



Aviation Emissions- Questions & Answers on the inclusion of aviation in the EU's Emission Trading System (EU ETS)

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Background

The European Union legislation to include aviation emissions in the Emissions Trading Scheme (ETS) is not a recent one. The European Commission proposed in February 2005 that international aviation should be included in any post-2012 climate change regime. A new law adopted in 2008 by the European Parliament and the Council of the European Union stated the requirement of all aircraft operators flying into or out of any EU airport to participate in the EU's emissions trading scheme (ETS) from 2012.

1 What is Europe doing about greenhouse gas emissions?

Countries have pledged to limit global temperature increases to 2 degrees centigrade and to do this global emissions will need to be cut by 50% on 1990 by 2050. Europe recognises that it has an historical responsibility and must do more than developing countries, and has pledged to cut its emissions by at least 80% on 1990 by 2050. Europe has put in place a number of policies to reduce emissions. We believe that it will be necessary for all sectors to play their role if we are to achieve the target and that this is important in preventing the most dangerous climate change. A central policy employed in Europe since 2005 is emissions trading which caps the total emissions from the energy generation and energy intensive sectors but allows entities in these sectors to choose whether to reduce emissions or buy allowances within the overall cap. We believe that this policy allows businesses the flexibility to decide on their own strategy and timetable for emissions reductions whilst understanding the overall targets and likely costs.

2. How big is aviation's contribution to climate change?

Emissions from aviation currently account for just 2-3 per cent of global greenhouse gas emissions but they are set to grow very rapidly. Even assuming 2% per annum efficiency savings the International Civil Aviation Organisation estimate that emissions from the sector will grow by up to 88% between 2005 and 2020, and by up to 700% between 2005 and 2050. Because planes have a long life, it is necessary to encourage airlines to take action now to decouple aviation growth from emissions growth.

3. Aviation is an international business – why not conduct emissions trading at global level?

The EU is the strongest advocate for global action to reduce climate impacts of aviation. States have not been able to agree on a common global system through either the United Nations Framework Convention on Climate Change (UNFCCC) or the International Civil Aviation Organisation (ICAO). In the Resolution on climate change adopted at its most recent Assembly in October 2010, states in ICAO called for further work to explore the feasibility of a global market-based measure. The Resolution also recognized that states may take action prior to 2020. The EU ETS provides a good model for applying market-based measures to aviation. Development of other national programmes covering international aviation, compatible with the EU ETS, are a pragmatic way in which global action can be implemented.

4. Why is aviation being included in the EU ETS?

It is very important to allow aviation to grow whilst reducing its emissions. The Emissions Trading System recognises that there are limited, though increasing, options to reduce emissions in this sector. Including aviation in the EU ETS allows aircraft operators to choose whether to reduce their emissions now or in the future. If they choose the latter option they can buy allowances from within the trading system to cover their emissions – this means that emissions reductions will take place somewhere to account for the aviation emissions. Operators can choose to buy from other aircraft operators, from other entities in the Emissions Trading System, to use some credits from the Kyoto mechanisms to fund emissions reductions in developing countries or to buy at auctions.

5. Why is Europe requiring other countries airlines to participate in the EU ETS?

Europe would like to see a global solution to this global problem and has been working within ICAO and the UNFCCC to encourage multilateral action to tackle this problem urgently. However there has been no agreement on urgent action and the EU, which covers 27 countries and over 500 million people have decided, reluctantly, to move ahead of others. From 1 January 2012 aircraft that arrive or depart from European airports will have to comply with the ETS by annually reporting their emissions and surrendering allowances equal to those emissions.

6. This is not about a tax or a levy

The EU ETS is not a tax. It is an emissions ceiling, and is one part of the EU's comprehensive approach towards reducing aviation's climate change impacts. If an airline can manage to cut its emissions to the expected level, it doesn't need to incur any costs at all. However, the system provides airlines with the flexibility to be able to choose to implement emissions reductions themselves or pay others to do it by purchasing additional emission rights.

The EU ETS is a cap-and-trade system designed to keep emissions covered by the system within a pre-defined limit. The objective is to allow the market to decide where reductions of emissions can be achieved in the most economically efficient way possible. For this reason it is called a "market based measure".

7. Isn't this just a way of Europe raising money from developing countries?

In order to incentivise emissions reductions it is necessary to have some financial element in the trading system, but to keep costs low aircraft operators will receive the vast majority of the requirements for free. There is no requirement for aircraft operators to buy any additional allowances at auction – they can buy from other operators and use some credits from the Kyoto mechanisms. However Member States have agreed that they should use 100% of the revenues from auctioning aviation allowances for climate and energy purposes and much of this spending will be in third countries. The legislation requires Member States to report how these revenues are spent, to the European Commission.

8. Will ticket prices increase?

Including aviation in the EU ETS will not directly affect or regulate air transport tickets. However, aircraft operators may have to buy emission allowances in the market in addition to those allocated to them. With a carbon price of some €13 per tonne and the majority of emissions rights allocated for free to airlines, the average extra cost to airlines will be less than \$6 or 260 Rupees per passenger on, say, a London – Delhi roundtrip.

The ETS rewards airlines that reduce emissions at the expense of those that do not and so provides an economic incentive to reduce emissions. Airlines with more modern and efficient fleets, such as those in India, will be at an advantage compared to airlines with older fleets.

9. How will allocations per aircraft operator be calculated? Will the money collected through ETS go to EU treasury?

- 82% of the allowances will be given for free to aircraft operators
- 15% of the CO₂ allowances are allocated by auctioning – although operators are free to buy allowances from other operators and also to use some credits from emissions reduction projects.
- The remaining 3% will be allocated to a special reserve for later distribution to fast growing airlines and new entrants into the market.

Auction revenues will be used to tackle climate change, including in developing countries, and through funding of research and development in the field of air transport. EU legislation contains binding requirements on Member States to report on the use of revenues, and our intention is that these reports will be made public.

The free allowances will be allocated by a benchmarking process which measures the activity of each operator in 2010 in terms of the number of passengers and freight that they carry and the total distance travelled. The benchmark should be published by 30 September 2011.

10. What will the effect be on aviation emissions?

Aviation emissions, which are currently growing rapidly, will be capped at below their average level in 2004-2006. By 2020 it is estimated that a total of 183 million tonnes of CO₂ will be saved per year on the flights covered, a 46% reduction compared with business as usual. This is equivalent, for instance, to twice Austria's annual greenhouse gas emissions from all sources. Some of these reductions are likely to be made by airlines themselves. However, participation in the EU system will also give them other options: buying additional allowances on the market – i.e. paying other participants to reduce their emissions - or investing in emission-saving projects carried out under the Kyoto Protocol's flexible mechanisms. Providing aviation with these options does not reduce the environmental impact of the proposal since the climate impact of emission reductions is the same regardless of where they are made.

11. What is happening now?

All major airlines have been monitoring their emissions during 2010, and have reported these. They also applied for free allocations of emissions allowances. The European Commission will now calculate the benchmark that will define how many free allowances aircraft operators will receive. This benchmark decision will be published by 30 September 2011.

By end September the Commission will also publish the emissions cap and the percentages of allowances to be: auctioned; given for free; and allocated to the special reserve.

For further details log on to:-

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