ACI EUROPE POSITION on AVIATION AND CLIMATE CHANGE

June 2007

AIRPORTS COUNCIL INTERNATIONAL

EU action on Aviation & Climate Change

Responsible, constructive and pragmatic action needed to tackle the impact of aviation on climate change

ACI Europe Position – Executive Summary

- Neither the status quo nor blunt measures can quickly or effectively manage the impact of aviation on climate change.
- Taxation is the least effective course of action to tackle aviation's climate change impact.
- European aviation must be included in the existing EU Emission Trading Scheme for CO2 as soon as possible – EU scheme as a first step to achieve a global solution.

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Responsible, constructive and pragmatic action needed to tackle the impact of aviation on climate change

Action by the European Union to address the growing impact of aviation on climate change has reached an important milestone. After extensive debate and preparation by various EU institutions and an unprecedented stakeholder consultation, a landmark proposal was published in December 2006[1].

The European airport industry welcomes the proposal by the European Commission to include aviation in the existing EU Emissions Trading Scheme for CO2. Europe's airports believe that neither the status quo nor blunt measures are acceptable to quickly and effectively manage the impact of aviation on climate change. Emissions trading offers a responsible, pragmatic and swift course of action to control the increase in aviation emissions and address its small, but growing contribution to climate change.

Improvements in new aircraft and engine technology (as reflected in the ACARE goals, for example) will continue to contribute to reducing aviation's impact on climate change. Operational improvements as well as the creation of adequate infrastructure also have a significant role to play, including the implementation of the Single European Sky objectives, both at regulatory and operational levels, to minimise existing Air Traffic Management inefficiencies and reduce CO2 emissions. However, the undisputed evidence of climate change and aviation's relative growing share of related emissions, in spite of significant technological and operational improvements, has led Europe's airports to advocate the principle of internalising the climate change impact of air transport through emissions trading. European airports believe that the development of emissions trading should be based on the following key principles:

- Environmentally effective
- Economically and socially acceptable
- Neutral with respect to industries and/or other transport modes
- Internationally feasible

The detailed design of the emissions trading scheme is currently under discussion. The scheme should not prevent air transport to grow and develop. It is also imperative that air transport be treated in exactly the same way as other industries participating in the existing ETS and should not be discriminated against.

In this regard, ACI Europe believes that taxation is environmentally unsound and the least effective course of action. Research conducted by the European Commission, other governmental bodies, independent organisations and industry bodies has consistently demonstrated that the disproportionate burden that taxation would put on aviation would not achieve substantial environmental benefits. In particular, taxation is typically not used to offset environmental impacts through the utilisation of new technologies, or investment in research and development programmes.

In this paper, ACI Europe sets out a pragmatic way forward to address, as soon as possible, aviation's growing contribution to climate change, in the most cost-effective and least market distorting manner possible.

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

As a <u>first</u> pragmatic step, European aviation must be included in the existing EU Emission Trading Scheme for CO2 as soon as possible.

Sustainable Development of the Aviation Sector

The objective stated by the European Commission in its 2005 Communication[2] is to directly or indirectly influence the increase in aviation emissions and address its growing contribution to climate change by a set of existing and new measures. The Commission's draft legislation proposes the inclusion of aviation in the existing EU Emission Trading Scheme (ETS), while not ruling out other measures in the future.

Aviation provides a central contribution to the objectives of the European Commission's Lisbon 'Growth and Jobs' Strategy, through the provision of a critical element in Europe's transportation infrastructure. The growing demand for aviation is a direct result and positive proof of a successful and more competitive European economy, and this should be safeguarded. Other key EU principles, such as consumer choice, free movement and trade, must also be taken into account and respected.

On the other hand, European society and the European Union have clear and ambitious environmental targets, so a smart balance between these goals is required to achieve both. However, in the Lucas report of July 2006 the European Parliament suggested that the best way of striking this balance would be a "stringent demand reduction for aviation". This is difficult to accept, since it largely, if not completely, overlooks all other EU objectives and priorities.

Sustainable development of the European aviation sector is the appropriate way forward.

How to include aviation in the EU Emissions Trading System

The detailed design of the emissions trading scheme is currently under discussion. ACI Europe's views on the key design elements of the scheme are outlined below.

An open emissions trading scheme

Aviation should be included in the existing open emissions trading scheme. A closed scheme would not strike the right balance, since aviation would be excluded from buying emission permits from other sectors to offset its increase in CO2 emissions, and would cancel the flexibility and efficiency benefits arising from aviation's participation in the existing ETS. The feasibility of a closed scheme is highly questionable and would not deliver the needed environmental results without serious economic and social consequences.

By definition, an open ETS and the associated market price for CO2 would achieve emission reductions in the most cost-effective manner. Given the overall environmental objective, tackling the world-wide problem of climate change, there is no fundamental problem with aviation becoming a "buyer" on the existing ETS market. In this way aviation would be able to offset in an efficient manner increases in its emissions alongside its continuing efforts to introduce cleaner, more efficient aircraft and better operating procedures.

[2] COM(2005) 459 – "Reducing the Climate Change Impact of Aviation"

Furthermore, as a 'closed system' is not endorsed by the International Civil Aviation Organisation (ICAO), this would seriously hinder prospects for incorporating the European model into a future international emissions trading scheme, further delaying the prospect for a global solution.

In addition, there is no sound reason why the available emission credits on the existing ETS market should be exclusively limited to the current participants from other industries that are already taking part in the EU ETS in the framework of Directive 2003/87/EC. Any upward price-effect on emission permits would make reductions in their own emissions more attractive, funded in part by aviation users.

Geographical scope

ACI Europe supports a regional approach where a European system can serve as a model and driver for a future global approach. The instruments to be introduced should be simple, transparent and adaptable to the global scale via ICAO[3].

From a purely environmental perspective we agree with the European Commission that a scheme covering all departing flights from the EU would have a larger benefit than a scheme for intra-EU flights only.

However, the expected competitive distortion[4] of an 'all departing flights' scheme on EU airlines and EU hub airports vis-à-vis international competitors not facing such restrictions should be carefully assessed. Indeed, the Parliament's July 2006 resolution on aviation and climate change calls for careful attention to be paid to potential market distortions. Additionally, such a scheme would be politically much more difficult and time-consuming to implement, given the firm positions of almost all non-European countries[5].

Because Europe's airports are both serious and responsible in our stated intentions, we advocate commencing with an EU ETS for intra-EU flights only, allowing easy expansion as soon as feasible, and call upon the European community to continue to play an active role in developing and implementing a global solution through ICAO.

Level of the cap

ACI Europe believes that the cap for aviation should embrace a number of key principles, including environmental credibility, economic efficiency, equity and deliverability.

Any cap should be environmentally credible as well as economically efficient. It should allow aviation to contribute proportionately alongside other industries to the long-term goal of stabilising greenhouse gas concentrations.

[3] Given the official position taken by the United States and other countries in the ICAO Council in anticipation of the 2007 Assembly, a worldwide solution is not foreseen in the short to medium term.

[4] Intensified use by non EU-airlines of non EU hub-airports, either just outside the EU or at the other end of the hub-and-spoke system would be stimulated by an "all departing flights" scheme, with extra economic consequences for the EU aviation sector

[5] ICAO Council, October 2006.

The European Commission's proposal is to set the cap at an average of 2004 – 2006 emissions. By "freezing" emissions for aviation at these yearly average 2004-2006 levels, the European Commission anticipates a 46% cut in CO_2 emissions by 2020 in comparison with the business as usual scenario. We believe that this cap is highly challenging and meets the test of environmental credibility.

The Commission notes that 'In setting this cap [it] has explicitly recognised that, given the extent to which aviation has grown since 1990, the sector cannot be expected to take on the same level of ambition as other sectors already covered by the EU ETS'[6].

The non-CO2 impacts of aviation

While we do not dispute that aviation's climate change impact goes beyond CO2 emissions alone, we believe that too much scientific uncertainty still remains concerning the NOx-impact, contrails and induced cirrus clouds to treat it in the same manner as CO2 emissions. As such, we do not support tackling these impacts via the EU ETS by means of a 'multiplier' formula – as was suggested in some circles.

Instead, we propose to start with the incorporation of aviation with the EU ETS, for CO2 only, with appropriate flanking instruments to address these other impacts.

We believe that a range of flanking instruments, such as emissions-related charges[7] for en route NOx as a base for efficient measures to be applied consistently throughout Europe, could have an important role to play, together with: further research, technological development as well as additional regulatory standards.

ACI Europe notes that the EC will bring forward a separate proposal on NOx by the end of 2008; Europe's airports will continue to stay actively involved in the discussion to develop the most appropriate instruments.

A harmonised approach & equitable treatment

ACI Europe supports a single EU-wide approach rather than different national approaches.

ACI Europe believes that the manner of aviation's incorporation within the EU ETS should not be handled differently to that of other sectors and should not introduce significant market distortions. On that basis we support the proposal that the majority of the permits for the aviation sector be allocated free-of-charge on the basis of a benchmark, with a small proportion of allowances auctioned.

As the EU ETS develops after 2012, the approach for aviation should remain in line with the rules adopted for other sectors.

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

[7] Based on ECAC Recommendation 27-4, while safeguarding (best) practices for local emissions at European airports

Europe's airports support the EC proposal that auction revenue be earmarked and used to mitigate and adapt to the impacts of climate change. Such revenue should be specifically earmarked to fund research to understand aviation's impacts on climate change and to accelerate the development of technological solutions to reduce those impacts.

Further design elements

The proposed scheme should allow free market access and not discriminate against new entrants. An appropriate solution to achieve this needs to be developed.

Recognising the lead time necessary for the inclusion of aviation within the EU ETS, Europe's airports are open to consider incentives to encourage 'early action' such as voluntary offsetting before aviation fully joins the scheme.

What are airports doing?

Many airports are working to manage emissions at their airports through improvements in energy efficiency and conservation, groundfleet conversions, and by introducing low emission power generation plants on site or renewable energy supplies. In addition, some airports are already participants in the emissions trading scheme introduced in Europe.

Further specific examples of airport actions are provided in the airports section of www.enviro.aero

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