The International Air Carrier Association

Position Paper
September 2012

Position of the International Air Carrier Association (IACA) on the European Commission's proposal for a Decision of the Parliament and Council on the timing of auctions of greenhouse gas allowances (2012/0202/COD) and a Commission's Regulation to determine the volumes of greenhouse gas emission allowances to be auctioned in 2013-2020

1. Context

On 25JUL12, the European Commission announced a decision to slow down the release of auctioned CO2 allowances during the period 2013-2020.

The Commission expects that this manoeuvre will create a temporary shortage in the EU ETS carbon market, thereby increasing the price of CO2 allowances.

In its proposal for a Commission's Regulation, the Commission justifies its initiative by referring to "*exceptional changes in drivers determining the balance between the demand for and supply of allowances*", notably the current economic slowdown.

In this respect, it considers three options for this "backloading" of allowances (auctioned volume of allowances to be reduced in the years 2013/2014/2015 and brought back to the market in 2018/2019/2020):

- 400 million tonnes CO2,
- 900 million tonnes CO2 or
- 1.4 billion tonnes CO2.

The Commission's Q&A mentions that these backloaded volumes should be compared to the total of 3.5 billion allowances that are expected to be auctioned up to the year 2015.

This IACA Position Paper replies to the Commission's invitation to stakeholders to express their views on the draft for a future amendment of the Auctioning Regulation (EU) No 1031/2010.

2. Position of the International Air Carrier Association (IACA)

The International Air Carrier Association (IACA) represents 29 airlines that together operate over 800 state-of-the-art, environmentally efficient aircraft and directly employ more than 50,000 people. Each year IACA airlines transport over 100 million passengers to 650 destinations worldwide.

IACA would like to express its serious concerns about the above-mentioned Commission proposal, as it constitutes in practice a market intervention, whereby the price of CO2 allowance will be increased artificially in the period between 2013 and 2015.

The fact that today, the price of an allowance is low is probably the best evidence that the carbon market works. A lower level of economic activity indeed translates into a lower carbon market price; this is exactly how this market is supposed to function.

For airlines, the price intervention will evidently result in higher costs, compared to a situation where the market would not be manipulated. The Commission's move hence could not have come at a worst moment for airlines that already face difficulties due to the economic crisis.

IACA rejects the Commission's defensive argument contained in its Q&A, claiming that over the long term, the impact of the back-loading is likely to be limited. As at the end of the 8th year trading period, the cost of the allowances will probably be higher (as the economic activity will have picked up again), the operators will pay an overall higher price for their allowances, due to the market intervention. Otherwise, the Commission's proposal would be pointless.

Furthermore, the Commission's initiative is disturbingly selective as it aims at protecting the financial interests of the carbon market. In this challenging economic situation ,the European institutions should be using their legislative power to remedy the effects of the crisis on their industries, rather than to create yet more burdens.

Finally, in a context where the EU ETS is being forcefully challenged by non-EU countries, the Commission's initiative to manipulate the EU ETS carbon price risks to give more arguments to these countries that oppose the scheme, thereby creating further obstacles to an ICAO solution.

In view of the above arguments, IACA calls upon the European institutions to base their decision on a full impact assessment, taking into account the multiple consequences and aspects of the Commission's intention to change the auctioning mechanism. IACA believes that such study will reveal that the rules in the today's EU ETS market should not be changed.

For more information, please contact
Koen Vermeir
Director Aeropolitical & Industry Affairs
Tel: + 32 (0) 2 546 10 64, e-mail: koen.vermeir@iaca.be