



European Economic and Social Committee

NAT/349
Aviation activities/scheme for
greenhouse gas emission
allowance

Brussels, 31 May 2007

OPINION

of the

European Economic and Social Committee

on the

Proposal for a Directive of the European Parliament and of the Council amending
Directive 2003/87/EC so as to include aviation activities in the scheme for greenhouse gas
emission allowance trading within the Community

COM(2006) 818 final – 2006/0304 (COD)

On 8 February 2007 the Council decided to consult the European Economic and Social Committee, under Article 175 (1) of the Treaty establishing the European Community, on the

Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC so as to include aviation activities in the scheme for greenhouse gas emission allowance trading within the Community
COM(2006) 818 final – 2006/0304 (COD).

The Section for Agriculture, Rural Development and the Environment, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 8 May 2007. The rapporteur was Mr Adams.

At its 436th plenary session, held on 30-31 May 2007 (meeting of 31 May), the European Economic and Social Committee adopted the following opinion by 50 votes to 8 with 4 abstentions.

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1. **Conclusions and recommendations**

- 1.1 The Committee welcomes the proposed Directive which offers a carefully considered and pragmatic approach to moderating and compensating for the rapidly growing volume of greenhouse gases emitted by the aviation industry.
- 1.2 By bringing aviation within the remit of the European Emissions Trading Scheme (ETS) the scheme is itself potentially strengthened and made more robust as the pre-eminent model for tackling CO₂ emissions at a global level.
- 1.3 The proposal is realistic. It recognises the strength of political, economic and consumer pressures for the continuing development of air travel and transport whilst using the market mechanism of the ETS to compensate for one of the main, damaging external impacts of the aviation industry.
- 1.4 The proposal is nevertheless vulnerable. It stands or falls with the ETS – a system which has met with criticism from many stakeholders, which has yet to prove itself and which in turn depends on fair allocation of CO₂ allowances, imaginative and innovative investment in CO₂ reduction and enforcement of National Allocation Plans by Member States.
- 1.5 The EESC welcomes the inclusion in the scheme of all flights into or out of Europe from 2012 but believes the start date should be 2011 as for European operators.
- 1.6 It is noted that the Directive allows the entry into the scheme of "external" flexible project credits from the Kyoto Joint Implementation or Clean Development Mechanisms (JI/CDM).

Support for carbon reduction, certified renewable energy/energy efficiency schemes in developing countries is positive providing strict auditing is maintained.

- 1.7 The Committee recognises that this is a complex issue but feels the proposal is somewhat opaque and fails to present its advantages clearly. The proposal appeals in different ways and at various levels to the EU as a whole, to individual Member States, to different sectors of industry and to the public. In particular the positive potential of the Directive to support and reinforce the ETS should be emphasised. It is also noted that active and complementary support will be required from other parts of the Commission, particularly Transport and Energy and Research.
- 1.8 The EESC therefore recommends that:
 - 1.8.1 The inclusion of aviation in the ETS is used as an opportunity to revise the scheme, correct existing mistakes and strengthen weak areas so that it enables a genuine and effective market in carbon trading to develop - a critical element in supporting the EU's pledge to meet a 20% CO₂ reduction by 2020.
 - 1.8.2 The proposed emissions cap is lowered to require aviation to make an adjustment more comparable with other industries already in the ETS.
 - 1.8.3 The proposed free allocation of allowances to operators should be eliminated or significantly reduced requiring all, or the majority, of allowances to be auctioned.
 - 1.8.4 A common limit on the purchase of credits from JI/CDM schemes is applied to ensure that a high proportion of emissions reductions occur within the EU.
 - 1.8.5 Advance planning is considered for how the effects of the Directive will be presented to the public. Not only will this further raise awareness of the impact of aviation on climate change but it should encourage more openness on the financial implications of the scheme for the customers and operators and minimise the risk of windfall profit-taking.
 - 1.8.6 Member States should be asked to voluntarily offset the emissions from flights by Heads of State, Heads of Government or Government Ministers, which are presently exempted for administrative reasons (flights mostly operated by military units), so as to set a positive example.
 - 1.8.7 Complementary work on non-ETS carbon-reduction measures should also be given a very high priority. These include eliminating legal barriers to tax and regulatory steps - particularly on aviation fuel; restricting nitrogen oxide emissions; improving air traffic management and research into greater engine and airframe efficiencies.

2. Introduction

- 2.1 Aviation has been and remains an integral and important part of the expanding global economy. Aviation is, in many ways, a success story. Since 1960 it has grown each year by an average of 9%, a rate 2.4 times greater than the growth in global GDP. This growth continues and on present trends air transport will double by 2020.
- 2.2 This success has inevitably created problems such as the growth and local impact of airports but in the context of climate change attention is increasingly focussed on how aviations' greenhouse gas and other emissions contribute to global warming. The aviation industry, as a service sector, provides about 0.6% of the EU's economic added value but 3.4% of its greenhouse gas (GHG) emissions. Emissions from aviation in the EU have increased by 87% since 1990 whilst the EU's total GHG emissions from all sources fell by 3% in the same period.
- 2.3 International flights have been historically exempt from fuel tax and are not covered by Kyoto Protocol targets. Taking into account the long working life of aircraft and the possibilities for further technical and operational efficiencies the growth of aviation means the sector will continue to increase its GHG emissions, undermining efforts made in other sectors where reductions are taking place. Although aviation has, by and large, seen great improvements in regulation, coordination and enforcement in matters of safety and security it has been difficult to reach international agreement on environmental issues which may also impact on commercial interests.
- 2.4 The Commission has been seeking a way to encourage or enforce reduction in aviation GHG emissions for some time. In 2005 it adopted a Communication, "*Reducing the Climate Change Impact of Aviation*"¹ In April 2006 the EESC in its Opinion on this communication² concluded that additional policy measures were needed to control the impact of aviation on climate change and recommended, *inter alia*, inclusion of aviation in the EU Emissions Trading Scheme. Similar positions were taken by the Council of Environment Ministers, The European Council and the European Parliament. The Commission have now proposed a Directive – the subject of this Opinion – which includes aviation in the Community scheme for GHG emission allowance trading.

3. Summary of the proposed Directive

- 3.1 In the introduction to the proposed Directive it is noted that growth in aviation emissions could, by 2012, offset more than a quarter of the EU's environmental contribution made under the Kyoto Protocol. Reaching international agreement on action is proving difficult but

¹ COM(2005)459 final 27.9.2005.

² NAT/299 Climate Change Impact of Aviation.

the proposed Directive is intended to provide a model for action at a global level and is the only imitative which offers this possibility.

- 3.2 The present proposal amends Directive 2003/87/EC on GHG allowance trading to include aviation in the Community scheme. An impact assessment accompanying the proposal concludes that whilst emissions trading is the most efficient solution to reducing the climate impact of aviation the impact of the measures would have "only a small effect on forecasted demand growth" and therefore on the volume of emissions³. It must therefore be understood that this proposal is not designed to restrict the growth of aviation *per se* but to ensure that some of its damaging environmental impacts are offset by actions mostly in other economic sectors.
- 3.3 The present EU ETS⁴ covers about 12,000 energy-intensive industrial installations which are responsible for 50% of total EU CO₂. Under the proposal airlines will receive tradable allowances to emit certain levels of CO₂ each year with an overall cap defined by the average annual level of emissions generated by the aviation industry in the three years 2004-2006. Operators can sell surplus allowances or buy additional allowances on the ETS market, e.g. from industrial installations which have reduced their emissions or from clean energy projects in third countries under the Kyoto Protocol mechanisms.
- 3.4 The proposed directive will cover emissions from flights within the EU from 2011 and all flights to and from EU airports from 2012. Both EU and foreign aircraft operators would be covered. It is estimated that by 2020 the proposal may add between EUR 1.8-EUR 9 to the cost of a return ticket within Europe and more for long-haul flights, e.g. EUR 8-EUR 40 for a return ticket to New York. The very modest impact of such a charge in the price-elastic airline industry is the reason why the scheme is seen as having little impact on growth.
- 3.5 It should be noted that the Commission recognises that inclusion of aviation in the ETS is just one of the possible steps that need to be taken at international level to deal with the increasing impact of aviation emissions on the climate. It suggests bringing forward proposals related to nitrogen oxide emissions following an impact assessment in 2008. The International Civil Aviation Organisation (ICAO) is also intending to make further proposals at its assembly in September 2007 though indications suggest that pressure is building to weaken and undermine the EU initiative.

4. **General comments**

- 4.1 The EESC welcomes the fact that the inclusion of aviation in the ETS is the first step, at international level, in getting air transport to pay some of the environmental cost it has been externalising since its inception. The inclusion of non-EU operators is also welcomed. In

³ Summary of Impact Assessment para 5.3.1.

⁴ See Appendix I for a short description of the ETS.

addition the proposed scheme will require aircraft that are less fuel-efficient to use a greater permit allocation, providing a modest stimulus for technical and operational efficiencies. As low-cost airlines have an average 10% higher load factor than "legacy" carriers the proposal will also have slightly less impact on the low fare carriers whilst encouraging the discounted sale of vacant seats by all airlines.

- 4.2 The Committee recognises that action on flight pattern efficiencies, alternative fuels, improved design and higher load factors will all make some contribution to reducing the growth of GHG emissions. Nevertheless, most of these measures have been actively applied in aviation since 1990 and yet this period has still seen an increase in emissions of over 85% - a figure which continues to rise due to the significant increases in passenger numbers and freight carried.
- 4.3 This Directive proposes to tackle the growing contribution to climate change by the aviation sector by including it in the ETS. The ETS itself provides the only international, market-related large-scale CO₂ regulatory and compensatory mechanism but has experienced significant initial problems in its trial phase which ends in 2007. This was largely due to over-allocation of allowances by Member States. For the EU-ETS to meet its objective to be a market instrument of reducing CO₂ emissions it is essential that the Commission, supported by all Member States is resolute in determining and applying CO₂ quotas and ensuring compliance.
- 4.4 In practice the inclusion of aviation might be of great benefit to the ETS. Aviation is less price sensitive than most of the industrial process and energy-generation industries currently responsible for the majority of CO₂ emissions. As (inevitably) the CO₂ share from aviation increases then significant new funds will enter the ETS system providing investment for further carbon savings in other sectors. Whilst aviation itself may have limited capacity to make such savings it can provide a conduit for funds enabling other industries to do so.
- 4.5 For example, the Commission estimates that the Directive will result in net GHG reductions of 183 million metric tonnes of CO₂ by 2020 compared with a business as usual scenario. Projecting the price of carbon during that period is imprecise and depends on a firm allocation regime but if the aviation industry purchased 100 million tonnes during that period at an average price of EUR 30 it would, in principle, inject EUR 3 billion into CO₂ reduction.
- 4.6 The EESC in 2007 has commenced an extensive programme of encouraging action and best practice in civil society on climate change, an integral part of which is to minimise further contributions to GHG emissions. Whilst the Committee recognises that this proposal is, pragmatically, the best approach to the inclusion of aviation in a carbon-reduction strategy it must however point out that the proposed Directive will do virtually nothing to limit the ever-increasing output of GHGs by the air transport sector. This creates a major "presentation" problem. The aviation industry is already the fastest-growing source of GHG emissions in Europe and this Directive indulges the industry in its insistence on growth without requiring a

limit to emissions. The public will need to understand that the Directive can stimulate significant resources, which will be applied to compensatory CO₂ reduction.

5. Specific comments

- 5.1 In terms of achieving the stated objective of significantly cutting emissions from the industry the proposed Directive is terminologically inexact. As airlines can buy allowances at "market" rate to cover emissions above the capped allocation the effect on reducing GHGs from the aviation sector will be minimal, estimated at a possible 3% net reduction by 2020, or less than just one year's growth in GHG emissions from aviation. From the Commission's own figures it can be seen that the marginal cost increase in ticket prices will have little effect on the demand for air travel.
- 5.2 By issuing the great majority of initial allowances free of charge to airlines and allowing top-up purchasing within the general ETS (an open as opposed to a closed system for air transport – or possibly for transport as a whole) the Commission accepts the *status quo* and does little to affect the continued and rapid growth of a GHG-emitting aviation sector. However the heart of the problem is that such a restriction is currently politically and economically unacceptable. To make any progress the Commission has calculated that not only will the inclusion of aviation in the ETS drive some internal carbon reduction efficiencies but it will also, by balancing-off increased CO₂ emissions from aviation by reductions in other sectors, provide genuine market stimulus and finance for new research and applications for CO₂ reductions elsewhere.
- 5.3 The Commission notes that a "closed" system of trading allowances – i.e. within the aviation sector only – the allowance price would be EUR 114-EUR 325 as opposed to the assumed EUR 30 per tonne. Such a closed system is likely to increase ticket prices by EUR 8-EUR 30 for a short haul flight. Whilst this may be thought a more realistic way of affecting both demand and supporting fuel efficiency and research into emission minimisation it is unlikely to be supported at EU level where there is evidence of differing transport priorities. A closed or "transport only" system would make a global agreement even more unlikely.
- 5.4 In the proposed Directive the Commission has recognised but decided not to take account of the well-researched analysis that aircraft emissions are between two and four times more damaging to the climate than those from other industries⁵. (This is largely because most emissions take place in the upper atmosphere and due to the effects of non-CO₂ emissions such as condensation trails and nitrogen oxides) Complementary action must be taken on reducing or compensating for nitrogen oxides.
- 5.5 Airlines already benefit from the exemption of aviation fuel from taxation and the free distribution of initial allocations of carbon allowances will further increase their state-

⁵ IPCC Summary for Policymakers 2007, The science of climate change. <http://www.ipcc.ch/pub/sarsum1.htm>.

supported advantages over other transport sectors. There is a risk that operators use the introduction of the ETS scheme to raise prices across the board. A clear presentation by the Commission to the public of the real financial impact of the scheme on industry costs may mitigate unjustified profit-taking.

- 5.6 Further thought should be given to the "exclusions" proposed in the Directive. For example the exemption of flights by Heads of State, Heads of Government or Government Ministers is particularly inappropriate as this group should be setting a good example. Although there are administrative reasons for offering this exclusion (flights operated by the military units mostly) Member States should be asked to voluntarily offset these emissions, as some have already decided to do.
- 5.7 As the Commission has opted for an open top-up system there seems little justification for not bringing the baseline date of the scheme into closer alignment with the current EU commitment for the first phase of the Kyoto Protocol (an 8% reduction between 2008-2012 from 1990 levels) and future commitments (e.g. 30% by 2020 from 1990 levels). The choice of 2005 as the base reference year already allows the sector a "starting point" already some 100% higher than Kyoto. Of course, taking into account that the aviation is the first transport sector introduced in the EU-ETS, it is only fair to make initial allocation on the same principles as introduced in the EU-ETS rules.
- 5.8 This Directive is unlikely to achieve any significant impact on slowing the increase of total aviation emissions. Nevertheless the fact that it may stabilise net CO₂ emission through the ETS and in doing also provide resources for further reductions goes a long way towards justifying the cost and administrative complexity of implementation. The proposed Directive does more than offer an environmental fig-leaf to the aviation sector - it may positively increase public awareness, offer significant new carbon-reduction resources and provide a measure for internalising those external environmental costs which hitherto the aviation industry has been able to ignore.

Brussels, 31 May 2007.

The President
of the
European Economic and Social Committee

The Secretary-General
of the
European Economic and Social Committee

Dimitris Dimitriadis

Patrick Venturini

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N.B.: Appendix overleaf.

APPENDIX I
to the
Committee Opinion

The following amendments were rejected by the assembly, but were supported by more than a quarter of the votes cast:

Point 1.8.2

Amend as follows:

"The proposed emissions cap is ~~lowered to require aviation to make an adjustment more~~ set comparable with other industries already in the EU-ETS."

Voting

For: 18
Against: 33
Abstentions: 9

Point 1.8.3

Amend as follows:

"The proposed free allocation of allowances to operators should be ~~eliminated or significantly reduced requiring all, or the majority, of allowances to be auctioned.~~ set within the EU-ETS rules and guidance documents."

Voting

For: 13
Against: 24
Abstentions: 6

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APPENDIX II

In 2005, the European Union introduced a Europe-wide market in carbon dioxide emissions for major greenhouse gas emitting industries. This is the forerunner to a similar system that will operate under the Kyoto Protocol among its signatories from 2008. The EU ETS is designed to prepare European nations for Kyoto.

The scheme is based on the allocation of greenhouse gas emission allowances, called EU Allowances (EUAs), to specific industrial sectors through national allocation plans (NAPs) with oversight by the European Commission. These allowances can be traded. The first phase of the EU ETS covers the period 2005-2007, while the second phase coincides with the Kyoto Protocol's first commitment period, from 2008 to 2012.

The first phase of the EU ETS applies to 7,300 companies and 12,000 installations in heavy industrial sectors in the EU. These include: energy utilities, oil refineries, iron and steel producers, the pulp and paper industry as well as producers of cement, glass, lime, brick and ceramics.

The ETS imposes annual targets for carbon dioxide (CO₂) emissions on each EU country, and then in turn each country allocates its national allowance across those companies whose factories and plants are the major emitters of carbon dioxide - power utilities, building products manufacturers and other heavy industrial enterprises.

Each EUA gives the owner the right to emit one tonne of carbon dioxide. Companies that don't use up all their allowances, that is, emit less than they are entitled to, can sell them. Companies which exceed their emission target must offset the excess emissions by buying EUAs, or pay a fine of €40 a tonne.

To manage the trade in allowances and verify holdings, the ETS requires all EU Member States to create a national emissions allowance registry holding accounts for all companies included the scheme.

A market operates through brokers and on electronic exchanges where EUAs are traded on a daily basis. What is mainly being traded are EUA "forward contracts", that is, EUAs for delivery at a future date. These future dates correspond to the end of the calendar years to which the allowances relate.