



Including aviation in the EU Emissions Trading Scheme - Joint NGO statement on key improvements

Update for the European Council - November 2007

Summary

This paper presents the views of the environmental NGOs on the Commission's proposal to include aviation in the EU Emissions Trading Scheme (EU ETS). The European Parliament voted on amendments to the draft in mid November and the proposal will now be discussed by the Council at the Environment Committee meeting on 20 December where political agreement will be sought.

It is clear that the EU ETS will not, by itself, stop the strong upward trend in the growth of emissions from international aviation. However, in order to maximise the emission savings which do take place within the aviation sector and to improve the environmental effectiveness of the EU ETS as a whole, NGOs urge the European Council to consider amendments to the draft Directive which:

- recognize that inclusion of aviation in the EU ETS is not going to be sufficient to bring the sector's emissions down to sustainable levels and therefore keep all ancillary policy options open;
- ensure that aviation makes significant efficiency improvements itself before allowances from other sectors can be purchased;
- place a stringent quantitative and qualitative limit on the access to Clean Development Mechanism or Joint Implementation (CDM/JI) credits;
- address the aviation sector's full climate impact. A multiplier of at least 2 should be set until specific measures are implemented to tackle NOx emissions and the formation of aviation induced clouds;
- set a cap which does not exceed 50% of the average level of emissions in 2004/2006 for the phase ending in 2012. After this phase a cap should be set which is in line with the EU target of a 30% defined cut in greenhouse gas emissions by 2020;
- allocate 100% of the allowances by auction; and
- include all flights departing from and arriving in the EU in the scheme from 2010.

THE POLITICAL CHALLENGE

During the past year the evidence about human induced climate change has increased substantially. The most recent report by the Intergovernmental Panel on Climate Change (IPCC) recognizes that the "warming of the climate system is unequivocal" and "most of the observed increase in global average temperatures since the mid-20th century is very likely due to the observed increase in anthropogenic greenhouse gas concentrations"¹. In addition the Stern Review contained the first overall estimate of the costs associated with climate change and stated that "if we don't act, the overall costs and risks of climate change will be equivalent to

¹ IPCC, Fourth Assessment Report. Climate Change 2007: The Physical Science Basis.

losing at least 5% of global GDP each year, now and forever”, and concluded that this major economic loss would have disproportionate impacts since “*the most vulnerable – the poorest countries and populations – will suffer earliest and most, even though they have contributed least to the causes of climate change*”². The 2007 Nobel peace Prize which was given to Mr Gore and the IPCC underline the importance of this issue and the contribution unabated climate change will make to global conflict.

At the Spring Council summit in March the Heads of State and Governments of the EU committed to reduce their emissions by 20 or 30% by 2020, from 1990 levels³. This move was welcomed by the leaders of the three biggest political groups in the European Parliament, with all of them underlining the need for EU leadership in fighting climate change⁴.

But while targets are important, policies and measures to implement them are essential and the Environment Council meeting in December will be the first opportunity that Ministers have to turn words into action, following the crucial UN climate change Conference of the Parties in Bali. The decisions made regarding this will be the litmus test as to whether the EU will follow up its strong words with strong action.

EXPECTED IMPACTS OF THE EUROPEAN COMMISSION'S PROPOSAL

Although the European Commission's legislative proposal is welcome, it is clear that it needs to be significantly improved to meet its stated objective: “*to address the growing climate change impact attributable to aviation*”. According to the Commission's own Impact Assessment, significant emissions reductions from the aviation sector will not occur. Under the current proposal, aviation emissions will grow by 78% between 2005 and 2020, instead of 83% under a ‘do-nothing’ (business-as-usual) approach, a reduction equivalent to less than one year's growth in emissions.

In addition, the Commission estimates that the costs incurred from inclusion in the scheme will only slightly lower the demand for air travel. By 2020, demand will have grown by 135% (relative to 2005 levels) compared to 142% in the absence of a trading scheme⁵. CE Delft have estimated that the Proposal would result in a **modest increase in ticket prices** of between €1.1 and €3.3 for a short haul round trip and an increase of €2.1 to €6.4 for a medium haul trip⁶. Other impacts assessments such as that undertaken by Ernst and Young for the airline associations give figures in the same ranges.

² Stern Review: The Economics of Climate Change

³ Brussels European Council, 8/9 March 2007. Presidency Conclusions.

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/93135.pdf

⁴ [http://www.epp-](http://www.epp-ed.eu/Press/showpr.asp?PRControlDocTypeID=1&PRControlID=5795&PRContentID=10319&PRContentLG=en)

[ed.eu/Press/showpr.asp?PRControlDocTypeID=1&PRControlID=5795&PRContentID=10319&PRContentLG=en;](http://www.epp-ed.eu/Press/showpr.asp?PRControlDocTypeID=1&PRControlID=5795&PRContentID=10319&PRContentLG=en)

[http://www.socialistgroup.eu/gpes/newsdetail.do?lg=en&id=31197&href=home;](http://www.socialistgroup.eu/gpes/newsdetail.do?lg=en&id=31197&href=home) and

[http://www.alde.eu/index.php?id=42&tx_ttnews\[tt_news\]=8429&tx_ttnews\[backPid\]=1&cHash=bfaf00edfa;](http://www.alde.eu/index.php?id=42&tx_ttnews[tt_news]=8429&tx_ttnews[backPid]=1&cHash=bfaf00edfa)

⁵ Based on the scenario with €15 per tonne CO₂ allowance prices in the ‘Impact Assessment of 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’. The recent assessment by Ernst & Young, commissioned by the industry, is even more pessimistic as to what effect the policy would have on emissions

⁶ “Allocation of allowances for aviation in the EU ETS – the impact on the profitability of the aviation sector under high levels of auctioning” CE Delft, June 2007.

It is clear from the Commission's Impact Assessment that the aviation industry, both aircraft operators and airports, will not suffer significant negative impacts. There are two main reasons to support this assessment:

- The aviation business in itself is 'geographically bound' and there is virtually no risk of relocating activities outside the EU. The possibility to locate hubs outside the EU is according to the Commission, minimal because *"the size of the EU economy means that it would not make sense for an airline to consider re-locating a hub to outside of the EU, since the potential to maximize revenues from EU-based clients would then be forgone."* Making stopovers in neighboring countries is also considered unlikely by the Commission, which gives the example of Dubai in its Impact Assessment: *"the advantage in terms of lower EU ETS compliance costs associated with stopovers in Dubai is small compared to the disadvantages in terms of extra fuel costs and longer flight times implied"*.
- The Impact Assessment also states that aircraft operators are expected to pass on most of the compliance costs to consumers, so the only impact of this proposal on airlines would be *"a modest impact on future forecasted demand."* This has been estimated to be a *"maximum reduction figure of 1.9% across all flights"*. Even the main airline association (International Air Transport Association) presented a study which estimates that the impact on airline profitability is *"complex"* and recognizing that it might actually be *"slightly positive for the profitability of flights arriving and departing the EU"*⁷.

Moreover, the aviation industry already enjoys important advantages compared to other modes of transport. Aviation is exempted from fuel taxes and VAT, and the industry receives many direct and indirect subsidies (from aircraft production to airport construction, start-up aids, etc). Inclusion in the EU ETS will not fully address these disparities. For example:

- Based on current taxes on road fuels in the EU – which are approximately € 0.65 per litre on average – aviation's current exemption from fuel taxes would be worth about € 35 bn per annum in the EU. The inclusion in the EU ETS will not address this as it is likely that the allowance price will only correspond to few €cents per litre of kerosene⁸;
- Electricity producers are included in the wider EU ETS and are able to pass through the value of the carbon allowances to their customers which means that rail companies have to pay for all the allowances in the EU ETS. Anything but 100% auctioning of allowances to the aviation sector will benefit aircraft operators over their rail competitors.

NGOs are asking the Parliament and the Council to improve the Commission's Proposal. These improvements relate to the scope and the starting date, the cap, the allowance distribution, non-CO₂ impacts of aviation, and the rules on access to emission permits from other sectors. These improvements are not expected to have a disproportionate impact on the aviation industry and will be a very modest step towards the creation of a level playing field in the transport sector.

In the following sections the recent vote in the European Parliament and the views of environmental NGOs are discussed.

⁷ IATA Economics. January 2007. Financial impact of extending the EU ETS to airlines.

⁸ For more information please consult "Clearing the Air: the Myth and Reality of aviation and climate change": http://www.transportenvironment.org/docs/Publications/2006/2006-06_aviation_clearing_the_air_myths_reality.pdf

KEY IMPROVEMENTS

1) Emission reductions within the aviation sector should be ensured

A report by the Tyndall Centre for Climate Change (Manchester University) shows that if the EU is to achieve its climate protection targets, emission reductions within the aviation sector are needed⁹. Indeed the Parliament was supportive of a separate scheme for aviation in its Resolution in 2006¹⁰.

In the plenary the European Parliament voted in favour of restricting the number of allowances that aircraft operators can buy from other sectors or from Clean Development Mechanism (CDM) or Joint Implementation (JI) projects to a percentage of the total allowances that they are required to surrender (i.e. total emissions). They also voted in favour of including provisions that will require airlines to improve their fuel efficiency before they are allowed to buy emission permits from other sectors – i.e. only operators in line with the industry's voluntary fuel efficiency target of a 50% improvement by 2020 (compared to 2000)¹¹ would have access to non-aviation emission permits

Given the special character of the aviation industry and its demand, there is a real risk that airlines will prefer to limit their action to buying emissions permits from other sectors, instead of improving their own efficiency. If these types of amendments are not endorsed by Environment Ministers then the EU ETS will hardly affect the continued rapid growth in aviation emissions and a major opportunity to incentivise emission cuts within the aviation sector will be lost

2) Access to project credits from Clean Development Mechanism/Joint Implementation projects should be limited

It is important to note that the use of credits from CDM projects does not reduce global emissions overall. At best the CDM is a zero sum game - allowing emissions to increase in the country where the credits are being used. However, there is growing concern that many non-additional projects are being approved. These are projects which would have taken place anyway and are therefore actually allowing an increase in emissions globally when they are used to 'offset' emissions elsewhere. In the first half of 2007, for example, several articles in the mainstream media referred to poor quality CDM projects¹². Indeed, a recent report by the Oko-Institut suggested that approximately 20% of emission reductions certified under the CDM may have happened anyway¹³. This is the equivalent to around 34MtCO₂ per year – or the emissions from 7 coal fired power stations. This concern over lack of *additionality* – the backbone of the carbon markets – leads to concerns over the credibility of the market as a whole.

Developed countries are historically responsible for the vast majority of greenhouse gas emissions, and therefore also have a moral obligation to dramatically reduce their emissions. The EU ETS will not help to achieve this if it continues to transfer the majority of the responsibility for tackling climate change to the developing world, thereby allowing sectors

⁹ http://www.foe.co.uk/resource/reports/aviation_tyndall_07_main.pdf

¹⁰ <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2006-0296+0+DOC+XML+V0/EN>

¹¹ To learn more about these self imposed industry commitments see: <http://www.sustainableaviation.co.uk/>. This target translates into a 3.5% fuel efficiency improvement per year

¹² "Carbon trading 'not cutting CO2'" Tom Clarke, Channel 4 News report, 7 February 2007

http://www.channel4.com/news/articles/business_money/carbon+trading+not+cutting+co2/191945#fold and "Abuse and

incompetence in fight against global warming" Nick Davies, 2 June 2007, The Guardian.

<http://business.guardian.co.uk/story/0,,2093836,00.html>

¹³ "Is the CDM fulfilling its environmental objectives? An evaluation of the CDM and options for improvement" a report for WWF by the Oko-Institut, November 2007.

within the scheme to simply buy their way out of the problem¹⁴. Concerns over the quality of CDM project credits merely add to the urgency to adopt a stringent cap on access to these credits.

The European Parliament has voted in favour of restricting the number of allowances that aircraft operators can buy from other sectors or from CDM or JI projects to a percentage of the total allowances that they are required to surrender (ie, total emissions). They also voted for an amendment which stated that access to project credits should be reviewed alongside their use in other sectors as part of the overall review of the ETS.

Although these amendments make a contribution to incorporating the principle of supplementarity into the proposal – i.e. that the use of project credits should be a supplemental to the use of ETS allowances – NGOs believe there is still a clear need to improve these provisions. The most urgent changes would be (1) to change the reference to the limit on CDM and JI to a fraction of the cap rather a fraction of emissions – in line with the wider EU ETS. In this way – access does not increase with increasing emissions; (2) the need to introduce clear qualitative criteria, providing a greater level of assurance that projects are truly additional, have a positive sustainable development impact, and contribute towards a low carbon economy. As such, NGOs propose that the use of project credits within the EU ETS should be limited to those certified by the Gold Standard¹⁵.

3) 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 most definitive overall assessment of knowledge of aviation emissions and their effects is the work presented by Sausen et al. (2005) on Aviation Radiative Forcing in 2000¹⁶. One of the main outputs of this report was an update of the contribution of aviation activities to climate change - from direct emissions of carbon dioxide, water vapour, sulphate or soot particles, through to the indirect effects of nitrogen oxides emissions on the concentration of ozone and methane and the impact on the formation of clouds (contrails and cirrus clouds). This data has been confirmed by the newest IPCC Report from this year in working group I (chapter 2.6) and implies a Radiative Forcing Index for aviation of 2.7 (i.e. that aviation emissions have a climate change impact 2.7 times higher than its CO₂ emissions alone, all else equal), within a range of 2 to 5.

The latest work updates and closely confirms the findings of the 1999 IPCC special report *Aviation and the Global Atmosphere*. Although some scientific uncertainty remains as to the exact quantification of these effects, the precautionary principle as enshrined in the Treaty (Art. 174) implies that this should not be used as a reason to ignore them.

¹⁴ For example see “Emissions Impossible: access to JI/CDM credits in phase II of the EU ETS” WWF-UK, June 2007.

¹⁵ <http://www.cdmgoldstandard.org>. An independent, transparent, internationally recognised benchmark for “high quality” carbon offset projects. This standard is restricted to renewable energy and end use efficiency projects, requires projects follow a conservative interpretation of the UNFCCC-additionality test and to provide evidence by a UNFCCC-accredited independent third party that they are making a real contribution to sustainable development.

¹⁶ Sausen et al., 2005, Aviation Radiative Forcing in 2000: An Update of IPCC (1999), Sausen, R., Isaksen, I., Grewe, V., Lee, D.S., Myhre, G., Schumann, U., Stordal, F. and Zerefos, C., June 2005

The European Parliament voted in favour of amendments to deal with the non-CO₂ effects of aviation within the EU ETS. A 'multiplier' of 2.0 on the use of emission permits from other sectors and CDM/JI project credits was adopted, until flanking instruments to specifically address NO_x emissions are introduced. For example within the EU ETS a tonne of CO₂ emissions from aviation would be equivalent to 2 tonnes of CO₂ from land-based sources. MEPs also voted that a multiplier to take account of the effects of contrails and cirrus clouds on climate should be introduced as soon as the scientific understanding improves. Finally, the European Parliament called for Air Traffic Management authorities to investigate and work towards the elimination of the formation of aviation induced clouds by avoiding aircraft navigation into zones where the atmospheric conditions suggest that the formation of such clouds is likely to occur.

Environmental NGOs welcome these amendments. Moreover NGOs agree that any multiplier should be a temporary provision and should be removed as soon as measures to effectively reduce NO_x emissions and avoid the formation of aviation induced clouds are in place.

Any proposal for an instrument to address NO_x emissions should cover en-route NO_x emissions, not just those of the Landing and Take-Off (LTO) cycle (which anyway have a negative impact on local air quality, rather than the global atmosphere). Failure to meet these conditions would be a violation of the principle that the polluter should pay, and should be accounted for by the continued use of an appropriate multiplier within the EU ETS.

4) The cap should be strengthened to ensure that the aviation sector's contribution to emissions reductions is meaningful and fair compared with other EU ETS sectors.

Under the Commission's proposal, the aviation sector will need to cap its emissions to the average level in the years 2004-2006 (the baseline). In practice, this means that the cap for the sector is set at approximately 90% above 1990 levels, while the cap for other sectors in the EU ETS must put the EU on track to meet the EU's Kyoto target (an 8% reduction below 1990 levels). The EU has also set itself an overall goal of a 20 to 30% reduction in greenhouse gas emissions, below 1990, by 2020.

The Parliament has voted that the cap be set at 90% of the average level in the years 2004-2006 (the baseline), and that it should be possible to set a stricter cap over time to reflect the EU climate targets.

Although NGOs recognize that the Parliament proposed a considerable improvement to the Commission Proposal, such a cap still equates to an increase of approximately 70% above the emissions from the sector in 1990. The aviation industry must play its full and fair part in achieving the EU's climate objectives – the Parliament's proposal goes some way towards this but is not sufficient. For example, as stated above, the emission reduction target under the first phase of Kyoto is an 8% reduction below 1990 levels. For the aviation sector, this would translate into a 50% cut below emissions in 2004/2006.

Support for this from Environment Ministers and the European Parliament is crucial as it would send a clear message to the rest of the world that the EU was taking the implementation of its emission reduction targets seriously.

It is also very important to emphasize that the baseline – currently the average emissions in 2004-2006, must not be moved into the future e.g. 2008-2010. This would encourage an increase of flights, and therefore emissions, before the inclusion in the ETS is effective (in order to maximise the number of allowances allocated), would create an incentive for airlines to postpone investments in emission cuts or new technologies, and would weaken the overall emission reductions. Moving the baseline into the future is completely non-intuitive and could be extremely detrimental to a piece of legislation whose intention is to tackle climate change.

It is also important to note that a less stringent cap or a later baseline would not adequately address the concern that this proposal will disadvantage the fastest growing aviation markets (such as those in new EU Member States) over others. The problem of disproportionate impacts arises in case of inefficiencies or unfair **distribution of allowances** within the cap and **is not changed by the level of the cap or the baseline**. Fastest growing markets might be prejudiced if allowances are initially allocated to aircraft operators based on their performance or fuel consumption in an historical period. However, this historical period is not the same as the baseline (in the current Commission Proposal the historical period for allowance distribution is *the year ending 24 months before the start of each negotiation period*, unlike the baseline for the cap which refers to 2004-2006 emission levels). It is clear that such impacts need to be resolved or minimized in the **process of distributing allowances** (see next section).

5) Allowance distribution methodology - 100% of allowances should be auctioned

Auctioning

The Commission has proposed that 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 EU ETS. This is likely to be approximately only 3% of the total allocation.

The European Parliament has strengthened this provision, adopting an amendment that asks for 25% of the permits to be auctioned.

However, full auctioning (100%) is, from an environmental, social and economic point of view, the superior way to distribute allowances:

- it would not unduly damage the profit margins of airlines and would result in an extremely modest rise in ticket prices¹⁷;
- it constitutes the practical application of the polluter-pays principle;
- it generates revenues which can be used for climate change mitigation and adaptation measures (WWF estimates that full auctioning would generate between €3.3. and €9.8 billion per year¹⁸);
- it efficiently distributes permits without market distortions and does not penalize new entrants or rapidly-growing economies (particularly in the new Member States); and
- it completely avoids the occurrence of ‘windfall profits’, essentially a massive capital transfer from consumers to airlines. New research undertaken on behalf of the UK

¹⁷ “Allocation of allowances for aviation in the EU ETS – the impact on the profitability of the aviation sector under high levels of auctioning.” CE Delft, June 2007. The full report and WWF summary can be found at http://www.wwf.org.uk/news/n_0000004116.asp

¹⁸ Based on the aviation sector being allocated allowances based on emissions in 2005 (217.69MtCO₂) and the allowance price being €15 to €45.

Government concluded that a high level of free allocation would be likely to generate windfall profits for airlines and that a substantial level of auctioning would be needed to avoid this outcome¹⁹.

It is also worth noting that several North Eastern US states in the emerging Regional Greenhouse Gas Initiative (RGGI) plan to auction a high proportion of allowances. Connecticut, Maine, Massachusetts and New York all plan to auction either 100% or nearly 100% of their allowances.

Free handouts of permits, through grandfathering and benchmarking, reduces incentives for airlines to seek to reduce emissions themselves and might create significant market distortions.

Benchmark based on RTK

Under the Commission's proposal, however, airlines will receive the majority of their allowances for free via the use of an updated benchmark²⁰ based on an airline's performance in the year ending two years before the start of a trading phase. In the current proposal this performance will be assessed by multiplying the total payload of an airline (the weight carried in terms of freight and passengers) by the total number of kilometres between airports it travels. In the aviation sector this is known as 'revenue tonne kilometres' (RTK)²¹.

It is clear that all benchmark parameters will lead to some distributional impacts and market disruptions – there will always be winners and losers. However, if full auctioning of allowances does not receive the necessary political support then the second best option is to allocate a small percentage of allowances as assessed via an 'output based' benchmark such as the **RTK benchmark** proposed by the Commission which rewards early action²². Such a benchmark takes into account the actual weight transported by an airline and will best incentivise the most efficient use of aircraft. For passenger flights, for example, it should encourage airlines to maximise the number of people on their flights.

Not only is this type of benchmark the best option (compared to other benchmarks) from an environmental point of view, recent research for the UK Government also showed that this had fewer distributional impacts for the airline types analysed than either 'input-based' (discussed below) or 'fleet age' benchmarks²³.

The European Parliament supported the use of RTK as the preferred benchmark parameter, but only at the value proposed by the Commission (100 kg) to translate passenger-kilometers into tonne-kilometers. This is not in line with latest scientific knowledge in this area and with the conclusions of the research for the UK Government²³.

¹⁹ 'A study to estimate ticket price changes for aviation in the EU ETS: a report for Defra and DfT', November 2007.

<http://www.defra.gov.uk/environment/climatechange/trading/eu/future/pdf/ticketprices-report.pdf>

²⁰ The use of an updated benchmark could actually act as a perverse incentive for ticket price reductions every five years to boost demand for air transport. So in 2008 (two years before aviation is currently due to enter the ETS) airlines might try to maximise the number of allowances they will receive by reducing their ticket prices and encouraging more people to fly. The proposal in its current form might therefore lead to an increase in emissions from the aviation sector one year out of every five.

²¹ In the current proposal passenger kilometers are translated into tonne kilometers by assuming an average weight of a passenger (including luggage) of 100kg

²² By allocating allowances in this way airlines will receive a share of the total amount of allowances which is in proportion to their share in total output.

²³ "The impacts of the use of different benchmarking methodologies on the initial allocation of emissions trading scheme permits to airlines" Final report to DfT Aviation and Environmental Division and the Environment Agency, CE-Delft and Manchester Metropolitan University, July 2007. <http://www.dft.gov.uk/pgr/aviation/environmentalissues/benchmarkingmethodologies/>

NGOs believe that the value of 160kg should be used for the RTK benchmark, if some allowances are to be provided for free.

New entrants

In order to take into account the fastest growing aviation markets and new market entrants the Parliament is also seeking to create a **reserve fund**. Although this might help to minimize some of the problems associated with the free distribution of permits based on historical performance, this reserve fund will create new problems given the difficulties associated with the definition of a new entrant. Environmental NGOs underline that the best method to avoid disproportionate impacts from this Directive on new entrants and fastest growing aviation markets is to apply **full auctioning**. The higher the level of auctioning the less penalized new entrants and fast growing aviation markets will be.

6) All flights departing from and arriving in the EU should be included from 2010. The scope should be as broad as possible, including emissions from business flights.

Analysis by the Commission confirms that the option of including all departing and arriving flights into the scheme would give the biggest environmental benefits, and would not introduce distortional effects in terms of competition between airlines, airports or tourist destinations. Nor, in the Commission's view, would it be counter to any international treaties or agreements. 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. There is no legal or political justification for this two-step approach, and certainly none on environmental grounds, since an intra-EU scheme would cover only approximately a quarter of emissions of all flights.

The European Parliament has voted to include all flights from 2011.

NGOs advocate that all flights departing from arriving in the EU should be included in the EU ETS from the start of the scheme and that a more ambitious start date of 2010 should be set.

It would be unacceptable that the implementation of the only policy measure to deal with emissions from aviation would be postponed to a later date without any legal or practical reason.

Flights to and from ultraperipheral regions

We recognize that inclusion in the scheme may have greater consequences for the flights to and from the outermost regions, due to their specific natural and economic conditions, such as the small number of passengers and their dependency on these flights. Given this, some voices are proposing the exclusion of these flights from the scope of the scheme. However, such a move would weaken the EU ETS and set a dangerous precedent, not least for the international negotiations associated with the inclusion of non-EU carriers²⁴. Given the special character of these regions, most of these flights are protected from closure by existing public service obligations and are often the recipients of subsidies²⁵. In our view, these instruments offer

²⁴ Note that the EU is 'fighting' to keep its ability to include carriers from third countries in the scheme. It does not seem to be coherent to call for the inclusion of flights to/from developing countries (for example, in Africa) and the exclusion of flights to some EU regions.

²⁵ "Outermost regions: European Commission authorises social aid for air passengers" IP/05/455 European Commission press release

adequate support to ‘lifeline’ flights and NGOs support the European Parliament approach in this issue.

Exclusion of smaller aircraft

NGOs agree with the Commission Proposal to include all flights above 5,700 Kg of Maximum Take-Off Weight (MTOW). This value ensures that the environmental effectiveness of the scheme is maximized, while it minimizes market distortions. With this threshold all business aviation jets and commercial aircraft would be included in the scheme. With a higher value of 20,000 Kg of MTOW, as voted for by the European Parliament, most business jets and commercial aircraft would be outside the scope of the scheme, leading to market distortions. Moreover, it would be extremely unfair to exempt business aviation and private jets: the fastest growing aviation markets that are mainly used by the wealthiest people in society.

7) Parallel and complementary policies and measures

It should be recognized in the EU ETS Directive that the inclusion of aviation in the scheme should be seen as only the first step in addressing the climate change impacts of the sector. Other policies and measures are needed, as the European Parliament recognized in its resolution of June 2006 and reinforced in its Plenary vote.

Parallel and complementary measures could include:

- a kerosene tax on fuel for domestic flights and, where there is agreement, a tax on fuel on flights between two member states;
- the immediate ending of VAT exemption, for example with a tax on air tickets;
- en-route NOx emissions charges;
- capacity constraint measures;
- a concrete proposal on tackling contrail-formation, where appropriate, and the prioritisation of work to quantify the impacts of contrails and contrail cirrus and to determine appropriate Air Traffic Control measures to mitigate them; and
- improved air traffic management systems and more direct routing.

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