



Including aviation in the EU Emissions Trading Scheme – WWF's recommendations on the Commission's legislative proposal

January 2007

SUMMARY

WWF welcomes the European Commission's long-awaited move to address the growing climate impact of the aviation sector, whose emissions are growing faster than those of any other sector. The legislative proposal to include the sector in the EU Emissions Trading Scheme is a welcome first move. It will not though – in the absence of complementary policies and measures – deliver the significant reductions needed to ensure that aviation contributes its fair share towards combating climate change. However, if this first step is to be at least adequate then the proposal, which will likely be in the European Parliament's and the Environment Council's hands from February onwards, needs to be considerably improved.

WWF's key recommendations on the Commission's proposal echo and add to many of the European Parliament's own demands¹, which we hope Members of the European Parliament will endorse again:

1. the cap should be strengthened in order to ensure that the aviation sectors contribution to emissions reductions is meaningful and fair compared with other ETS sectors;
2. the climate impacts of aviation are higher than the impact of its CO₂ emissions alone and should be accounted for from the start of the scheme through the use of an appropriate "multiplier";
3. all flights departing from and arriving in the EU should be included from the start of the scheme;
4. 100% of allowances should be allocated by auctioning to incentivise real emission reductions;
5. access to project credits should be limited (such that a high proportion of the emissions reductions occur within the EU) and credits should only come from high quality projects such as those certified by the Gold Standard to ensure real benefits to the environment and local people; and
6. access to non-aviation allowances should be limited as demanded by the European Parliament in its resolution.

In addition, parallel and complementary policies and measures, such as improved air traffic management systems and an immediate ending of VAT exemptions, should be implemented as soon as possible.

INTRODUCTION

Greenhouse gas emissions from EU international aviation have increased by 87% between 1990 and 2004², accounting for approximately half of the CO₂ emissions from international aviation reported by developed countries³ and 5-12% of EU emissions⁴. If this trend continues, growth in the EU's international aviation emissions will offset more than a quarter of the reductions required by the EU's target under the Kyoto Protocol⁵. It is therefore a welcome move, that the European Commission has brought forward a legislative proposal to include the climate impact of the aviation sector in the EU Emissions Trading Scheme (ETS) by

¹ EP report A6-0201/2006 on reducing the climate change impact of aviation, 1.6.06

² EEA. Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006, Submission to the UNFCCC Secretariat, European Environment Agency, Copenhagen, June 2006.

³ 103,411 of 202,779 MtCO₂e – 2002 data as reported by Annex I parties to the UNFCCC.

⁴ T&E, CAN Europe, Clearing the Air, 2006, page 33

⁵ European Commission. Communication on Reducing the Climate Change Impact of aviation. September 2005

2011⁶. This states that “*The objective of this proposal is to address the growing climate change impact attributable to aviation by including aviation into an emissions trading scheme.*” However, significant emissions reductions from the aviation sector will not be made, at least in the short term, by including this sector in the EU scheme.

According to the European Federation for Transport and Environment (T&E), the inclusion of aviation in the ETS will only reduce emissions from the sector by just 3%⁷. This is equivalent to less than one year’s growth of the sector’s emissions. In addition, the Commission estimates that the costs incurred by the ETS will only slightly lower the demand for air travel - by 2020, demand will have grown by 135% (compared to 2005 levels) – compared to 142% in the absence of a trading scheme⁸.

The inclusion of aviation into the EU ETS should only be seen as the first step in starting to address the climate change impacts of this sector. On its own the scheme is unlikely to deliver, at least in the short term, significant emissions reductions from this rapidly growing sector and complementary policies and measures should be implemented as soon as possible. However, as previously stated, if this first step is to be at least adequate then the legislative proposal needs to be considerably improved.

WWF’S RECOMMENDATIONS

In order to maximise the emissions reductions which take place within the aviation sector and to improve the environmental effectiveness of the EU ETS as a whole we suggest that the following improvements are made to the Commission’s legislative proposal:

1) The cap should be strengthened in order to ensure that the aviation sectors contribution to emissions reductions is meaningful and fair compared with other ETS sectors.

Under the Commission’s proposal, the aviation sector will need to cap its emissions to the average level in the years 2004-6. In practice, this means that the cap for the sector is set at 90% above 1990 levels, while the cap for other sectors in the ETS must put the EU on track to meet the EU’s Kyoto target (an 8% reduction below 1990 levels). Aviation gets a much higher amount of permits compared with other sectors⁵, leaving the other sectors to bear most of the burden of achieving emissions reductions.

2) The climate impacts of aviation are higher than the impact of CO₂ alone and should be accounted for from the start of the scheme.

The latest scientific research suggests that the climate impact of aviation is up to 5 times that of its CO₂ emissions alone, due for instance to the additional emissions of nitrogen oxides (NO_x), water vapour trails and the higher altitude where they occur, all of which increase the greenhouse effect⁹. The precautionary principle suggests a multiplier, weighing emissions from aviation with a factor 4 (so one tonne CO₂ from aviation would be counted as four tonnes from other ground-based sectors) should be applied from the start of the scheme. The Commission’s proposal says that, by the end of 2008, and after an impact assessment, it will put forward a proposal to address the nitrogen oxide (NO_x) emissions from aviation. We are very supportive of this and would urge policies and measures to address NO_x emissions are implemented as soon as possible. However, within the ETS proposal there is no guarantee that a multiplier will be applied to emissions to take into account the other non-CO₂ climate impacts of aviation.

⁶ European Commission. 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. Unofficial advance version.

⁷ T&E, CAN Europe, Clearing the Air, 2006. The 3% figure is based on an EU allowance price of around €15 per tonne of CO₂.

⁸ European Commission. Accompanying document to 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. Impact assessment. SEC (2006) 1684.

⁹ Sausen et al. 2005. Aviation Radiative Forcing in 2000: An Update of IPCC (1999).

3) All flights departing and arriving in the EU should be included from the start of the scheme. Analysis by the Commission confirms that the option of including all departing and arriving flights into the ETS would give the biggest environmental benefits, and would not introduce distortional effects in terms of competition between airlines, airports or tourist destinations⁸. Nor would it be incompatible with the Chicago Convention, as some claim¹⁰. The Commission's proposal states that intra EU flights will be included in 2011 and that all flights arriving at or departing from an EU airport will be in the scheme by 2012. WWF advocates that all flights departing from and arriving in the EU should be included in the EU ETS from the start. An intra-EU scheme would cover only 40% of emissions.¹¹

4) 100% of allowances should be allocated by auctioning.

Under the Commission's proposal, the aviation sector will receive the majority of its allowances for free. The percentage of allowances to be auctioned (in 2011 and 2012) will correspond to the average percentage proposed by the Member States for phase II of the scheme, which is likely to be significantly less than 10% of the total allocation.

For a sector which is likely to pass on some if not all of the price of allowances to the consumer via a rise in ticket prices (regardless of whether it has received its allocation for free or not), free allocation merely increases the likelihood for windfall profits (similar to those accrued by the power sector in phase I of the scheme). WWF has estimated that for phase II this profit for airlines could be in the range of €2.38 to €3.56 billion per year¹².

Furthermore, free allocation fails to provide the non-distorting incentives needed to drive emissions down or to encourage investment in cleaner technologies and fuels.

As such the aviation sector should be required to buy 100% of its allowances at auction. According to the Commission's calculations, even if 100% of the allowances from the aviation sector were allocated by auctioning, the impact on Europe's GDP (Gross Domestic Product) and the economy as a whole, will be very small⁸. In its resolution, the European Parliament has also recognised the need for auctioning as the method of allocation. The auctioning revenue should be mainly recycled into further measures combating climate change.

5) Access to project credits should be limited and credits should only come from high quality projects.

Under the Commission's proposal, the aviation sector will be able to use project credits from the Joint Implementation or Clean Development Mechanisms (JI/CDM) to meet their compliance requirements up to the average of the percentage in Member States plans for phase II. The Commission recognises that the aviation sector is likely to be a net buyer of credits, meeting its compliance requirements through funding emissions reductions outside the sector, rather than making significant reductions within the sector⁷. Without a sufficiently tight limit on quantity and a stringent standard on project quality, including aviation in the EU ETS risks becoming an avenue for funding numerous projects of dubious quality in developing countries, while avoiding the responsibility to reduce emissions at home.

WWF advocates that the aviation sector should only be allowed to buy credits from Gold Standard¹³ certified projects to aid compliance with the scheme. These projects guarantee additional benefits to the environment and prioritise sustainable development in the host country. The limit on the use of project credits should be

¹⁰At the ICAO's last general Assembly October 2004, the EU retained the right to unilateral introduction of economic instruments on air travel. Aviation policies can, and should, be designed in a non-discriminatory way, i.e. irrespective of the nationality of the carriers. This is even a requirement of Article 11 of the Chicago Convention, the 'constitution' of ICAO's aviation policy. If all carriers are treated identically on identical routes, there will also be no competitive disadvantage for EU carriers.

¹¹ CO2 emission figures from Eurocontrol (2006), based on 2004 figures, departing flights 130Mt, intra EU flights 52 MT. T&E and CAN Europe, in their 2006 Report "Clearing the Air", p.25 suggest an even weaker percentage (25%) if an intra-EU scheme only was chosen.

¹² WWF. Including aviation in the EU Emissions Trading Scheme – an estimate of the potential windfall profit. 12/2006.

¹³The Gold Standard is an independent, transparent, internationally recognised benchmark for "high quality" carbon offset projects that supports sustainable development. See www.cdmgoldstandard.org.

based on a proportion of effort which should be considerably lower than 50% of the total effort required by the aviation sector to meet its cap¹⁴.

6) Access to non-aviation allowances should be limited.

The proposal states that the aviation sector will be able to buy allowances from the other sectors in the ETS. No limit has been placed on this access. WWF advocates that a gateway be established from the aviation sector to the main pool of allowances which allows no net flow of allowances for the period 2011-2012. For example, the sector would be able to buy from other sectors as long as the same number of Kyoto-backed allowances - and not more - were sold back. This would at least ensure that some emissions reductions take place within the aviation sector. After 2012, this arrangement could potentially be revisited if emissions from aviation are included in future international emissions reduction targets.

PARALLEL AND COMPLEMENTARY POLICIES AND MEASURES

The inclusion of aviation into the EU ETS should only be seen as the first step in starting to address the climate change impacts of this sector. Other policies and measures are needed and this has also been recognised and recommended by the European Parliament in its resolution. Measures could include:

- improved air traffic management systems and more direct routing;
- the immediate ending of VAT exemption, for example with a tax on air tickets. An increase in air passenger duty should also be considered¹⁵;
- a kerosene tax on fuel for domestic flights to internalise CO₂ emissions, and where there is agreement a tax on fuel on flights between two member states;
- 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
- appropriate airport NO_x charges.

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¹⁴ The total level of effort is the emissions reductions that a sector has to make to meet its cap. So, effort is the difference between the cap that has been set and the estimate of what emissions would have been in the absence of the cap (e.g. under 'business as usual').

¹⁵ 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.