



## **Aviation and the EU ETS – how to deliver environmental effectiveness**

*Statement in the Transport Committee of the European Parliament  
27 June 2007*

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Dear Ladies and Gentlemen,

I would like to thank the organisers to have been given the opportunity to address this important meeting on this critical issue. I am representing Germanwatch, a North-South organisation based in Bonn which since many years has been actively involved in national and international energy and climate policy discussions. We welcome that with the European Commission's proposal to include aviation into the European Emission Trading Scheme (EU ETS) the discussion has received new impulses.

However, I have to underline that there is substantial concern among European environment NGOs that the inclusion of aviation into the EU ETS will have significant shortcomings. The proposal in its current form will not break the strong upward trend in emissions from international aviation, which is absolutely necessary if we take serious the objective of limiting global warming to below 2 centigrades compared to preindustrial levels, as agreed on by the EU. This will neither be the case if the amendments suggested in the draft report prepared by the European Parliament's rapporteur, Mr Peter Liese, will find their way into the final version, although they show important improvements compared to the Commission's proposal.

In order to improve the environmental effectiveness of the Proposal, the European Parliament should consider that the Directive Proposal is advanced in at least 6 points:

- 1. Ensure that aviation delivers significant emission reductions itself before non-aviation emission credits can be purchased:**

It is important to ensure that the Proposal contains provisions that incentivise aviation to reduce emissions within the sector, rather than just pass that responsibility to other economic sectors. This can be done by directly restricting the number of allowances that aircraft operators can buy from other sectors, inserting respective language for example in RECITAL 17 of the Proposal. But it can also be done by allowing aircraft operators to buy non-aviation CO<sub>2</sub> permits ONLY if they have made efforts to significantly improve their efficiency.

**2. Have a stringent quantitative and qualitative limit on the access to CDM/JI credits in the EU ETS [ARTICLE 11a]**

The principle of supplementarity should be retained in full in the Aviation ETS Directive. A robust formula should be adopted which ensures that the overwhelming majority of emissions reductions required within the scheme - significantly more than 50% of the overall effort required to meet the cap - are achieved within the EU. Such a restriction exists for the sectors already included in the EU ETS. To ensure that projects really are additional, have a positive sustainable development impact, and contribute towards a drive towards a low carbon economy in the future the use of project credits within the EU ETS should be limited to those certified by the Gold Standard<sup>1</sup>. These aspects should be included in the relevant chapter IV of the directive proposal.

**3. address all climate impacts from aviation: a multiplier of at least 2 should be set until specific measures are implemented to tackle NO<sub>x</sub> emissions AND the formation of aviation induced clouds [ARTICLE 3c]**

According to the latest scientific research, the climate impact of aviation is between 2 and 5 times that of its CO<sub>2</sub> emissions alone. The precautionary principle as enshrined in the Treaty implies that the remaining scientific uncertainty should not be used as a reason to ignore them. If the system does not address the non- CO<sub>2</sub> impacts of aviation, it effectively means that every tonne of CO<sub>2</sub> bought by the sector effectively leads to more rather than less climate change.

Additional specific policies are needed for each of the impacts. However, if the additional measures are not introduced by the time aviation is incorporated into the ETS then, as a temporary measure the ETS should include the full impacts of aviation via the use of a multiplier of at least 2. Although the proposal of Peter Liese – a multiplier of 1.5 – goes into the right direction, it is not sufficient. A higher multiplier would even be more in line with the precautionary principle. The shortcomings of a multiplier are outweighed by the urgent need to include non CO<sub>2</sub>-effects. Further adjustment with upcoming new scientific knowledge should be considered.

**4. The cap should not exceed 50% of the average level of emissions in 2004/2006, in line with current and future EU climate targets [ARTICLE 3b]**

Under the Commission's Proposal, the aviation sector will need to cap its emissions to the average level in the years 2004-6. In practice, this means that the cap for the sector is set at 100% above 1990 levels, while the cap for other sectors in the ETS must put the EU on track to meet the EU's Kyoto target, an 8% reduction below 1990

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<sup>1</sup> <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.

levels. The rapporteur's draft reports suggests 90% of this average. If the aviation industry is to play its part in achieving the EU's climate objectives, the sector's cap should be set at a level equivalent to the emission targets of the EU – a reduction of 8% compared to 1990. This would mean a cap of 50% of the average emissions in 2004–2006.

We fully support the Commission's proposal that the cap should be set at the EU level.

#### **5. 100% of allowances should be allocated by auctioning [ARTICLE 3c]**

The Commission has proposed that the percentage of allowances to be auctioned will correspond to the average percentage proposed by the Member States for phase II of the scheme. This is likely to be approximately 3% of the total allocation. The Parliament's rapporteur suggested to auction 50% from the beginning in 2010. Auctioning is from an environmental, social and economic point of view the superior way to distribute allowances. It is also supportive of new entrants into the aviation market. As such we advocate that 100% of the allowances should be allocated by auctioning to the aviation sector. In its resolution, the European Parliament has also recognised the need for auctioning as the main method of allocation<sup>2</sup>. A recent study commissioned by WWF UK shows that this does only marginally impact the aviation industry's profits, while at the same time generating revenues around 3 to 10 billion Euro annually.<sup>3</sup>

Investing the revenues in more climate-friendly transport modes as suggested by the rapporteur is an approach that deserves consideration. However, Germanwatch as an environment and development NGO, strongly supports the proposal of the Commission made in RECITAL 16 to use the auctioning revenues "in particular" for mitigation and adaptation financing in developing countries. Especially the Least Developed Countries (LDCs) bear the hardest burden from climate change although they have contributed almost nothing to its causers. Increased support for adaptation to climate change by the polluters will become a crucial issue in the negotiations on a Post2012 climate change agreement, which very likely will not be reached without addressing this inequity. The EU has to come up with options for increased financing for these purposes, and the linking with a mitigation scheme like the EU ETS is a very useful approach.

#### **6. All flights departing and arriving in the EU should be included from 2010.**

We welcome that there seems to be a consensus that all flights departing and arriving in the EU should be included from the beginning on. Given the little time that remains to get on track with the 2 centigrades limit – global emissions must peak by 2015 at the latest according to the IPCC - , the EU should work for the closest practically possible starting date, being 2010, which is also suggested by the draft report of the EP's rapporteur Peter Liese.

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<sup>2</sup> European Parliament report on reducing the climate change impact of aviation. June 2006

<sup>3</sup> Bart Boon, Marc Davidson, Jasper Faber, André van Velzen 2007: Allowance allocation in the EU ETS  
The impact on the profitability of the aviation sector under high levels of auctioning. Delft, CE Delft, March 2007

Last but not least it is important to underline that the inclusion of aviation into the EU ETS is not going to be sufficient to bring the sector's emissions down to sustainable levels. Market distortions and subsidies like the missing kerosene tax promote the unsustainable growth of the aviation sector and discriminate other transport means, without any economic, environmental or social justification. So I also would like to call on the EP and the Member States to get the tax and subsidy situation right. The directive should keep all these doors emphatically open and contain NO restrictive wording in any sense.

Dear Ladies and Gentlemen,  
last year the Parliament adopted a resolution which set the guidelines for our present discussion. I quote point 2 of Parliament's resolution:

*"These policy instruments must be chosen in such a way as to ensure that the reduction of greenhouse gas emissions is as high as possible while the distortion of competition between Europe based air carriers and carriers from outside the EU is minimised and the unfair competition between the air transport sector and other transport sectors within the EU is reduced".*

In the same resolution, the Parliament also advocated for a 100% auctioning, a cap in line with the EU Kyoto target and a multiplier addressing all climate impacts of aviation.

After the Stern Report, after IPCC, and after the March Council decisions, stepping back from this guideline would absolutely question the credibility of the Parliament. Now is the time to make the Aviation ETS Directive comply with these guidelines. The effectiveness of emission trading schemes depends on how they are designed. The suggested improvements are absolutely necessary to make it environmentally effective and to seriously address the challenge we face.

Thank you for your attention.