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DRAFT REPORT

on reducing the climate change impact of aviation
(2005/2249(INI))

Committee on the Environment, Public Health and Food Safety

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(*) Enhanced cooperation between committees - Rule 47 of the Rules of Procedure

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

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The European Parliament,

– having regard to the Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions: Reducing the Climate Change Impact of Aviation (COM(2005)0459),

– having regard to its resolution of 16 November 2005 on Winning the Battle against Climate Change[1],

– having regard to Rule 45 of its Rules of Procedure,

– having regard to the report of the Committee on the Environment, Public Health and Food Safety and the opinion of the Committee on Transport and Tourism (A6-0000/2006),

A. whereas the EU is committed to the objective of tackling climate change and of limiting global temperature increase to +2°C compared to pre-industrialised levels,

B. whereas the contribution of aviation to climate change is substantial and growing rapidly,

C. whereas international aviation is subject to no commitment arising from the United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol nor from any other international commitment in the area of climate change,

D. whereas the EU should show leadership in the fight against climate change and, by taking regional and early action, lay down an example of how to tackle aviation's impact on the climate,

1. Welcomes the Commission Communication and its recognition that a comprehensive package of measures including regulatory, economic, technological and operational instruments is needed to address all impacts of aviation on the climate, applying the "polluter pays" principle and ensuring full cost internalisation;

2. Stresses that the overall objective of the policy instruments chosen must be to reduce the climate change impact of aviation;

3. Fully endorses the Commission's intention to pursue the introduction of kerosene taxes, and urges it to begin immediately by requiring a tax on all domestic and intra-EU flights (with the possibility to exempt all carriers on routes on which non-EU carriers operate);

4. Stresses the urgency of achieving results in the ongoing re-negotiations of air service agreements – in particular the agreement with the US - to unconditionally allow for the taxing of fuel supplied to EU and non-EU carriers on an equal basis;

[1] *Adopted Texts,* P6_TA(2005)0433.

5. Strongly advocates an end to the VAT exemption for air transport, in order to further level the playing field between aviation and other transport sectors;

6. Encourages the introduction of charges as a step towards full cost internalisation, with the extent of their role, and their magnitude, reflecting the extent to which any emissions trading system falls short of the requirements outlined below;

7. Stresses that air traffic management urgently needs to address how it can assist in tackling the formation of contrails and cirrus clouds;

On inclusion of aviation into the EU Emissions Trading Scheme (ETS)

8. Recognises that emissions trading has the potential to play a role as part of a comprehensive package of measures to address the climate impact of aviation, provided it is appropriately designed;

9. Stresses that the environmental effectiveness of any emissions trading scheme will depend on it having sufficiently broad geographical scope; a rigorous cap; full auctioning of initial allocation, and addressing full climate impact;

10. Proposes the introduction of a separate scheme for aviation emissions, recognising that, due to the lack of binding commitments for international aviation emissions under the UNFCCC and the Kyoto Protocol, the aviation sector would be unable to actually sell into the ETS;

11. Notes that accounting would be substantially simplified by a separate, closed system; considers that, if there were to be a gateway to allow airlines to buy from the EU ETS, this should be on a carefully limited basis;

12. Stresses that, if aviation is to be eventually incorporated into the wider ETS, there should at least be a pilot phase of a separate scheme covering the period 2008-2012;

13. Notes that potential entry of outside credits to a separate scheme (e.g. Clean Development Mechanism and Joint Implementation (CDM/JI)), or credits from regional cap-and-trade schemes in countries which are not parties to the Kyoto Protocol) must be capped at a level which guarantees that the sector contributes to achieving the overall objective of halting climate change;

14. Proposes that, should aviation be eventually incorporated into a wider ETS, special conditions be applied to ensure it does not distort the market to the detriment of less protected sectors: a cap on the number of emission rights it is permitted to buy from the market, and a requirement to make a proportion of the necessary emissions reductions without trading, before being allowed to buy permits;

15. Calls on the Commission to put forward other policy instruments to address the non-CO_2 impacts of aviation in parallel to the ETS; where uncertainties exist over any of these impacts, policy should be based on the precautionary principle;

16. Stresses that, if such a package cannot be delivered in parallel, environmental integrity

should be ensured through the ETS by using multipliers on CO_2 emissions;

On the scope of the aviation scheme

17. Believes that a scheme for aviation should cover all flights to and from any EU airport so as to ensure a level playing field to operators with different route profiles, to avoid distortion of the market in favour of flights to destinations outside the EU, to ensure environmental effectiveness, to prevent cross-subsidisation and to influence aircraft design;

On initial allocation

18. Stresses that the total initial allocation should be defined in line with the Kyoto commitment target and must therefore not allow for growth in emissions above the base year;

19. Believes that the initial allocation amount must be set at EU level, as setting it at Member State level would risk overly generous initial allocations which would distort the market and undermine the environmental effectiveness of the scheme;

On the allocation method

20. Believes that auctioning is the best option for distribution of allowances, since it reflects the dynamic nature of the sector, with no prejudice against new entrants or against those regions which have yet to develop in this sector;

21. Notes that auctioning also meets the requirements of the “polluter pays” principle, with further environmental benefits if the revenues are appropriately hypothecated; and that it automatically rewards good performance by operators in the past and future;

22. Stresses that free allocation of permits, whether through grandfathering or benchmarking, would discriminate against operators who enter the scheme after the initial allocation period, since these entities would have to buy all of their allowances rather than receiving them for free;

23. Notes the likelihood that free allocation of permits, whether through grandfathering or benchmarking, would lead to windfall profits to the sector at the consumer's expense, due to marginal cost pricing based on market price of allowances despite free allocation; emphasises that this is not the objective of the policy;

24. Considers that free allocation of grandfathered emissions is the worst option as it punishes early action by airlines, and that free allocation by benchmarking, whilst incentivising more appropriately in theory, risks being overly complicated and bureaucratic, with all calculation methods having difficulties in determining true best performance;

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25. Instructs its President to forward this resolution to the Council and Commission, and the governments and parliaments of the Member States.

EXPLANATORY STATEMENT

Aviation has become an integral part of society, fulfilling the desire to travel long distances quickly. It facilitates social cohesion and cultural exchange, and contributes an estimated 4.1 million jobs and =€228 billion to the EU's economy via direct, indirect and induced impacts[1].

However it cannot be ignored that emissions from aviation are growing rapidly, undermining progress in other sectors. The EU has committed to avoiding dangerous climate change by limiting warming to +2°C above pre-industrialised levels, translating to emissions reductions of 15-30% by 2020 and 60-80% by 2050 for the EU[2]. Between 1990 and 2003, the EU's international aviation emissions increased by 73%, corresponding to annual growth of 4.3%[3]. At this rate the increased emissions from aviation will neutralise more than a quarter of the reductions required by the EU's Kyoto target by 2012[4].

Moreover, aviation's total impact on the climate is estimated to be 2-4 times the CO_2 impact[5], even without considering the potential effects of cirrus cloud enhancement.

The industry's efforts to reduce its emissions are welcome. But as Eurocontrol predicts, EU air traffic movements are set to more than double by 2020 compared to 2003. Rates of technological/operational improvement (historically 1-2% pa[6]) will be insufficient to offset this growth.

Policy context
International aviation is not subject to Kyoto or other commitments. Article 2.2 of the Kyoto Protocol urges states to pursue the limitation/reduction of greenhouse gases (ghg) from this source through the International Civil Aviation Organisation (ICAO), but there are currently no plans for a global solution here: only works-in-progress to develop guidance for emissions trading schemes (ETS).

Aviation is not subject to fuel tax or VAT, and benefits from various state aids. These historic privileges primarily benefit the well-off, both on a global scale (the majority of global flights are taken by people in developed countries) and within Europe (those in high-income groups fly the most).

It is also much less vulnerable to economic distortions from higher CO_2 prices than other sectors, as flights cannot be imported or exported - a trip from London to New York cannot be replaced by one from Montreal to Tokyo. Non-discriminatory policy instruments can thus be used without significantly harming the competitiveness of EU industry, with competition from non-EU airlines being limited by the market's tight regulation through bilateral air service agreements (ASAs). Any resultant shift to other modes would help to redress the historic discrimination shown to them, as well as being advantageous in climate terms - noting that aviation is the most ghg-intensive mode of communal transport for short-haul trips

[1] ATAG (2005): "The Economic and Social Benefits of Air Transport" p.25.
[2] Environment Council Conclusions March 2005.
[3] Commission Communication COM(2005)0459, p.2.
[4] p.5, ibid.
[5] IPCC 1999.
[6] Commission Impact Assessment COM(2005)0459, p.5.

(where alternatives exist), emitting 132g CO_2 per passenger km, as compared to 15.7-50.8g CO_2 for passenger trains[1].

It is therefore vital that the EU - as a key player in global aviation, with specific legal obligations under the UNFCCC - shows leadership and exploits the advantages of laying down an example with early regional action. This is recognised by the commitment in the 6th Environmental Action Programme[2], reaffirmed in the Council Conclusions of December 2005, to identify "*specific action to reduce greenhouse gas emissions from aviation if no such action is agreed within the ICAO by 2002*."

As the Commission notes, the policies' overall objective must be to ensure that aviation *"does not undermine, but contributes to, achieving the overall objective"*[3]. It follows that they must (at a minimum) incorporate objectives in line with the Kyoto commitment of reducing emissions by 8% by 2010 from 1990, and with the EU's target of 30% reductions in the EU by 2020 from 1990. They must also cover the full climate impact of aviation, being based on the precautionary principle where any uncertainties exist.

Full set of measures

To ensure incentivisation for airlines to meet this goal, and to avoid perverse incentivisation on the demand side, policy must comply with the "polluter pays" principle, with full internalisation of all climate change-related externalities. As the Commission states, *"the air transport sector currently does not have to pay the external costs of its effect on the climate, nor any equivalent charges. This represents a market failure and contributes to over-reliance on air transport and to sub-optimal investment in and uptake of new technologies and operational procedures that minimise these effects."* [4]

The Commission Communication is thus to be welcomed for its recognition that a comprehensive package of measures including regulatory, economic, technological and operational instruments is needed. Its stated intention to pursue the introduction of kerosene taxes, in line with the Directive on the Taxation of Energy Products (2003/96/EC), is very important given the existing imbalance between the treatment of aviation and other modes of transport. This should begin right away with a tax on all domestic and intra-EU flights (with the possibility for exemption of all carriers on routes where non-EU carriers operate). The ongoing renegotiations of ASAs must meanwhile continue so that third country carriers can gradually be taxed on an equal basis with EU carriers.

Ending the VAT exemption would further level the playing field, and bring fiscal as well as environmental benefits. Emissions charges should be set at a level which reflects the extent to which other measures fall short of ensuring full cost internalisation, and may be particularly appropriate as ancillary measures for tackling non-CO_2 impacts. Improvements in Air Traffic Management could reduce average fuel burn by between 8 and 18%[5], with resultant decreases in all engine emissions.

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[1] Table 62, p.133, Annex 1 INFRAS/IWW October 2004: "External Costs of Transport".
[2] European Parliament and Council Decision No 1600/2002/EC, OJ L 242, 10.9.2002, p. 1.
[3] Commission Communication, p.3.
[4] Commission Impact Assessment, p.8.
[5] IPCC 1999.

Emissions trading
The main focus is, however, on emissions trading. This does not replace the need for other measures, but has the potential to play a role - provided any scheme is properly designed. Given that emissions trading for aviation is a legally new concept, the EU should exploit the freedom this provides to set a strong framework which can eventually be replicated more widely. For maximum environmental effectiveness, any emissions trading scheme (ETS) must meet the following principles:

-*Non-CO_2 impacts*
Other policy instruments must be introduced *alongside* an ETS to address full climatic impact. Instruments directly linked to the impact in question would be most likely to induce the most efficient behaviour, though multipliers on CO_2 emissions are an interim alternative if it does not prove possible to deliver appropriate individual measures in parallel.

-*Relationship to other ETS*
A separate, closed scheme for aviation is a serious option. Since the Kyoto Protocol does not cover international aviation, no AAUs (Assigned Amount Units) were allocated to the sector. This means its members could not legally sell into the EU-ETS. In principle they could still buy from the main scheme, and could then sell back *those* credits; but this would seriously complicate the accounting system linking the EU-ETS and the Kyoto Protocol. Although various options have been presented to try and overcome this, the fact is that accounting would be substantially simplified by a stand-alone system.

Even if a satisfactory solution to the administrative difficulties were found, many sectors already in the EU-ETS are concerned about the possible effect of aviation's inclusion on carbon prices - noting that, as a sheltered sector, it would be able to tolerate higher prices than many others. Besides having direct adverse effects on other parts of the economy, it is an important political reality that excessive pressure on vulnerable, energy-intensive industries could lead to loosening of the cap - further exacerbating the EU's disappointing progress so far on reducing emissions.

Inclusion of aviation emissions in international targets under the next phase of global climate agreements - clearly desirable - would remove the accounting difficulties, but is impractical prior to 2012. Good use could thus be made of the period 2008-2012 by running a pilot phase of a separate scheme, in order to gain practical experience with maximum scope for designing the rules needed to guarantee environmental integrity. Restrictions on the entry of outside credits (CDM/JI or possible links with regional cap-and-trade schemes in countries which are not parties to Kyoto) would be needed to ensure compliance with the overall objective.

Any arrangement by which aviation was incorporated into a wider ETS would need to take account of the sector's sheltered status and apply appropriate conditions, e.g. a cap on the number of emissions rights the aviation sector could buy from the market (to avoid market distortion against less protected sectors), and a requirement that aviation make a proportion of the necessary reductions before being allowed to buy permits.

-*Geographical Scope*
Environmental effectiveness would be greatest with a scheme which covers all flights to and

from any EU airport - in terms of the number of flights covered, and influence on aircraft design. A scheme covering only intra-EU flights would also distort the market in favour of destinations outside the EU, with negative consequences for the climate (people probably travelling longer distances) and for Europe's tourism industry. The risk of travellers switching destinations, as well as of cross-subsidisation, means that broad coverage is also necessary to ensure a level playing field for operators with different route profiles.

-*Cap*
The total initial allocation for any ETS should be defined in line with the Kyoto target. For practical reasons and in order to avoid overly generous initial allocation, it must be set at EU level. Any growth in emissions above the base year would not be compatible with the target: the industry may still expand, but only within environmental limits. Any shortfall in meeting the Kyoto target through an ETS would have to be offset by strengthening of other measures.

-*Distribution of allowances*
A method is needed which properly reflects the sector's dynamic nature; rewards past and future good performance, and meets the polluter pays principle. Auctioning meets all three criteria automatically and efficiently: new entrants would have equal access to emissions rights; the number of allowances needing to be bought by an operator of any given size would be directly linked to their progress in reducing emissions per tonne km; and allowances would be paid for, thus generating revenue for environmental purposes.

Free allocation of permits - whether through grandfathering or benchmarking - would not meet the polluter pays principle, which could then only be achieved by parallel emissions charges or similar measures. In fact, experience with the EU-ETS suggests it would *reward* the polluter, through windfall profits to the sector, at the consumer's expense, in the order of 1.34-4 billion € per year - due to marginal cost pricing based on market price of allowances[1].

Free allocation using either distribution system would also discriminate against operators who enter the scheme after the initial allocation period, since (bar solutions being found to "*almost insurmountable*" definition problems[2]) these entities would have to buy all their allowances, in contrast to pre-existing entities which had received theirs for free.

In terms of incentivising good performance, free allocation based on grandfathered emissions is the very worst option. Since allocations would be calculated according to past/current emissions, early action would be actively punished. Free allocation based on benchmarking is better on this in theory, but risks being overly complicated and bureaucratic, with no calculation method being reliably able to determine true best performance.

[1] CE Delft (July 2005)): "Giving Wings to Emissions Trading" p. 163.
[2] ibid p.95.