

Inquiry into the Merits of Including the Aviation Sector in the EU Emissions Trading Scheme (ETS)

Evidence from British Air Transport Association (BATA) to Sub-Committee B (Internal Market) of the House of Lords Select Committee on the European Union.

1) BATA welcomes the opportunity to submit evidence to the Sub-Committee. BATA represents UK-registered airlines, covering the scheduled, charter and freight sectors. Our members produce 90% of UK airline output.

2) The Sub-Committee seeks evidence relating to the following questions:

Has the emissions trading scheme worked well so far, and does the current system provide a solid foundation for expansion to include other sectors of industry?

3) There have been some teething problems with the EU ETS related to the decentralised approach adopted. If aviation is to join the ETS then allocation and target setting should be imposed at an EU level so that there is consistent treatment of aviation emissions across the EU. Targets would then affect all carriers to the same degree i.e. in proportion to their emissions on the applicable flights. The alternative of each State allocating to its own carriers, could lead to market distortions and is incompatible with the EU's open skies policy whereby carriers can operate services outside their home state.

4) It is essential that the initial allocation of allowances is designed to avoid market distortion and applied on the basis of free allocation. The allocation methodology should be based on benchmarking which takes account of the position of airlines which have taken early action by investing in the most fuel-efficient aircraft.

Why include the aviation sector, and what are the possible costs and benefits to the industry of joining the ETS?

5) International aviation (and shipping) are excluded from greenhouse gas emission reduction targets set as part of the Kyoto Protocol. Although aviation only accounts for about 3% of global CO₂ emissions currently, it is a growing industry and it will have to be accounted for eventually in some way if all emissions are to be dealt with.

6) The industry is expected to grow at a rate faster than it can improve fuel efficiency which means it will have to buy emission permits from other sectors. Costs to the industry are therefore likely to increase in the long term in line with emissions growth and the price of carbon in the scheme.

7) The benefit to the industry is that the ETS offers a potentially economically efficient method of accounting for CO₂ emissions whilst allowing it to grow within an overall emissions target.

What are the possible impacts of the inclusion on the international competitiveness of the EU aviation industry (and its competitive position in relation to other transport modes)?

8) Geographical scope should, at a minimum, cover all intra-EU flights. This however would lead to market distortion with disadvantages to those airlines operating solely or predominantly within the EU. Market distortion will be reduced if all flights to and from the EU (for example flights to and from the USA or Brazil) by all operators were also included within the EU ETS. Whilst this is obviously preferable from a competition point of view, it will greatly increase the scheme's complexity and we believe it will be extremely difficult to get agreement from many non-EU states to include emissions produced outside EU airspace and by non-EU airlines. There is also a risk of market distortion if non-EU states take retaliatory action or insist on more favourable allocations or targets.

9) If, despite these obstacles, the Commission wishes to seek inclusion of non-EU carriers and extra-EU flights, they should do so in a way that avoids retaliation (or legal challenge) and without delaying implementation beyond what could be achieved with a simpler scheme.

10) If agreement with non-EU states is not forthcoming in a reasonable time, then we believe that the initial phase should cover intra-EU flights only, perhaps with the addition of EEA countries – Switzerland, Norway and Iceland. The operator scope should include all air service operators, irrespective of nationality or type of operation. This includes non-EU carriers, scheduled, charter, no-frills and cargo operators. Unless all operators are included there will be unacceptable market distortion.

11) In order to avoid market distortion, the EU Commission should consider how other transport modes might be brought into the scheme or what equivalent instruments might be applied to them if aviation goes into the EU ETS.

What are the costs and benefits to consumers and the environment of including aviation in the ETS?

12) Unlike many other industry sectors, aviation does not have feasible alternatives to fossil fuels in the short or medium term. The environmental advantage of aviation being in the ETS is that overall emission targets will be met. With other economic instruments that might be applied, the environmental effects are uncertain.

13) The aviation industry has a good track record on improving fuel efficiency and reducing emissions but we accept that improvements in efficiency will not be enough to off-set the expected growth in demand

14) Membership of the EU ETS will increase costs to the industry and consumers will pay higher fares than would otherwise be the case. There are no direct benefits to consumers apart from the knowledge that the CO₂ emissions of their flight have been accounted for as part of the EU emissions reduction programme. Consumer demand for

increased air travel will be met in an environmentally effective and an economically efficient manner.

At what point in the development of the EU ETS would it be feasible to incorporate the aviation sector?

15) BATA supports the Government's policy to investigate inclusion of aviation in the EU ETS from 2008, or as soon as possible thereafter.

What other economic or regulatory mechanisms exist to encourage reductions in CO₂ emissions from the aviation sector, and how effective might they be compared to emissions trading?

16) Economic instruments such as taxes or charges are limited by international treaties. The Chicago Convention prevents taxes or charges on fuel kept on board aircraft and consumed on international flights. The UK introduced Air Passenger Duty (APD) as a surrogate fuel tax and it raises about £1bn per year. This is about 1.5 times the cost of CO₂ emissions from all flights departing from the UK (based on the Government's price of £70 per tonne of carbon). Alternatively, it might be possible to devise an emissions charge which is compatible with the Chicago Convention. However, such duties and charges do nothing to encourage reductions in CO₂ emissions beyond the level already being achieved. CO₂ emissions are directly proportional to the amount of fuel burnt and fuel is a significant proportion of operating costs. Airlines already have every incentive to be fuel efficient.

17) Membership of the EU ETS should be supplemented by technological investment and infrastructure development by governments. A significant proportion of fuel is wasted due to the inadequate capacity of the European Air Traffic Control (ATC) system and the shortage of slots at some major airports. These cause in-flight delays and inefficient routeings.

18) APD should be removed from flights covered by the EU ETS once aviation has joined. The EU ETS is a mechanism by which aviation covers the external costs of its CO₂ emissions and if APD is retained, aviation will in effect be charged twice.

19) The economic and social value of aviation to the UK is very significant and we should use the most economically efficient mechanisms to address the industry's CO₂ emissions and climate change impacts.

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