



# Including aviation into the EU Emissions Trading Scheme – WWF position statement

## INTRODUCTION

Globally, aviation accounts for approximately 4 to 9 percent of the climate change impact of human activity. In the EU it is higher – currently contributing between 5 and twelve percent<sup>1</sup>. Indeed the EU accounts for approximately half of the CO<sub>2</sub> emissions from international aviation reported by developed countries<sup>2</sup>.

As the fastest growing source of greenhouse gas emissions the lack of political action on aviation can no longer be justified. It was therefore a welcome move, when in September 2005 the European Commission outlined their intention to bring forward a legislative proposal to include the climate impact of the aviation sector in the EU Emissions Trading Scheme (ETS)<sup>3</sup>. This is now due by the end of 2006.

Provided the system is designed in the ways in which we suggest in this document we would consider the inclusion of aviation into a Europe wide emissions trading scheme to be an adequate first step in starting to address the climate change impacts of this sector. However, on its own the scheme is unlikely to deliver, at least in the short term, significant emissions reductions from aviation. Indeed, the Commissions communication recognises the need, that, in parallel to the consideration of including aviation into the ETS that existing policies and actions should continue to be strengthened.

We would emphasise, therefore, that inclusion of aviation into the ETS should be developed, not in isolation, but as part of a complimentary package of policies and measures which could include:

- improved air traffic management systems and more direct routing to tackle the formation of contrails and cirrus clouds;
- the immediate ending of VAT exemption, for example with a tax on air tickets. An increase in air passenger duty should also be considered<sup>4</sup>;
- a kerosene tax on fuel for domestic flights to internalise CO<sub>2</sub> emissions, and where there is agreement a tax on fuel on flights between two member states;

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<sup>1</sup> 'Clearing the Air – the myth and reality of aviation and climate change' T&E, 2006.

<sup>2</sup> 103,411 of 202,779 MtCO<sub>2</sub>e – 2002 data as reported by Annex I parties to the UNFCCC.

<sup>3</sup> COM(2005) 459, 27.9.2005 Reducing the Climate Change Impact of Aviation.

<sup>4</sup> [http://www.aef.org.uk/publications/detail.php?art\\_id=230](http://www.aef.org.uk/publications/detail.php?art_id=230) - A Mori poll released in June 2006 and commissioned by the Airfields Environment Trust (AET) of 2050 adult UK residents looking at the attitudes of the general public to climate change and the taxation of air travel has found that 52% of people would be willing to pay for a doubled air passenger duty to cover the environmental costs of flying.

- en-route emissions charges (however we note that there is currently a moratorium on applying charges to international aviation for greenhouse gases until October 2007); and
- airport NO<sub>x</sub> charges.

As it is unlikely that aviation will actually enter into the scheme before 2009/2010 at the earliest (due to the 2 to 3 years it may well take for the legislative proposal to pass through the European Parliament and Council co-decision process) we would like to see these additional measures implemented at the earliest opportunity and certainly before 2010.

## KEY DESIGN FEATURES

### 1. Geographic scope

The Commission communication on reducing the climate change impact of aviation states ‘In environmental terms, the preferred option is to cover all flights departing from EU airports, as limiting the scope to “intra-EU” flights, which both depart and land in the EU, would address less than 40%<sup>5</sup> of the emissions from all flights departing from the EU’. We would support this and also recommend that, in addition, the scheme should cover all flights to EU airports. This is important not just for an effective emissions trading scheme but also for other policies and measures which seek to address the climate change impacts of aviation.

Legally this should not be problematic:

“The provisions of the Chicago Convention, notably its Article 11, and similar provisions in bilateral agreements and EU law, require a non-discriminatory application of the scheme with respect to international flights. The possible extension of the EU ETS to international aviation within, to and from the EU is therefore feasible provided that it is applied without distinction as to nationality.<sup>6</sup>”

### 2. Coverage of climate impacts

The climate impacts of aviation are two to five times higher than the impact of CO<sub>2</sub> alone (excluding the potential effects of enhanced cirrus cloud production)<sup>7</sup>. Our preference would be for the development and implementation of further policies and measures to directly address these additional impacts (e.g. NO<sub>x</sub> en-route charging or a NO<sub>x</sub>-based landing charge at all EU airports). These could, for example, be introduced at a national country level immediately and then incorporated into a European wide policy as soon as possible.

However, if these are not introduced by the time aviation is incorporated into the ETS then, as a temporary measure and on the basis of the precautionary principle, the ETS should include the full impacts of aviation via the use of a multiplier<sup>8</sup>.

### 3. The cap

The sector should be given a tight cap which will deliver an absolute reduction in emissions from a fixed historical baseline. Ideally this should be in line with the current EU commitment

<sup>5</sup> Estimates of CO<sub>2</sub> emissions from Eurocontrol. 2004 estimates indicate that intra-EU flights emitted around 52 MtCO<sub>2</sub> while all departing flights emitted 130 MtCO<sub>2</sub>

<sup>6</sup> ‘Giving wings to emissions trading, inclusion of aviation under the European emission trading system (ETS): design and impacts’ CE Delft 2005. Report for the EC, DG Environment.

<sup>7</sup> ‘Aviation Radiative Forcing in 2000: An Update of IPCC (1999)’ Sausen et al. 2005

<sup>8</sup> We acknowledge the shortcomings of a multiplier (e.g. the most appropriate unit to apply has yet to be developed and agreed upon within the scientific community) but, in the absence of other policy measures, we would stress that these shortcomings are outweighed by the need to include non-CO<sub>2</sub> effects which make up a significant proportion of aviation's impact on the climate.

for the first phase of the Kyoto Protocol (-8% between 2008-2012 from 1990 levels) and future commitments (e.g. 30% by 2020 from 1990 levels). However, we are aware of the relationship between the level of the cap and the type of scheme that is opted for (e.g. closed versus open).

Due to the international/cross national boundary nature of the aviation sector it would be sensible for the cap to be set at the EU level and not by individual member states participating in the scheme, and for the same rules to be applied to allowance distribution across the sector. Cap setting at as aggregate a level as possible can best ensure efficiency, transparency and fairness of the process. Such harmonisation of allocation would also prevent competitive distortions which may occur if member states set differing cap levels, and may also reduce the administrative costs related to allocation decisions to member states.

#### 4. Allowance allocation methodology

The aviation sector should be required to buy 100% of its allowances at auction. All other allocation methodologies that give allowances for free (grandfathering and benchmarking) fail to provide the non-distorting incentives needed to drive emissions down or encourage investment in cleaner technologies and fuels. Free allocation could also lead to the generation of huge windfall profits for the sector (e.g. potentially in the magnitude of billions of Euros per year, assuming an EUA price of between 10 and 30 Euros per tonne of CO<sub>2</sub>, the sector were to receive all of its allowances for free and were to pass on the opportunity cost of allowances to the ticket price<sup>9</sup>). Auctioning also supports the 'polluter pays' principle, rewards good performance and generates revenue which can be used to, for example:

- further develop and implement low carbon technologies; and potentially
- be distributed to installations or industries which suffer significantly from an independently proven disadvantage through exposure to international competition with companies not located in a capped country;

Based on one of the policy options outlined in their report for DG Environment, CE Delft estimated that, based on allowance prices of €10 and €30 per tonne CO<sub>2</sub>, revenues from auctioning worth between €1.34 billion and €4 billion per year could be generated.

#### 5. Interaction with the Kyoto Protocol

##### **i) Kyoto first commitment period**

###### **Option 1: a separate, closed scheme**

Prior to the inclusion of international air transport into a post 2012 international greenhouse gas emission reduction target, and as advocated for by the European Parliament<sup>10</sup>, our preference would be for the establishment of a separate, closed pilot scheme where sector companies could trade with each other and have limited access to project credits (limited to a level which is considerably lower than 50% of the total effort). This would require the establishment of a new Directive.

A separate pilot scheme dedicated to the aviation sector would trigger reduction measures in this sector while avoiding Kyoto allowances - e.g. the allowances derived from legal Kyoto

<sup>9</sup> 'Giving wings to emissions trading, inclusion of aviation under the European emission trading system (ETS): design and impacts' CE Delft 2005. Report for the EC, DG Environment.

<sup>10</sup> 'Report on reducing the climate change impact of aviation (2005/2249(INI))' A6-0201/2006, European Parliament report

implementation policy - being mixed with allowances from a non-Kyoto sector such as aviation. If an aviation ETS was fully linked immediately with the existing EU ETS a 'leaking' of emissions credits from a non-Kyoto to a Kyoto trading regime would occur which might well create accounting problems. A trial phase could also be used to generate experiences within a separate cap and trade system for the aviation sector with the view to link it to other sectors after 2012 or at such a time that aviation was included in an international GHG emissions reduction target. It is, however, unlikely that this trial phase would commence before 2009/2010 due to the time it will take for the Directive to pass through the Co-decision process.

**Option 2: linked via a gateway with trade restrictions (annex to existing Directive) which allows no net flow of allowances**

If a separate, closed scheme is not advocated then our second preference would be for aviation to be included as an annex to the existing directive and for a gateway to be established to the rest of the scheme's main pool of allowances which allowed no net flow of allowances (e.g. aviation could buy from other sectors as long as the same number of Kyoto-backed allowances – and not more – were sold back) and limited access to project credits (limited to a level which is considerably lower than 50% of the total effort).

If the gateway allowed an unlimited net flow of allowances to the aviation sector the large volumes that they would be likely to purchase (depending on the cap) could cause the carbon price to soar – potentially to levels which vulnerable energy intensive industries would not be able to endure – causing 'leakage' (the movement of these industries to countries outside the remit of the ETS) or loose caps to be set in order to compensate for this.

**ii) Inclusion of aviation into second, and future Kyoto commitment periods**

As argued for in its February 2005 communication<sup>11</sup> we agree with the Commission that the international post-2012 climate change commitment should include emissions reductions commitments from international aviation. If aviation were included then potentially more flexible trade restrictions could be considered between aviation and the other traded sectors. However we would support the European Parliament's proposal which states 'Any arrangement by which aviation was incorporated into a wider ETS would need to take account of the sector's sheltered status and apply appropriate conditions e.g. a cap on the number of emissions rights the aviation sector could buy from the market (to avoid market distortion against less protected areas), and a requirement that aviation make a proportion of the necessary reductions before being allowed to buy permits.'

**6. Use of project credits**

The aviation sector should only be allowed to buy credits from Gold Standard<sup>12</sup> certified projects to aid compliance with the scheme. Failing that – credits from nuclear power and forestry sinks should be excluded and credits from hydro projects must be obliged to meet the World Commission on Dams guidelines as is the case in the existing ETS Directive.

The limit on the use of project credits should be based on a proportion of effort which should be considerably lower than 50% of the total effort.

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<sup>11</sup> (COM(2005) 35, 9.2.2005

<sup>12</sup> The Gold Standard is an independent, transparent, internationally recognised benchmark for 'high quality' carbon offset projects. See <http://www.cdmgoldstandard.org>