.

- Without global agreement and equivalent commitments which do not distort competition, making auctioning the standard allocation tool in the EU ETS for a sector such as aviation should be avoided.

- Aviation, and all other sectors in EU ETS, should have unrestricted access to Joint Implementation (JI) and Clean Development Mechanism (CDM) credits up to the levels approved in international treaties.

- Transparency must be ensured and a more appropriate benchmark for allocation of allowances should be analysed and developed using the more suitable 2008 to 2010 period as the basis.

There is considerable potential for reducing aviation emissions through technological and operational improvements and developments in particular in aircraft operations and at airports.

Unless EU/EEA Member States give the highest priority to the parallel development of aviation related initiatives such as the *Single European Sky*, SESAR and tackling the infrastructure capacity deficit that exists, CO_2 reductions as a result of aviation's inclusion in the EU ETS will be significantly less than what they could be. These parallel initiatives are necessary in order to make it possible for operators to deliver emissions reductions.

An integrated approach (which includes the ETS) to combating aircraft emissions is the best way to tackle the issue.

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Introduction

Liberalisation of aviation in the EU/EEA has enhanced the efficiency of aviation and has led to a considerable drop in prices for airline tickets. This is one of the greatest successes of the internal market. While the aviation sector fully recognises the importance of tackling climate change and its need to make a contribution to this task, the role which a buoyant EU aviation industry makes to the EU economy must be recognised.

BUSINESSEUROPE finds it to be of crucial importance that the proposed climate change effort within the aviation sector supports the fundamental functioning of the market and strengthens the incentive for cost-effective climate change actions to be taken by airlines.

Ideally, EU aviation should be included in EU ETS at the same time as non-EU carriers and flights are also included in the Scheme or in comparable measures. If this proves difficult, and the Scheme starts with intra-EU flights only, then the EU must continue efforts to negotiate for the future inclusion or comparable measures for such flights/operators Whilst including intra-EU flights only, from the outset, is less than economically and environmentally ideal, the EU shall make every effort to ensure that both flights to and from the EU, and non-EU flights of all operators are either included in the scheme or in comparable measures.

The inclusion of aviation must also take account of the fact that the EU ETS as a system is very much work in progress and care must be taken to integrate aviation into the Scheme in a way which does not undermine the progress that needs to be made to develop the EU ETS into an economically and environmentally efficient policy tool.

Inclusion of aviation in the EU ETS should also be considered hand in hand with the elimination of a number of national aviation related taxes (e.g. on fuel).

Comments on the inclusion of aviation in the EU ETS

Scope for reducing aviation emissions

With the aim of making all parts of society contribute to facing the climate change challenge, it is right that the Commission and the EU Member States consider the cost-effective reduction potential available in aviation.

We have to state clearly that we believe research and technology is the key to innovation and to further steps to cut aviation emissions. A technological breakthrough is decisive in order to achieve substantial reductions of emissions required. Current technological development levels do not present opportunities for aviation to reduce CO_2 emissions on a large scale.

For this reason BUSINESSEUROPE agrees with the conclusion of the Commission's impact assessment that the inclusion of aviation will imply that aviation becomes a net buyer of allowances in the EU ETS.

Given that the Commission is proposing that the sector be included in the EU ETS, BUSINESSEUROPE expects that the Commission and the Member States establish the necessary framework "*that maintains the competitiveness of the aviation industry*" both across the EU's airspace and in a global context "*while contributing to combating climate change*"[1].

An integrated approach (which includes the ETS) to combating aircraft emissions is the best way to tackle the issue.

Aviation is already strongly motivated to operate efficiently due to high fuel prices.

Parallel action must be undertaken to continue the ACARE[2] initiative, develop the 'Single European Sky', and implement SESAR[3]. These need to be given highest priority as they have decisive roles to play in the efficient operation of European airspace and thus to the reduction of CO_2 emissions.

The principle of "applying alternative measures" (e.g. operational improvements such as reduction of fuel requirements through better planning and realignment of flights etc.) is something that aircraft operators are actively engaged in. We believe that it needs to be better taken into account when including aviation into EU ETS.

The capacity shortage that exists in most European airports is also a high direct contributing factor to emission levels as a lack of capacity forces planes to burn more fuel while awaiting their landing slot.

We also believe that improved education of the passenger could also in the long run prove as valuable to reducing CO_2 emissions as any other proposal. Despite the increased focus on the issue in the media, in general people (consumers, passengers, users) remain unaware of the climate change 'footprint' that they leave. Education improves understanding and has a vital role in ensuring a user acceptance, allowing them to choose climate friendly options and ultimately support European efforts in the transport sphere.

Geographical scope of the Scheme

BUSINESSEUROPE agrees that CO_2 emission trading is a way to enhance a cost-effective climate change effort, also within aviation, provided a solution is found to the existing identified EU ETS problems.

While we recognise the Scheme may start with intra-EU flights only, our support for the inclusion of aviation in the EU ETS is dependent on the fact that in the longer term European operators must not be put at a competitive disadvantage vis-à-vis their global competitors.

[1] Council of the European Union, Preparation of the ICAO-Assembly in September 2007 with respect to the inclusion of aviation into emission trading, Brussels, 22 May 2007.
[2] Advisory Council for Aeronautic Research in Europe.
[3] Single European Sky ATM (Air Traffic Management) Research.

The goal of ensuring a global approach (i.e. that the aviation industry worldwide is covered by EU ETS or comparable carbon restraining policies) shall be pursued vigorously. It is worth noting here that the use of auctioning (discussed later in this paper) may also hinder securing international agreement to include non-EU airlines in the Scheme.

Auctioning

Further to this issue, considerations about auctioning a share of the total number of allowances for aviation - as stated in the Directive proposal – must be treated with extreme caution, given the potential impact on competitiveness of the industry. Aviation should certainly not be expected to purchase through auction a higher proportion than other sectors. Furthermore the fact that auctioning risks hindering the inclusion of non-European airlines must also be borne in mind.

Should a decision however be taken to go down the route of auctioning, it is vital that revenue is recycled for supporting research and development of mitigation and adaptation technologies and for protecting the international competitiveness of EU/EEA business. Such a process must not be subject to political manipulation and must follow pre-determined guidelines.

Although the Commission's impact assessment sees minimal consequences for aviation following its inclusion in the EU ETS, this has been challenged by the recently published report[4] by Ernst & Young. This report makes quite different and significant conclusions to that of the Commission's impact analysis and reinforces our concerns.

The impact on other sectors of EU ETS and access to JI/CDM

Many existing sectors of the EU ETS compete against companies globally, which are not subject to the EU CO_2 regulation. Within an open ETS, where airlines are full market participants, it will be important to seek to avoid an excessive increase of CO_2 allowance prices within the EU ETS due to aviation being a net buyer.

The proposed inclusion of aviation from 2011 creates the risk of carbon market turbulence in 2008 and increased CO_2 allowance prices for all sectors and would need to be managed carefully.

This conclusion is based upon the observed turmoil that the market in emissions trading has experienced during its first two years of operation. Most new information available on this topic, regardless of the expected volume of trading, infer large fluctuations in CO_2 allowance prices ranging from less than one euro per tonne of CO_2 today to anything in the region of 30 euro per tonne of CO_2 in 2005. Merely the current feed-back of the Commission on the National Allocation Plans (NAP) 2008-2012 has increased the 2008-2009 forward prices of CO_2 allowances, significantly.

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[4] *Analysis of the EC proposal to Include Aviation Activities in the Emissions Trading Scheme*, Ernst & Young, 1st June 2007.

The EU ETS market is a new market. It is crucial that there are no unnecessary uncertainties introduced regarding the volume of CO_2 allowances in the market. Uncertainty of this nature would only serve to disturb and upset the already fragile price setting in the market.

The preferred way to manage this potential instability would be for aviation (and indeed all EU ETS sectors), to be given unrestricted access to JI and CDM credits.

This would result not just in reducing the likelihood of CO_2 price turbulence from 2008 and ease the threat to aviation competitiveness. It would also offer aviation a more active role in the global emissions trading market and technology transfer to developing countries which is crucial to an efficient global climate change policy.

The benchmarking method

We support the Commission's approach of a single EU-wide allocation method for aviation. This should avoid some of the distortions that can arise when allocation methodologies vary widely by Member States.

Finding an appropriate benchmark will not be an easy task. There are some arguments in favour of a more relevant baseline than that proposed by the Commission. We believe that the years 2008 to 2010 would be a more appropriate reference period for any such benchmark. They are more likely to provide a realistic and recent basis upon which to build a benchmarking baseline.

Secondly, we believe that a benchmark should provide an incentive for individual aircraft operators to improve environmental efficiency and not discriminate against or favour of any particular type of operator or business model.

The selection of a pure CO_2 per tonnes km will punish aviation operators servicing shorter distances, even if there is no relevant, alternative means of transport.

In considering this significant change to the way aviation operates in Europe a very serious effort must be made to ensure that the territorial cohesion of the EU/EEA is maintained and strengthened. Remote areas, islands and peripheral regions that are dependant on aviation as the only viable means of transport and for which no alternative exists, must not be unfairly targeted by the proposed changes.

Transparency and selection of base line years

BUSINESSEUROPE believes that the allocation of allowances across the EU/EEA needs to be made on open, understandable, transparent and fairly documented basis.

From the point of view of including aviation in the EU ETS, BUSINESSEUROPE believes that the assessment of the situation should focus on the years 2008 to 2010. The concept of what a normal reference year is, is very unclear. How do we identify when or what a 'normal' reference year(s) is? BUSINESSEUROPE would support a three year period as a baseline rather than a single year.

To eliminate particular specific events having an undue importance a three period should be used as the basis for allowance allocation, where the data is available.

Further, the Directive does not seem to address the question of organisational and legal restructurings of existing airlines. In this context BUSINESSEUROPE recommends that allowance allocation is considered more closely, even if an airline (for reasons such as, for example, restructuring) cannot report any verified data.

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