



Aviation's challenge: the role of Emissions Trading in protecting the environment and promoting Europe's economy and employment

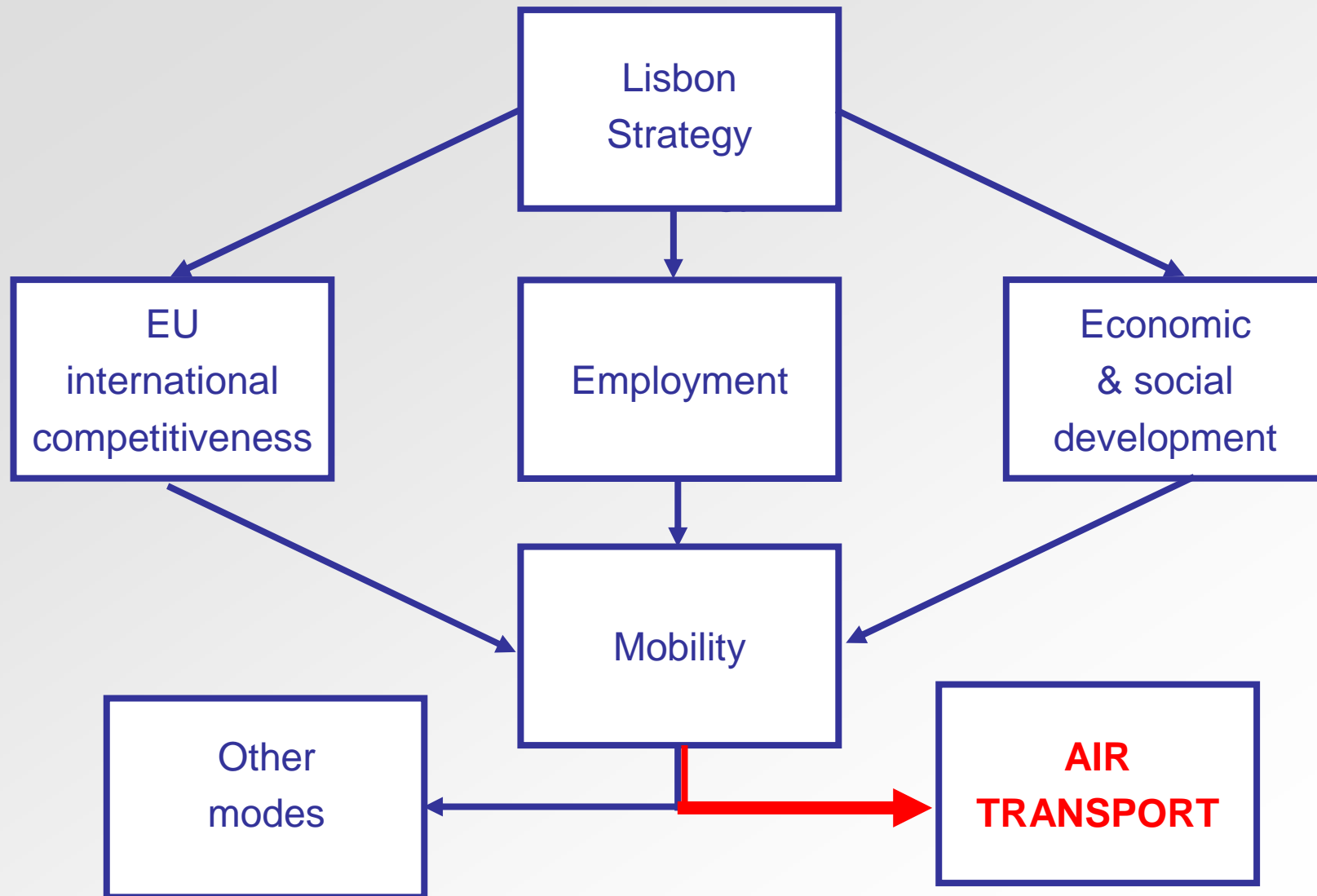
Mike A Ambrose

Director General

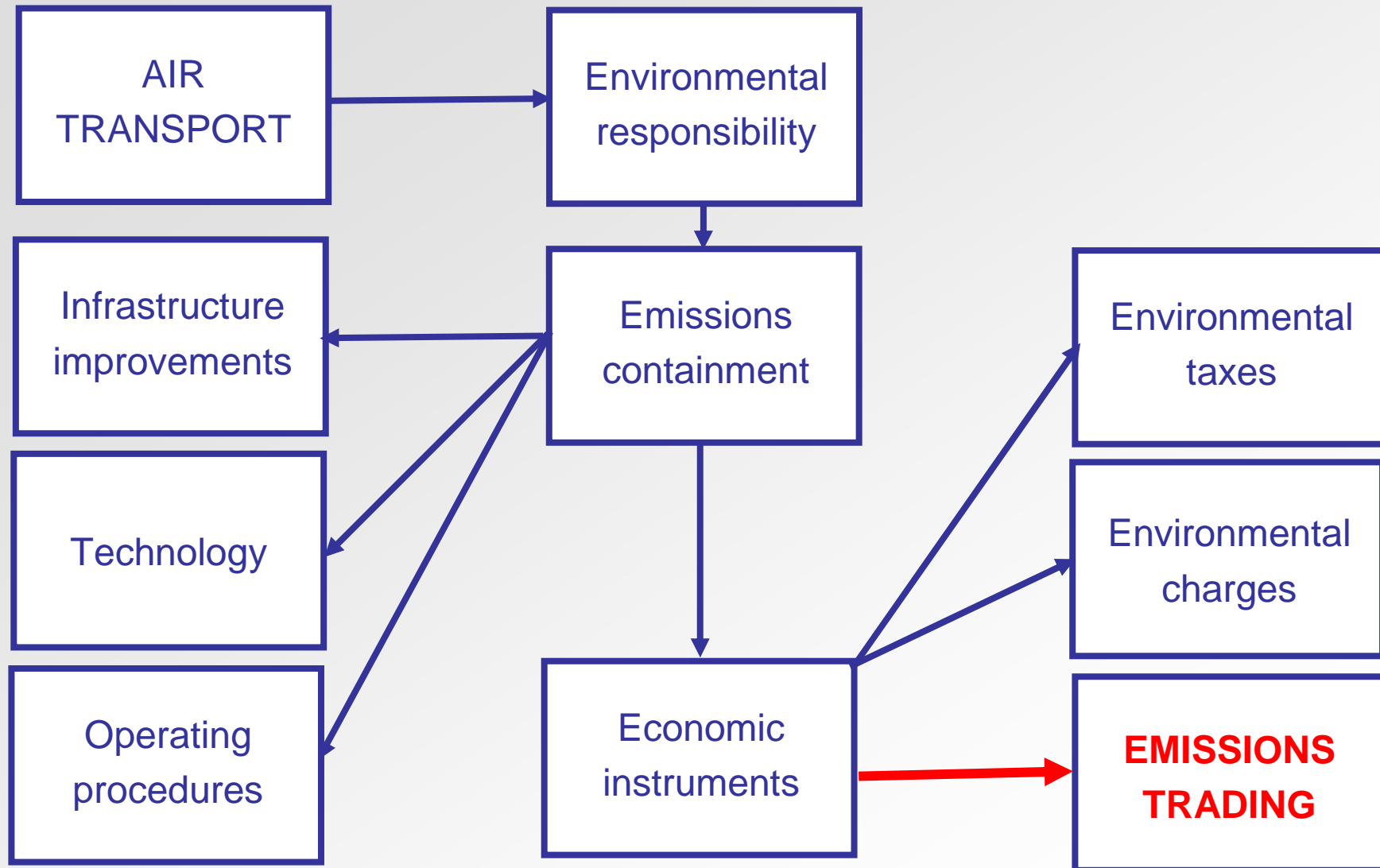
European Regions Airline Association

& Chair, Committee for Environmentally Friendly Aviation

Aviation in Europe



Aviation and environment



Ernst & Young/York Aviation Impact Assessment

- Airspace users challenged the findings of the European Commission's Impact Assessment (IA) of its ETS proposal
- MEPs suggested in October 2006 that airspace users should arrange for an independent IA
- **New IA undertaken by Ernst & Young and York Aviation**



Ernst & Young/York Aviation Impact Assessment

EC ETS proposal
for aviation will
have serious
implications for
all aircraft
operators



Ernst & Young/York Aviation Impact Assessment

- The three basic assumptions made in the Commission's impact assessment, on cost pass-through, price elasticity and windfall profits, **are not supported by economic theory**
- European Commission's IA **dangerously underestimates the impact of the proposal on EU aviation.**



Ernst & Young/York Aviation Impact Assessment

- Costs of allowances needed for traffic growth will be over **€45 billion** in the period to 2022.
- Costs of allowances **increased by 44% if auctioning** is included



Ernst & Young/York Aviation Impact Assessment



- Cost of allowances is equivalent to €4 billion additional costs per annum
- approximately equivalent, per annum, to **double the cumulative profit of Europe's airlines over the last decade**
 - Any potential airline **profits would be reduced by over €40 billion** over the period to 2022, excluding the impact of auctioning

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- Passing costs on to passengers and shippers
- The proportion of additional costs that airlines will pass onto their customers will vary according to the airline business model and according to the level of competition on a given market
- No part of the aviation industry will be able to pass through to consumers more than one third of the cost of allowances

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EC ETS proposal will

- reduce consumer choice in range and frequency of air services.
- have especially adverse effects on
 - regions and regional airports
 - tourism to peripheral regions



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- EC ETS proposal will reduce consumer surplus
- by between €55.9 million and €123.7 million in 2011
- growing to between €426.2 million and €2,186.6 million in 2022

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- EU aircraft operators will be at a perpetual competitive disadvantage in the global market, vis-à-vis non-European carriers
- Inevitable adverse effects on financial stability of some operators and substantial increase in the risk of airline bankruptcies



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- EC ETS proposal will
 - result in up to **42,000 fewer direct jobs** being created, even assuming no auctioning of allowances
 - result in Europe being less well connected internally and with the rest of the world
 - reduce of EU airlines and the EU's overall competitiveness

These impacts do not comply with the Lisbon agenda

Aviation and the environment

European Aviation

- recognises that aviation's inclusion in the EU ETS is a positive and innovative step
- commits to a constructive dialogue with European and National Authorities to improve the current proposal, but
- expresses concern on the potential impact of the EC's current proposal
- asks the EU Council and EP to amend the proposed scheme in order to eliminate its failings





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