

The inclusion of the aviation in the EU Emissions Trading Scheme

Status of the Legislative Process

1.0

21 November 2007

Proposed Directive

The EU ETS is a CO₂ cap and trade scheme that now covers more than 10,000 installations in a number of energy-intensive industrial sectors in 25 Member States and will be expanded with more installations and the two new MS, Romania and Bulgaria. It is the first multi-national trading scheme of its kind and is designed to help the EU reach its CO₂ reduction targets. The EC is seriously considering extending the scope of the scheme in terms of gases and sectors. A draft directive to include aircraft operators in the existing EU ETS has already been proposed and is now under debate (see below).

In the Commission proposal for a Directive on including aircraft operators in the EU ETS, the EC integrates aircraft operators as far as possible into the existing EU ETS, rather than developing a separate emission trading scheme for the industry which could successively feed into a worldwide trading scheme as many aircraft operators would favor over a EU wide scheme. While some features of the EU ETS will be adapted to match the needs of aircraft operators, the core terminology and methodology will be similar or the same. This includes key concepts such as the use of allowances, trading, monitoring and reporting and verification of emission reports.

Some key differences to the existing scheme include the use of benchmarking on EU level as the allowance allocation method, the use of the emissions level in the period 2004-2006 rather than 1990 to determine the total cap for the sector, and a central, rather than member state-based, allocation system. In addition, there is no new entrants reserve in the proposal, creating huge competitive disadvantages for potential new entrants. Most interestingly, the role of the Competent Authorities looks to be drastically reduced in the new scheme. Specific provisions are not yet in place for compliance, although this issue seems to be addressed by the Commission. Please see Table 1 for an overview of design elements of the new scheme.

Table 1: Selected design parameters of the proposed directive for including aircraft operators in the EU ETS

| Design parameters | Existing EU ETS ¹ | Current Proposal |
|--|--|--|
| Scope: sectors | EU stationary installations ² | in, to and from EU |
| Scope: gases | CO ₂ | CO ₂ |
| Starting date | 1. January 2005 | 1. Jan. 2011 (EU), 1. Jan. 2012 (to/from EU) |
| Relevant to Kyoto commitments | Yes | No |
| Baseline period | 1990–2002 ³ | 2004–2006 average |
| Reduction to baseline period | 8% ⁴ | 0% (same for all operators) |
| Allocation method | Grandfathering | Benchmarking |
| Allowance allocation | National Allocation Plans (NAPs) – EC approval | EC |
| Early action reward | Up to Member State | Yes (benchmarking) |
| Verifiers involved in allocation | No ⁵ | Yes |
| Auctioning | ≤ 10% | Average of NAPs in EU ETS |
| Use of EU ETS allowances | Yes | Yes: but not vice versa |
| Use of CERs and ERUs | Up to Member State | Average of NAPs in EU ETS |
| New entrants reserve | Up to Member State | No |
| (Validated) Monitoring Plan required | Yes | No |
| Number Competent Authorities | Per installation | One per AOC holder |
| Harmonised compliance by competent authorities | Limited | Unclear |
| Harmonized verification guidelines | No | Yes |
| Harmonized accreditation of verifiers | No | Yes |
| Use of external sources for checking data | No | Likely (Eurocontrol) |

¹ Directive 2003/87/EC and Decision 2007/589/EC

² Energy activities, Production and processing of ferrous metals, Mineral Industry and Other activities (pulp and paper production)

³ Differs per Member State

⁴ 8% is the average EU Kyoto-commitment, which differs by Member State and operator

⁵ Baseline verifications were performed in some countries in the first trading period. And for the second period, verified emission data were available for those operators who were in the scheme in the first period.

The full text of the proposed Directive can be found on the EC's website: http://ec.europa.eu/environment/climat/aviation_en.htm

Implementation time schedule

See Figure 4 below for an indicative timeline.

Figure 4: Indicative timeline for the inclusion of aircraft operators in the EU ETS



Source: European Commission, PricewaterhouseCoopers, Ready for take-off, 2007

Legislative process

Monday 13 November, the European Parliament voted with a large majority for an amended proposal to include aircraft carriers in the EU Emissions Trading Scheme.

The next step is to the Portuguese Presidency of the EC to arrive at a common position in the Council of Ministers at December 20. If they succeed, the resulting "Common Position" will be sent to the Parliament for a second reading, which will take place expectedly in the Summer of 2008. When the EP and Council do not agree at that stage, the proposal will go through a so called Conciliation procedure of 18 weeks.

This means, there is certainly no legislation, let alone guidelines for allocation monitoring, on the date the Commission proposed the operators should start this monitoring, ie January 1, 2008.

Key elements of the amended proposal are (in comparison to the EU commission proposal):

- *all* flights are to be included as from 2011 (in the EU commission proposal the start for flights to and from EU was 2012)
- emissions should be capped at 90 per cent of 2004-6 levels (instead 100%)
- 25% of the allowances are to be auctioned (instead average of national auctioning quota amounting to about 2-3 %)
- a multiplier factor of 2 will be implemented to take account of the extra climate impact of nitrogen oxide (instead no such factor)
- governmental flights are not excluded anymore
- restrictions on using credits from Joint Implementation and Clean Development Mechanism projects
- Member States need to appoint one Competent Authority.

With these amendments, the EP takes a much more firm position as compared to what is known to be the position of the Member States and the industry, but the amendments are not as far as the Parliament's Environment Committee and WWF. It remains to be seen whether the parties will be able to conclude in the timeframe explained above and what else will happen in the international debate. In any case, it is evident that the Commission will have a hard time in explaining the nitty gritty of all the requirements to all aircraft operators involved, and it will even turn out to be tougher to organise a level playing field in the control of the compliance with all the requirements. It helps to only have one Competent Authority (CA) per Member State, but what about non EU countries and how to ensure the CAs act consistently, as this is already hardly the case in the current scheme. It would be good if the states involved set up a compliance forum and organise themselves in a joint effort with the existing CAs.

More information
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