

# Aviation ETS plenary vote

## No blank cheque for ICAO's unknown measure

September 2017

### Summary

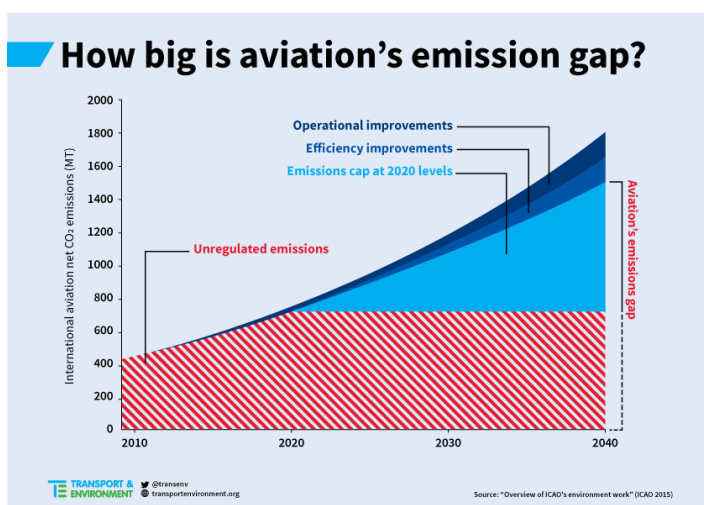
Flights to and from Europe were excluded from EU ETS until January 1<sup>st</sup> 2017 to give the UN's International Civil Aviation Organisation (ICAO) time to deliver a global measure. ICAO agreed the outlines of such a measure, the Carbon Offsetting and Reduction Scheme (CORSIA), last October. In response the Commission proposed in February to exclude, indefinitely, all flights to and from Europe. It also proposed a declining cap for aviation allowances, but left untouched at 85% the share of allowances the sector receives for free and failed to address aviation's non-CO2 effects.

T&E believes such an indefinite exemption is unwise given how little information we have regarding CORSIA, and supports limiting the exemption to 2020 as proposed by ENVI. It welcomes the declining cap in aviation allowances, and supports the ENVI proposal to reduce free allowances to 50%. It also supports the ENVI proposal to subject CORSIA to a review in 2019 to determine how ICAO has progressed in developing the required rules for the scheme to work. It also supports the ENVI call for the Commission to address aviation's substantial non-CO2 work.

However given the scale of aviation's climate problem, a reformed EU ETS can only be one of the measures adopted in order to ensure the sector makes a fair contribution to EU 2030 targets.

### 1. Context

Aviation emissions remain one of the greatest challenges facing EU climate policy. The sector is Europe's fastest growing source of emissions, and it has grown as a share of EU emissions from 1.5% (1990) to 4.5% (2015). This is partly due to its exclusion from effective climate policies, but also its exemption from taxes such as kerosene and VAT. It is also due to the EU's decision to liberalise the sector, which has been very effective at lowering prices, but which was not been matched with effective measures to limit the environmental impact from the resulting growth.



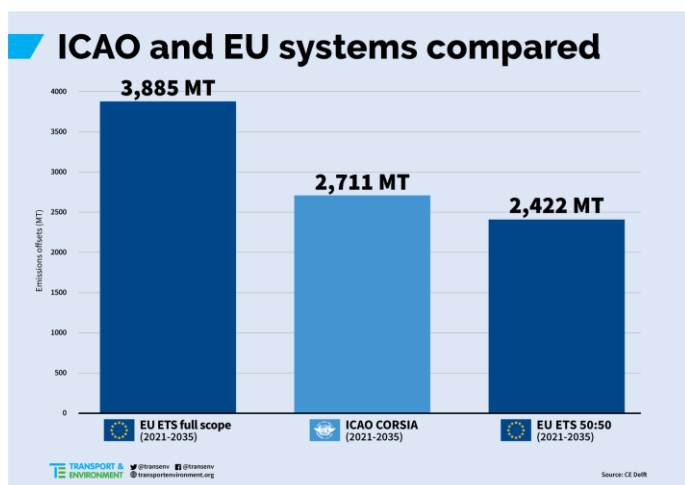
**Aviation emissions are set for rapid growth – not just in emerging markets but also here in Europe. Improvements in operations and aircraft will help, but will be overtaken by the overall growth in passenger demand. Unchecked, they could grow 300% by 2050, fatally undermining efforts to avoid a catastrophic increase in temperatures. ICAO's target of carbon neutral growth from 2020 is totally inadequate, and will leave a huge quantity of emissions unregulated. It is important therefore to have additional measures in place.**

Aviation emissions continue to soar – up 8% in 2016 – and left unchecked are expected to double by 2030. Globally, it is estimated that they will consume one-quarter of the remaining ‘carbon budget’ under a 1.5°C scenario i.e. the amount of emissions we can release if we wish to avoid catastrophic climate change.

Faced with such growth, a global offsetting mechanism of the type proposed by ICAO is wholly insufficient. If we are serious about addressing aviation’s climate impact, much more is needed. That starts with a reformed EU ETS, but must also include ending the sector’s tax exemptions and subsidies, and give much more effective support to low-carbon alternatives such as rail.

## 2. ICAO’s global measure for aviation

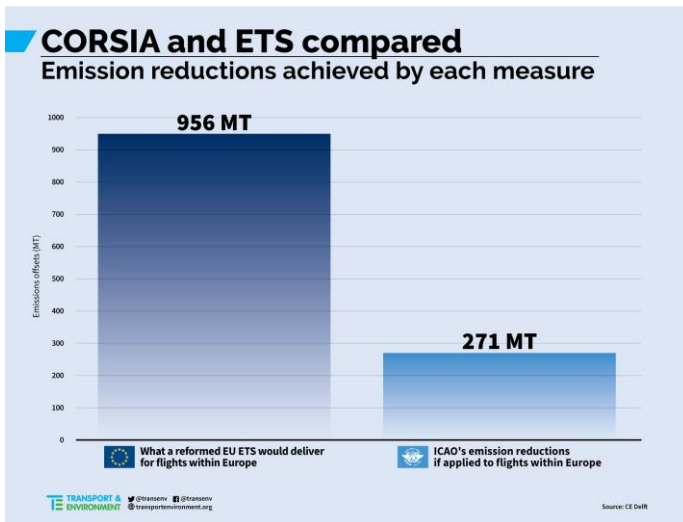
After many years of deliberation, ICAO agreed to the outlines of the global market based measure at its triennial assembly last October. The main features of this agreement are that it will aim to stabilise emissions at 2020 levels, will rely exclusively on offsetting, will be voluntary for the first six years and lacks an enforcement mechanism. Early in the process, ICAO agreed to discard potentially more effective policies such as a carbon levy or emissions trading in favour of offsetting, which while cheaper has a poor environmental record. In fact offsetting has rarely worked to date, something acknowledged by a recent report by the European Commission which found that 85% of offsets failed to deliver the promised emission reductions. And offsetting has a poor future under the Paris Agreement, which requires all parties and sectors to reduce their emissions, not just purchase emission reductions from others.



**In suspending flights to and from Europe from ETS, the argument was that this would give space for a global measure to be adopted. And a global measure would always be preferable to a regional measures.**

**However we now know that the global measure will actually deliver fewer emission reductions than if we kept ETS at full-scope, because the global measure has a weaker target (carbon neutral growth from 2020). We should remain sceptical of big claims made by industry and ICAO as to CORSIA’s effectiveness.**

In adopting an outline of a measure, ICAO has left key details undecided. Most importantly it has failed to agree which type of offsets will be permitted, which is essential given the large number of ineffective offsets which are available on global carbon markets. Without strict rules, the CORSIA risks being rendered entirely ineffective. While ICAO is yet to agree to any rules, we know they are coming under enormous pressure to make these rules as liberal as possible, in order to keep the cost as low as possible for airlines. This is one of the main reasons why an indefinite exemption of flights to and from Europe, as proposed by the Commission, is inappropriate.



There are calls by industry to completely remove aviation from ETS and instead replace it with CORSIA, including for flights within Europe. This would undermine Europe's 2030 targets, which are based on aviation's inclusion in ETS. It would provide a huge cut in ambition for the sector, something no other industry in Europe gets. And it permits offsets to be used within Europe, something the European Council agreed to end when it established Europe's 2030 targets in November 2014. It's also unnecessary, as other major aviation markets (Canada, China) are moving ahead with measures for their domestic aviation sectors.

There are a number of other serious issues with CORSIA as it currently standards. It fails to meet its own target of stabilising emissions at 2020 levels, which itself is an inadequate target. There is no clear enforcement mechanism to ensure compliance and equal treatment between airlines. The price of offsets and the structure of CORSIA means that it won't incentivise in-sector emission reductions. And there are serious doubts as to how transparent ICAO will be in the management of CORSIA. All these are reasons to grant only a temporary exemption to flights to and from Europe, and subject CORSIA to a strict review in 2019.

### 3. ENVI and Commission proposals compared

**Snap-back:** The Commission proposed an indefinite exemption for flights to and from Europe, whereas ENVI limit this to 2020. For the reasons outlined above, this ENVI proposal should be supported.

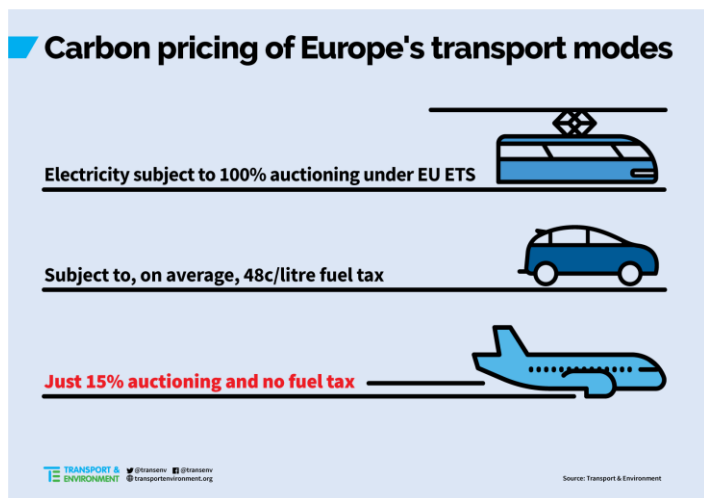
**The Cap:** Both the Commission and the ENVI proposal, and the Council position, agree that whatever the scope, from 2020 onwards the aviation cap needs to decline as it does for the overall ETS. When aviation was included in ETS, it was given a static cap of 95% of the average 2004-2006 emissions. Whereas for all other sectors the cap declined on an annual basis. A declining cap is essential to drive emission reductions in the sector, as it requires the aviation sector to decarbonise by the middle of this century. This will drive innovation and deep decarbonisation that won't occur without a strong signal from governments. The ENVI proposal calls for a once off cut of 10% in the cap in 2021. Given the strong growth in aviation emissions, and the oversupply of allowances in ETS, this should be supported.

**Auctioning:** The Commission leaves unchanged the 85% of allowances that the sector receives for free. As the Impact Assessment accompanying the Commission proposal states, the sector is at no risk of carbon leakage. Ideally there should therefore be 100% auctioning, however the ENVI proposal for 50% auctioning is an important first step.

**Review of CORSIA:** The Commission proposes a review of CORSIA when we have a great understanding as to its rules, however it leaves unclear what the review will examine or even when it will take place. The ENVI proposal is clearer in stating it must take place shortly after the next ICAO triennial assembly and must examine issues such as offset quality, transparency and legal enforcement.

**Non-CO2:** Due to its altitude, aviation has a non-CO2 climate impact which equals or exceeds its CO2 climate. This is the reason why, while its emissions are 2.2% of the global share, it is responsible for an

estimated 4.9% of global warming. Both ICAO and the Commission have failed to address these effects to date, while the ENVI proposal calls for the Commission to come forward by measures by 2020 and in the interim to provide greater research into these effects.



For decades, the aviation sector has enjoyed special treatment such as exemptions from tax and climate policies. At the same time, the EU has liberalised the sector leading to lower prices but also a rapid growth in its emissions. This has kept the price of aviation artificially low, which inflates demands and hurts consumers who want to take the more sustainable mode of transport. It's high time to fix this imbalance, by ensuring aviation is treated like other major transport modes. That starts with fixing EU ETS, so that the aviation sector no longer enjoys so many special privileges.

## 4. Recommendation

The ENVI proposal takes the essential elements of the Commission proposal – excluding flights to and from Europe in order to avoid a distracting political fight – and improves it by making this exemption time limited. It also contains important reforms to EU ETS post-2020, which must continue in existence if the EU is to meet its 2030 climate targets, which is based on a greater level of ambition than carbon neutral growth from 2020. T&E therefore recommends supporting the ENVI proposal in its current form.

However due to its limited scope, and issues with the current oversupply in EU ETS, this alone will be insufficient to ensure aviation makes a fair contribution to our climate objectives. This is because the price is too low to drive in-sector decarbonisation, and because the impact of EU ETS is exceeded by the tax exemptions and the subsidies received by the sector. We urgently need a real decarbonisation plan for the sector, which will propose concrete measures to address the rapid and unrestrained growth in its emissions.

## Further information

Andrew Murphy  
Aviation Manager, Transport & Environment  
andrew@transportenvironment.org  
Tel: +32(0)2 851 217