

**Policy Department  
Economic and Scientific Policy**

**Inclusion of aviation emissions in the EU  
Emissions Trading Scheme (ETS)**

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**Workshop on the European Commission's proposal to include aviation into  
the EU Emissions Trading Scheme (ETS), 7 June 2007**

**European Parliament, Brussels**

**Summary of the findings and the discussion**

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## ***Opening of the workshop***

Peter Liese MEP (EPP-ED, D), rapporteur in the EP's Committee on the Environment, Public Health and Food Safety (hereafter 'the Environment Committee'), made clear that the workshop was organized to underpin his work. The draft report is due to be presented to the Environment Committee in July 2007, the discussion on the proposed amendments is then expected to take place in September 2007, followed by a vote in Committee in October 2007.

Astrid Klug, Germany's Parliamentary Secretary of State (Federal Ministry for the Environment) spoke on behalf of the German Presidency. She stressed that there is a consensus amongst Member States (Environment Council in February 2007) that action needs to be taken and that inclusion of aviation in the EU ETS is the most cost-effective instrument available at the moment. Ms Klug also said the Council's discussions were currently focussing on potential allocation methods for airlines under the scheme. Most national experts agree that the average benchmarking approach – setting emission targets on the basis of the sector's average performance – would be a good starting point. The Environment Council and the German Presidency in particular want the EU to take the lead on striving towards a global ETS in cooperation with ICAO (International Civil Aviation Organisation), Ms Klug explained.

## ***First expert panel: environmental aspects of the Commission's proposal***

The first expert panel was opened by Professor David S. Lee<sup>1</sup>. He is the World Meteorological Organisation's designated rapporteur on aviation and has been a lead author of several IPCC reports. Professor Lee, stated that currently aviation impacts represent about 3% of climate change (with an uncertainty range of 2-8%) and are not only caused by CO<sub>2</sub> (O<sub>3</sub>, CH<sub>4</sub> through NO<sub>x</sub>, particles, contrails and cirrus clouds also contribute to them). Aviation is the fastest growing source of CO<sub>2</sub> emissions in Europe, and current growth projections show that even ambitious technology targets for CO<sub>2</sub> and NO<sub>x</sub> cannot offset the projected growth in aviation. Therefore, Professor Lee concluded, aviation must play a role to stabilise climate change at 2° C increase and as there is "no other game in town" (no progress made within ICAO) the inclusion of aviation into the EU ETS is "a critical world-leading first step".

Jos Dings<sup>2</sup> stressed that aviation is an extremely climate intensive business as it is responsible for 2 to 8% of the global CO<sub>2</sub> emissions, whereas its contribution to the economy is only 1%. He confirmed that the rise of emissions from aviation is a source of concern: according to the speaker, aviation's contribution to the EU's climate impact will be around 20% by 2020. The position of T&E on the proposal is that inclusion of aviation into the EU ETS is a positive step forward, but will not be enough to cut emissions. Additional instruments need to be used. Regarding emissions trading, the system should have a gateway: aircraft operators should only be allowed to buy allowances if they reduce their own emissions to a certain extent.

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<sup>1</sup> Professor of atmospheric science and Director of the Centre for Air Transport and the Environment at the Manchester Metropolitan University.

<sup>2</sup> Director of the environmental NGO Transport & Environment Europe (T&E).

The European Commission proposes to set the cap at the average emissions from aviation in the years 2004-2006. T&E prefers a cap that better takes into account the EU Kyoto target to reduce emissions with 8% compared to the 1990 level. T&E wants permits to be fully auctioned in order to give (amongst others) new airlines a fair chance. Foreign carriers need to be included, because only then the economic effects on the aviation industry will be acceptable.

Yves Mannaerts<sup>3</sup> focussed in particular on the environmental performance of the various modes of transport. He made clear that coaches and trains use much less fuel per 100 km/person and emit much less CO<sub>2</sub> in gram per kilometre than cars and planes do. Cars with one passenger emit the most CO<sub>2</sub>, followed by planes. Cars with two or more passengers however emit significantly less than planes. Mr Mannaerts also stated that there is no level playing field between the different modes of transport with respect to taxes (no kerosene taxes and no VAT on aviation tickets). He concluded that the inclusion of aviation in the ETS is only a first step. Other measures would still need to be taken in order to create a level playing field.

## ***General discussion***

### *Questions*

- MEP Eva Lichtenberger:
  - o What would be the ideal system from T&E's point of view in order to have a fair competition between the different modes of transport and in order to deal with less developed markets? (question to Jos Dings)
  - o Are there any proposals that could be pushed through from the EU side regarding less well developed markets on other continents?
- MEP Anders Wijkman: When do you think we will have sufficient scientific analysis to take a step on a multiplier (for non-CO<sub>2</sub> effects)? (question to David Lee)
- MEP Caroline Lucas: Is there any debate going on in the Council about the principle of a gateway? (question to Astrid Klug)
- MEP Matthias Groote: What about proposals to tackle other than CO<sub>2</sub> emissions? (question to Astrid Klug)

### *Answers*

- Astrid Klug
  - o We know that aviation will continue to grow. We need to put brakes on that growth to some extent. This instrument will not be sufficient to slow down growth.
  - o There is no final opinion on the principle of a gateway, neither in the German Presidency, nor in the Council.

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<sup>3</sup> Director of the Belgian Federation of Belgian Coach and Bus Operators (FBAA) and member of the Tourism Sustainability Group at the European Commission.

- David S. Lee
  - o He does not strictly advocate the use of a multiplier, but rather advocates the consideration of the total range of effects. A multiplier has the potential for perverse effects.
  - o There are other instruments to address NO<sub>x</sub> emissions: landing and take-off charges, en route charges and pushing NO<sub>x</sub> reduction through technology. As a scientist Professor Lee favours en route charges.
  - o It is extremely difficult for science to provide guidance on multipliers. It will take scientists several years to do this. It is already sure that there will be time horizons attached to this guidance, as multiplication of effects varies over time.
- Jos Dings
  - o If we design the inclusion of aviation properly, aircraft operators will not compete with operators outside the ETS.

### ***Second expert panel***

MEP Georg Jarzembowski (EPP-ED, D) chaired the second expert panel. As rapporteur for the EP's Transport and Tourism Committee, he is also preparing a report on this proposal.

Le Thi Mai<sup>4</sup> spoke on behalf of ECAA, European Cargo Alliance, ELFAA, ERA and IACA, thereby expressing the views of a substantial part of the European aviation industry. Ms Li Mai underlined that two years ago the aviation industry developed a multi-action strategy to tackle emissions through technological and infrastructure improvements, operational best practice and market-based instruments (in particular ETS). The aviation sector welcomed the idea to establish an open system of aviation emissions trading, the proposal to tackle CO<sub>2</sub> emissions only within the ETS, the proposal to involve all operators (including foreign carriers) within the defined geographical scope and the idea to establish a harmonised procedure at EU level for the allocation of allowances. However, Ms Li Mai identified some points of concern from the aviation's perspective. The aviation industry does not agree with the baseline of 2004-2006 as this is too distant from the starting date (2011), and it does not agree with the proposed emissions cap as it would not allow emissions growth over 17 years and as operators would be obliged to buy allowances for large parts of their emissions. The European airlines are in addition worried about the fact that auctioning would be mandatory for aviation and that the imposition of EU ETS on foreign carriers might lead to international disputes and retaliatory measures. Ms Thi Mai finally called upon the EU institutions to accelerate the implementation of the Single European Sky Policy that in itself is "huge reservoir of CO<sub>2</sub> cutting".

Jean-Michel Dancoisne<sup>5</sup> made clear that competition from aviation is more intense than ever with the emergence of new aircraft operators and the development of hubs which encourages the use of short-distance flights. But Thalys also faces increasing competition from private car transport and coach transport for distances less than 600 km. So according to Mr Dancoisne, an approach to avoid perverse effects on the railway sector does not focus only on the aviation sector. Despite the efforts made by the railway sector to inform customers about the ecological impact of their modal choices (like *éco-comparateur* of the French national railway company SNCF) or efforts to go carbon neutral (like Eurostar), the choice of individual or corporate customers is still to a large extent determined by the price.

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<sup>4</sup> General Manager Environment of the Association of European Airlines (AEA).

<sup>5</sup> CEO of Thalys International.

In order to realise more environmentally friendly transport patterns, transporters need to internalise the external costs of their emissions as soon as possible. In addition fuel taxes and VAT prices need to be amended as soon as possible, Mr Dancoisne concluded.

Pablo Mendes de Leon<sup>6</sup> identified possible legal obstacles to the inclusion of aviation in the EU ETS and in particular to the imposition of the EU ETS on non-EU carriers and on flights arriving or departing outside the EU. Introducing the ETS for intra-EU flights operated by EU carriers only is the least problematic from a legal point of view. Introducing the ETS for foreign carriers flying through the airspace of EU Member States is a bit more questionable. The imposition of ETS to such a carrier (e.g. the Emirates) could be viewed as an infringement of its right of free transit without having to pay costs other than costs related to infrastructure, air traffic and so on. The EU Member States on the other hand may argue that the costs of passage may include environmental costs. The introduction of ETS for non-EU carriers operating intra-EU flights (however pretty rare) might bump into more legal obstacles as the rights and obligations of such carriers are laid down in the EU-US agreement signed in spring 2007. However, introducing ETS for all carriers flying from a point outside the EU to a point inside the EU and vice versa might be the most complicated measure as this could amount to extraterritorial application of local law affecting the sovereignty of a third party as enshrined in the Chicago Convention, Mr Mendes de Leon argued. In addition there might be a conflict with the exclusive regulatory powers of ICAO over the high seas and with some provisions of the EU-US agreement. Finally Mr Mendes de Leon argued that enforcement towards non-EU carriers is likely to be problematic.

## ***General discussion***

### *Questions from the audience*

- What is the position of the aviation industry on the claim that allocation in the EU ETS is indirectly based on the 1990 baseline, whereas the Commission's proposal on aviation is based on the average emissions from the years 2004-2006? (question to Thi Mai)
- What is the opinion of the aviation industry on the likelihood of windfall profits? (question to Thi Mai)
- How much will the prices for passenger air travel increase as a result of aviation's introduction into the EU ETS? (question to Thi Mai)
- Will this affect the competitiveness *vis-à-vis* the coach sector which is subject to quite high VAT levels and fuel taxes? (question to Thi Mai)
- Mr Mendes de Leon has identified some legal obstacles. But has he thought about any solutions or alternatives? (question to Mendes de Leon)
- MEP Peter Liese:
  - o According to the Ernst&Young report there is no scenario in which growth becomes negative growth. So what is meant with "fewer tickets"? "Fewer tickets than without ETS or fewer tickets than today?" (question to Thi Mai)
  - o There is a ticket tax in France. How is that reflected in international agreements? Have there been any complaints? (question to Mendes de Leon)

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<sup>6</sup> Director of the International Institute of Air & Space Law at the University of Leiden (NL).

## Answers

- Le Thi Mai
  - 1990 is a reference year for parties to the Kyoto protocol. It has never been a reference year for individual sectors.
  - The Ernst&Young report, made public by the aviation industry on 6 June 2007, argues that there will be no windfall profits as airlines are not able to pass costs on to their customers (they are not monopolistic service providers like some European electricity firms) and as they will have to buy allowances from other sectors.
  - The ticket price will not be affected in the beginning. In the longer term there will be fewer tickets as there will be fewer flights.
  - According to the Costa report aviation has, more than other sectors, integrated its external costs. The aviation industry pays all its infrastructure costs, Ms Thi Mai explained. In addition other modes of transport also receive large amounts of subsidies.
  - There will be fewer tickets than today.
- Pablo Mendes de Leon
  - Bilateral agreements like the EU-US agreement needs to be renegotiated. The EU-US agreement, however, has been signed in March 2007, which makes it difficult to make changes in the short term without express agreement by the US.
  - Regarding the passenger tax, he does not see any legal problem, as it is a national or European affair.

### ***Concluding remarks by Pierre Schellekens, Deputy Head of Cabinet of Commissioner Dimas on behalf of the European Commission***

Mr Schellekens promised to take into account all impact assessments made so far on the Commission's proposal. He stated that a very solid basis has been produced for a political agreement. Both the Transport and Environment Council have after all produced positive conclusions on the proposal. He touched upon the issue of discrimination between the different sectors stating that it is necessary to make sure that the level of commitments are the same, but that a system will be established that takes into account the specific characteristics of each sector. With respect to auctioning, the aviation industry would be treated the same as the other sectors.