November 2013

Briefing

50/50 snap back for aviation ETS

Summary

The new Commission proposal cuts the emissions coverage and environmental impact of the aviation ETS by two thirds. Only the portion of flights leaving the European Economic Area (EEA) which are within EEA 'airspace' would be covered under this proposal. The proposal also exempts from emissions coverage all carriers operating on routes from the EEA to over 80 developing countries with less than 1% of aviation emissions.

T&E proposes the following improvements to the Commission proposal:

- The airspace coverage approach can only be accepted as an interim measure pending real progress at ICAO.
- Otherwise the ETS must automatically snap back to cover emissions from 50% of all arriving and departing flights from 2017 (the 50/50 option).
- Reduced scope means the emissions cap must also be reduced to restore environmental integrity.
- 100% of aviation allowances must be auctioned; there is no argument for allowing industry to earn windfall profits from this much-reduced scheme.
- All carriers on all routes must continue with the monitoring (MRV) requirements.

What the ICAO October 2013 Assembly decided

The ICAO decision was not (as widely acclaimed) an agreement on a global market-based measure (MBM). It calls instead for detailed work to finally begin for an actual decision in 2016 on whether to adopt a global measure beginning in 2020. Celebrating such an outcome is entirely premature as many uncertainties still exist:

- It is not clear there will be a positive decision in 2016 on whether a MBM would actually start from 2020, as major developing countries are now expressing reservations.
- Questions as to the 'feasibility and practicability' of MBMs are included in the text.
- Explicit wording was imposed in the MBM criteria on the need to take account of developing country differentiation. This clashes with the ICAO principle of equal treatment, and while ICAO has debated the difference for almost 20 years, it has not come anywhere near a measure that satisfies both requirements.
- Industry wants a 'simple' offsetting regime: will offsets with no environmental integrity be excluded by a UN body whose members benefiting from those offsets now hold sway?
- There is no global cap proposed as part of the MBM, just carbon-neutral growth from 2020. This is a misnomer; emissions will continue to grow unabated while aviation's global warming impact will increase by a factor of 1.6 in 2050 and 2.5 by 2100.

The final ICAO outcome remains unclear but industry seems determined to be excused from any EU climate regulation in much the same way it has managed to avoid basic EU taxes. Aviation's VAT and fuel tax exemptions, along with burgeoning state-aid subsidies, cost EU treasuries an estimated €42 billion per annum[1]. All this even though aviation is the second largest emitter in the ETS and its CO_2 emissions are projected to triple in the next decades.

[1] 3 billion direct state aid to regional airports, 10 billion from missing VAT revenues, 29 billion from missing fuel tax revenues

The EU can regulate foreign carriers

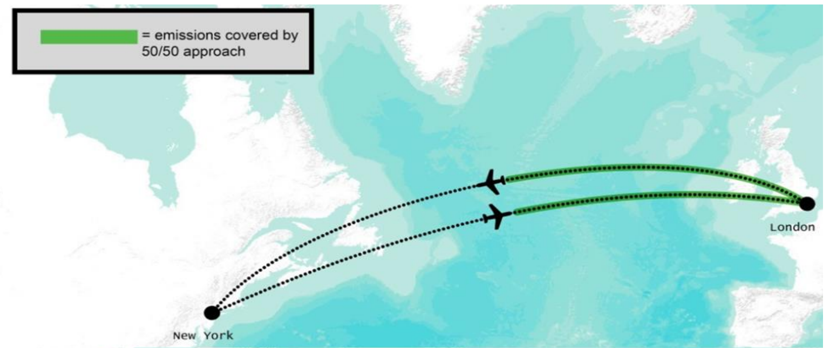
Some third countries argue that it would be contrary to international law for the EU to regulate foreign carriers under the ETS. This is not true. The (non-binding) ICAO Assembly text only says that states should “engage in constructive bilateral and/or multilateral consultations and negotiations with other States to reach an agreement”. Actual agreement is not a precondition before regional schemes can begin. Indeed, regulating only intra-European routes (stop-the-clock) cannot be a solution, as foreign as well as European carriers are involved. Excluding foreign carriers on intra-European routes would distort competition vis a vis European airlines and essentially amount to exempting any foreign-owned businesses from the ETS. Imagine if the EU could not regulate power plants simply because the owner was foreign?

Indeed, for the EU to regulate anything less than emissions from all carriers in its airspace would be tantamount to Europe accepting that a non-binding ICAO resolution trumps EU sovereignty. China and India may need enforcement procedures to encourage them to comply with an ETS but the US last indicated to ICAO its acceptance of regulating regional airspace. Europe should not compromise its sovereignty because one industry wants special treatment.

‘Airspace’ is only a temporary solution; we need a ‘50/50’ snap back

The airspace or “hybrid” option in the proposal can only be accepted on an interim basis as most flight emissions are not covered. Indeed even if every country in the world regulated emissions in its airspace, only 22% of global aviation CO_2 would be covered[2]. Continuation beyond 2016 should be subject to ICAO having agreed to implement in 2020 a global, environmentally effective MBM. Most ICAO members opposed EU efforts for an environmentally meaningful geographic scope for regional measures (based on departing flights) without clearly committing to implement a meaningful global MBM instead. Cutting back the ETS permanently is therefore premature at this point.

In case of incomplete delivery at the 2016 Assembly, the EU ETS should snap back to a scope that provides environmental integrity while meeting some of the political concerns (breach of sovereignty arguments) of third countries. The EU should regulate on a 50/50 basis applied automatically in 2017. 50/50 means that for extra-European flights operating from EU airports, the ETS would regulate 50% of both the departing leg and arriving legs. The map here illustrates the difference between 50/50 and airspace.



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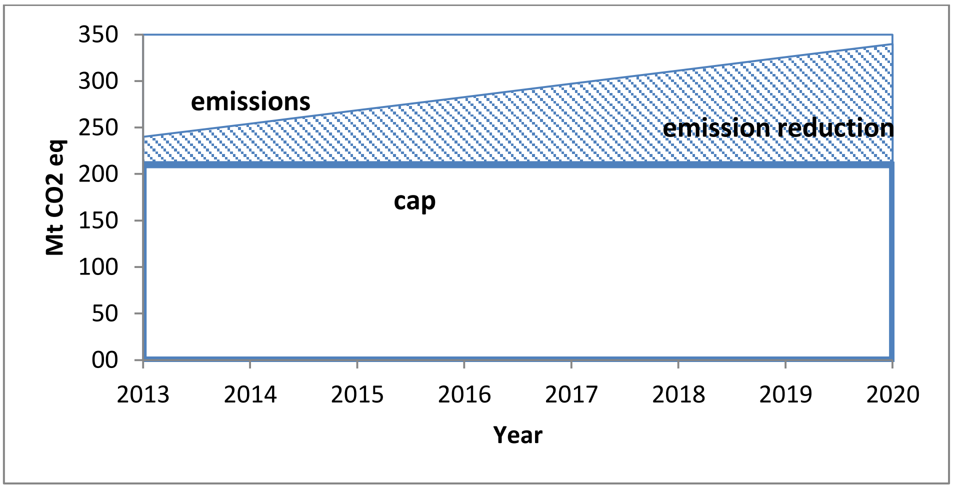
[2] http://www.transportenvironment.org/sites/te/files/downloads/MMU%20DSL%20Stop%20the%20Clock%20v1-1%20ps%20version.pdf

Reducing the airspace cap to restore environmental integrity

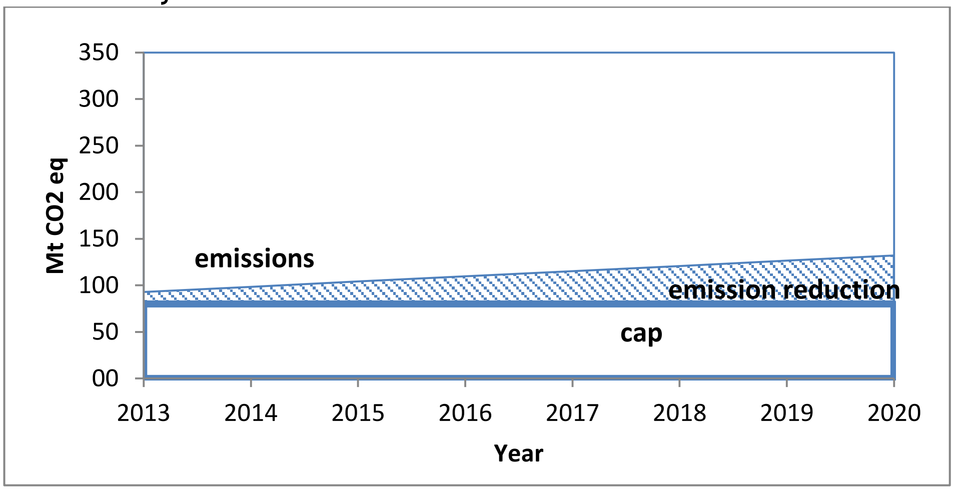
Redefining the geographical scope of the aviation ETS – currently all emissions from all departing and arriving flights – to only the portion of those emissions within EU airspace, defined out to the 12 nautical mile (nm) limit, will reduce emissions coverage by 61% and therefore greatly affect CO_2 reductions. Environmental integrity can be restored by reducing the cap to require carriers under an airspace scheme to surrender the same number of additional credits (purchased from other sectors of the ETS or international credits with environmental integrity) as they would have been required to surrender under the original scope. This will ensure the same impact on CO_2 emissions as the original ETS. Given that the total demand for EU allowances and credits under the original scheme was 600-640Mt for the period 2013-2020 and under an airspace scheme would be 180-190Mt, the cap (reduced proportionally from 210Mt to 80Mt in the Commission airspace proposal) would need to be further reduced to 70Mt under a slow-emission-growth scenario and to 35Mt under a high-growth scenario). Another way to express this is to reduce the cap from its current 95% of 2004-2006 emissions to 36%.

Figure 1 Demand for EU allowances and international credits in phase three.

Current full-scope system

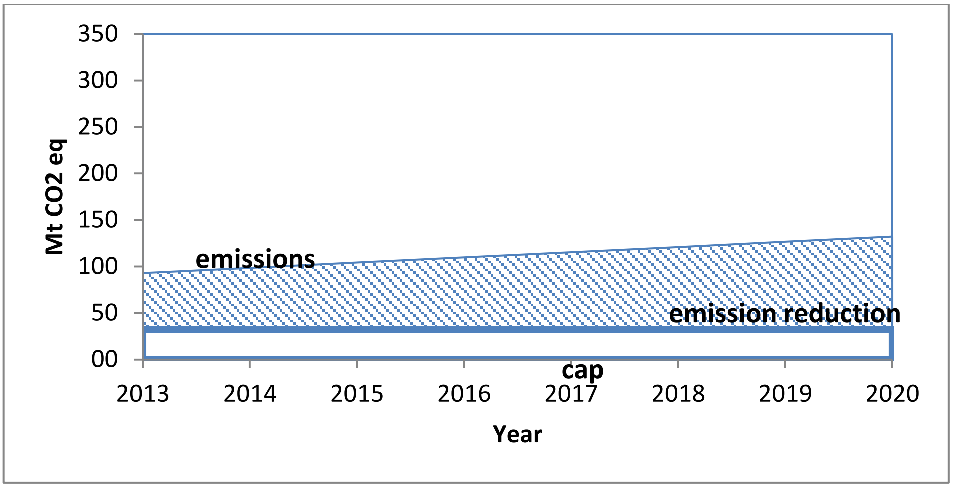


Hybrid 12nm scenario



Note: The figures are based on the high-growth scenarios with a 30 Mt shortfall of emissions in 2013. Other assumptions (low growth, lower shortfall) would change the figures but not the analysis.

Figure 2 A lower cap in the hybrid 12nm ETS yields the same environmental benefits as the full-scope ETS



All emission allowances should be auctioned

The main argument for giving out free allowances is to mitigate the cost impact on the sector of having to buy permits. There can be no argument for continuing to do so when the scope of emissions coverage has been so drastically reduced and thus the cost to the sector proportionally reduced in line. Indeed, the sector made billions in windfall profits from the ETS in 2012[3] – a fact which can be seen from the number of carriers which opted to remain in the full ETS rather than 'stop-the-clock'. In addition, to give free allowances a benchmark must be set to decide how many allowances each airline receives. Any benchmark is to a certain degree arbitrary and there will always be calls by some sectors for a re-allocation. However, rather than adjust the benchmark, the auctioning of all allowances will ensure that all players within the sector are treated equally as all will buy permits on the same market.

Continuation of MRV

Operators have already had to comply with one monitoring cycle and so have experience of the whole process. Removing the MRV requirements now would only favour those operators which did not comply. This sends the wrong signal to those who did comply. In addition, many airlines have reported that the MRV process has helped them to become more fuel-conscious and find ways to cut unnecessary fuel use. It is only through knowledge of actual emissions that there can be any incentive to reduce emissions. Finally, the MRV provisions will be extremely important for a global MBM, both in terms of scaling up to a global regime and as a learning experience to inform the development of MRV provisions for the global MBM.

Policy recommendations

1. Airspace can only be accepted pending a global deal
2. Otherwise coverage must automatically snap back to 50/50
3. The 'cap' on emissions must be reduced
4. No free allowances should be given to the aviation industry
5. All carriers must continue with the monitoring requirements

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[3] http://www.transportenvironment.org/publications/billion-euro-aviation-bonanza-aviations-participation-eu-ets