

# Covering External Costs in the Aviation Industry

*A Submission from the British Air Transport Association*

BATA welcomes the opportunity to respond to the Commission for Integrated Transport (CfIT) on the issue of aviation's external costs. BATA represents UK-registered airlines, both scheduled and charter. Our members produce over 90% of UK airline output.

We understand that the Government will shortly be consulting on the use of economic instruments in the management of aviation's environmental impacts and we are surprised that CfIT has asked for responses beforehand. We may wish to submit a further response after the Government has published its consultation document.

Aviation pays for its infrastructure (airports, Air Traffic Control), regulation (safety, economic) and security so this submission deals only with external environmental costs.

## **Introduction**

Aviation has an outstanding record of investing to reduce environmental impacts. The gains have been largely achieved voluntarily. We believe that voluntary agreements are far more effective than economic or regulatory tools in tackling environmental issues.

The Government's policy, that aviation should meet its external costs, raises a number of issues:

- The Government also supports the principle of sustainable development where protection of the environment is balanced against the maintenance of economic growth and social progress. If aviation covers its external costs then it should also be credited with the value of its external benefits.
- We are a long way from knowing what the relevant costs are for all the external impacts and benefits. In reality, some of them, such as the impacts on biodiversity, landscape and heritage, are unlikely ever to be satisfactorily valued in monetary terms. However we welcome the interest in the subject and would be pleased to enter into a dialogue on how they can be determined and allocated.
- Who is the polluter? Some emissions, for example, are the result of inefficiencies and capacity shortages in Air Traffic Control (ATC) systems – many of which are run by national governments. Airlines are also forced to fly indirect routes to avoid military airspace. According to CAEP (Committee on Aviation Environmental Protection), ATC improvements could save 6% of fuel.
- How will offsets be dealt with? Some airlines, for example, may choose to take advantage of carbon neutrality schemes being offered by some NGOs. There is a risk of double accounting for the impacts in such cases.
- Will all transport modes be subject to the same scrutiny? Unlike aviation, rail and bus do not cover all their infrastructure costs. Will CfIT be carrying out a comparative study?
- Environmental policy needs to distinguish carefully between global and local effects. At the global level the UK should not 'go it alone'. Aviation is an international business and UK airlines and airports should not be burdened more

than their foreign competitors. Progress has to be made through the sensible development and reform of international agreements, standards and regulations. As agreed in the Kyoto Protocol, ICAO is the appropriate body through which global effects should be tackled. The ICAO principles must be applied to environmental economic measures so that they are:

- Environmentally beneficial,
- Economically reasonable, and
- Technically feasible.

We will now address those questions identified as being of particular interest to CfIT.

***Does the evidence currently available support the view that aviation is not presently covering its costs?***

External costs first have to be established with much more certainty than is the case now and the external costs currently borne by airlines taken into account. The evidence so far indicates that aviation already meets its known external environmental costs i.e. those due to noise and climate change emissions. According to the DETR's research<sup>1</sup> the known environmental costs per passenger are between £2.18 and £3.30 on short haul scheduled flights and between £18.05 and £20.24 on long haul scheduled flights. (These figures will be lower for charter flights because of higher seat capacities and load factors.) These are less than Air Passenger Duty (APD) currently levied on passengers as a surrogate fuel tax.

***What impacts should be included in the list of externalities that can realistically be captured by such an exercise?***

With further research it seems likely that the two major environmental impacts of aviation, namely noise and emissions, can be estimated satisfactorily.

The DfT's study into Attitudes to Noise from Aviation Sources (ANAS) is examining the (hypothetical) willingness to pay in respect of nuisance from noise. The study is still in its pilot phase but, if it is successful, it should provide robust estimates of the costs of noise impacts.

The 1999 IPCC report<sup>2</sup> identified uncertainties relating to the impacts of NO<sub>x</sub> and water vapour in the upper atmosphere. Aviation has supported, and will continue to support, the scientific community in upper atmosphere research.

Emissions of NO<sub>x</sub> also affect local air quality – an issue raised in the SERAS consultation document. Airports will have to meet European air quality standards when they come into force in 2010. However if the standards are met no charges should be imposed. Recent work at Heathrow by a joint Air Quality Steering Group<sup>3</sup> has shown that, for various reasons, the contribution to the NO<sub>x</sub> inventory from aircraft has been grossly overestimated. This highlights the importance of having sound evidence before action is taken.

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<sup>1</sup> Valuing the External Costs of Aviation. DETR 12<sup>th</sup> December 2000.

<sup>2</sup> Aviation and the Global Atmosphere, IPCC 1999.

<sup>3</sup> The Group includes members from the airport, local authorities, government and the scientific community. It aims to measure and monitor air quality and improve modelling.

Local impacts (noise, air quality, land and property take, and biodiversity) are best dealt with locally so that reasonable and proportionate mitigation and compensation schemes can be developed for each site.

***What are the implications of internalising externalities within the aviation industry and the benefits and disbenefits to such a move, including the likely impact on demand?***

We agree that aviation, like other industries, should cover its external costs. However, care will be needed in dealing with externalities to avoid major disbenefits. Clearly, if costs increase significantly, fares will inevitably increase with serious consequences for UK aviation, UK business, tourism and the travel opportunities of ordinary people.

A number of business sectors, including IT, pharmaceuticals, biotechnology and financial services, depend on the availability of a large range of international air services at competitive prices in order to compete in the global marketplace. The availability of such services is a key factor in creating a favourable business environment for inward investment.

If the cost of travel rises, the trade gap between inbound and outbound tourism will increase. As UK prices rise or capacity is restricted inbound tourists will go elsewhere and jobs will be lost from the UK tourism industry. UK residents will still want their foreign holidays but the less affluent will be priced out of travel by air and will go by surface transport instead – probably by car.

***What should be the balance between economic and regulatory tools in covering external costs?***

We advocate an approach which looks at specific environmental effects issue by issue. We support measures that will improve environmental performance in a cost effective way, but the appropriate measure will vary with each issue.

Economic and regulatory tools are generally crude and ineffective instruments for influencing behaviour. A fuel tax, for example, will simply put up costs – airlines have plenty of incentive already to minimise consumption. A fuel tax that is not applied internationally will be counter-productive by tempting airlines to tanker fuel into airports where fuel is taxed and, furthermore, will distort competition.

The environmental impacts of aviation should first be tackled by reducing the scale of impacts at source, next by taking mitigation measures against the remaining impacts and lastly by providing compensation for impacts remaining after mitigation measures.

Aviation has invested heavily to tackle impacts at source. The result is that today's jets are typically 20dB quieter than those 30 years ago and specific fuel consumption has improved by about 20% since 1990. These gains have been made largely through the desire to be more efficient and through voluntary agreements. Economic and regulatory tools have been largely ineffective in tackling environmental issues.

For noise, we favour the ICAO balanced approach where equal consideration is given to:

- Reduction of noise at source,
- Land use planning and management,
- Operational noise abatement procedures, and
- Operating restrictions.

However, operating restrictions are not to be applied as a first resort.

Global impacts, such as greenhouse gas emissions, require global solutions. BATA believes that this is best achieved by introducing an open international emissions trading system. This would need to be agreed through ICAO who has been given responsibility for limiting international aviation's emissions in Kyoto protocol. This will not be without costs to airlines and consumers. However, according to the DETR's research,<sup>4</sup> aviation already meets its known external environmental costs through APD. We believe that APD should be replaced by systems (such as emissions trading) or charges that are more directly related to the environmental burdens generated. Any proceeds should be used to pay for mitigation or invested into research and development of improved technology.

Regulation should be the last resort but we agree with continued development of international requirements and standards on noise and emissions. Such standards are needed not just for environmental reasons but also to prevent distortions in international competition.

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<sup>4</sup> Valuing the External Costs of Aviation. DETR 12<sup>th</sup> December 2000.