

## **ECCP II**

### **Terms of reference for the aviation working group set up under the European climate change programme**

#### **Mandate**

The purpose of the working group is to advise the Commission services and will consist of experts from Member States and key stakeholder organisations including industry, consumer and environmental organisations. This working group shall assess the necessary ways, as listed below, of incorporating the climate impact of aviation into the European emissions trading scheme (EU ETS)<sup>15</sup>, taking full account of the precautionary principle.

#### **Coverage of the climate impact of aviation**

The group shall:

- assess how monitoring and reporting the climate impact of aviation can be addressed by adding further annexes to Decision 2004/156/EC, taking the existing methodologies used therein as a benchmark and noting the potential for achieving greater accuracy over time;
- explore whether the flexibility offered by the tier system of Decision 2004/156/EC would be appropriate for the aviation sector or whether further harmonisation is required;
- analyse the possibility that incomplete coverage of the climate impact of aviation could provide an incentive for reduction of one impact within the scheme at the expense of another outside the scheme;
- consider the complementary use of charges or other flanking measures to establish full coverage of the climate impact of aviation in order to avoid the identified potential adverse effects from incomplete coverage.

#### **Scope of emissions covered**

The group shall consider the flights and emissions covered, taking into account the need: to limit differences of treatment between short-haul and long-haul services, to examine differences in the accessibility of peripheral regions, to reflect on how the EU model can be extended to other countries as the EU ETS itself expands, and to capture a significant quantity of emissions in line with the environmental objective of combating climate change.

#### **Approach used for calculating and apportioning the overall emissions limitation for the aviation sector**

The group shall consider:

- the different models used within the EU and internationally to calculate growth and emissions projections for both the aviation sector and other sectors of the economy, and the different assumptions used therein;
- the range of overall emissions limitations which should be considered for the aviation sector, taking into account different results from models;
- which elements of setting and apportioning the overall emissions limitation can be harmonised across the EU;

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<sup>15</sup> Directive 2003/87/EC.

- the impact on the competitiveness of Community industry, the impact on the price of tickets (considering inter alia the existence of alternative means of transport) and on emission allocations and the proportionate distribution of costs between industry and transport end-users;
- how to ensure that the accounting system established in Commission Regulation (EC) No 2216/2004, which ensures consistency between trading under the EU ETS and trading under the Kyoto Protocol, is not adversely affected by the inclusion of aviation. Any design solution needs to balance the introduction of specific rules for aviation against the overall objective of its inclusion in the EU ETS, i.e. to contribute towards tackling climate change in the simplest and most cost-effective manner possible.

### **Compliance**

The group shall consider how existing compliance measures currently applied to the aviation industry can be used in addition to those already instituted under the EU ETS to ensure compliance with the obligations imposed by the scheme.

### **Administration**

The group shall consider how best to administer aviation's inclusion in the EU ETS taking into account the conclusions reached on emissions limitation, the registries system and compliance. This working group will submit its conclusions in the form of a report by 30 April 2006 at the latest.

## **ORGANISATION AND DRAFT WORK PROGRAMME FOR WORKING GROUP ON AVIATION**

### **Organisation**

Working Group II is chaired by the Commission service in charge and will be composed of maximum 25 stakeholders plus Commission officials of relevant services. The Working Group will consist of experts from Member States and key stakeholder organisations including industry, consumer and environmental organisations. Members of the group and, where appropriate, external experts will be asked to make specific contributions in the form of presentations and issue papers. Members of the group will also be asked to contribute and comment on the final report.

The Working Group will meet four times between November 2005 and March 2006. The Chairman will prepare minutes of each meeting, for adoption by the group. The Chairman will also prepare the final report, which will draw conclusions as well as set out key options based on the discussions in the group.

### **Draft work programme (dates provisional and subject to confirmation)**

<b>MEETING</b>	<b>TOPIC</b>
<b>FIRST MEETING 28 November 2005</b>	1) Scope of the scheme: which types of flight will be covered 2) Thresholds for inclusion in the scheme
<b>SECOND MEETING 26 January 2006</b>	Types of emissions to include in ETS: multipliers and complementary measures
<b>THIRD MEETING 16<sup>th</sup> and 17<sup>th</sup> February 2006</b>	<b>Day 1</b> 1) Interaction with the existing ETS <b>Day 2</b> 2) Determination of the cap on aviation emissions 3) Methodology for distributing allowances
<b>FOURTH MEETING 21 March 2006</b>	1) Permitting 2) Monitoring, Reporting and Verification 3) Penalties for non-compliance

### **First Working Group: flight coverage**

The first working group will consider which types of flight should be covered by the EU emissions trading scheme (EU ETS) established under Directive 2003/87/EC by assessing the pros and cons of different coverage options against various criteria.

#### **1) Coverage of flights**

The feasibility study carried out for the Commission considered 5 options:

- 1) intra-EU routes;
- 2a) intra-EU and 50% of emissions on routes to and from EU airports;
- 2b) emissions from all departing flights from EU airports;

- 3) all emissions in EU airspace;
- 4) emissions from all departing flights from EU airports plus remaining emissions in EU airspace;
- 5) intra-EU routes to and from third countries that have ratified the Kyoto Protocol.

The Communication concludes that:

“The Commission believes that the objective should be to provide a workable model for aviation within emissions trading in Europe that can be extended or replicated worldwide. The precise scope will be assessed in the working group to be set up...In environmental terms, the preferred option is to cover all flights departing from EU airports, as limiting the scope to “intra-EU” flights, which both depart and land in the EU, would address less than 40% of the emissions from all flights departing from the EU. As regards the competitiveness of the airline industry, the impact in particular on relative market shares of EU and non-EU carriers will be further examined.”

#### *Questions to be considered by the working group*

The Working Group is invited to consider the flights and emissions covered, taking into account the need: to limit differences of treatment between short-haul and long-haul services, to examine differences in the accessibility of peripheral regions, to reflect on how the EU model can be extended to other countries as the EU ETS itself expands, and to capture a significant quantity of emissions in line with the environmental objective of combating climate change.

In particular the working group should consider the pros and cons of each of the options on the basis of:

- a) the environmental effectiveness;
- b) impacts on the competitiveness of the airline industry, in particular on relative market shares of EU and non-EU airlines and any differences of treatment between short-haul and long-haul services;
- c) any effect on tourism or peripheral regions relying on aviation as a key mode of transport;
- d) potential as a model for expansion.

## **2) Thresholds for inclusion**

A further question is whether any exclusions should be made from the scheme for small operators (similar to the capacity-thresholds already employed in Annex I of the Directive).

The feasibility study considered possible minimum thresholds for inclusion in the EU ETS based on:

- 1) type of flight, based on flight rules;
- 2) type of flight, based on flight purpose;
- 3) aircraft weight; and
- 4) number of operations by trading entity.

The working group is invited to consider:

- a) the desirability of including minimum thresholds; and
- b) the pros and cons of each of the thresholds considered in the feasibility study based on a comparison of the environmental benefits with the administrative costs of inclusion.

## **Second Working Group: Emissions coverage**

The second working group will consider the extent to which the full climate impacts of aviation can be addressed through the EU ETS or through a combination of emissions trading and other complimentary measures.

The feasibility report considered 3 possible approaches:

- 1) the multiplication factor approach;
- 2) an individual effects-based approach; and
- 3) a CO<sub>2</sub> only emissions trading scheme and potential flanking instruments

The Communication states that

“In order to minimise the potential negative trade-offs between the different impacts and safeguard the environmental integrity of the overall scheme, both the CO<sub>2</sub> and the non-CO<sub>2</sub> impacts of aviation should be addressed to the extent possible. In doing so the uncertainties surrounding certain impacts should be balanced against the risks they pose to the climate. Pending scientific progress in developing more suitable metrics for comparing the different impacts, a pragmatic approach would be needed. In the short term, this could be based either on:

- A requirement for aviation to surrender a number of allowances corresponding to its CO<sub>2</sub> emissions multiplied by a precautionary average factor reflecting other impacts; or
- An approach where initially only CO<sub>2</sub> is included, but ancillary instruments are implemented in parallel such as differentiation of airport charges according to NO<sub>x</sub> emissions.”

### *Questions to be considered by the Working Group*

The working group is invited to consider:

- the risks of not including all climate impacts, including the possibility that incomplete coverage of the climate impact of aviation could provide an incentive for reduction of one impact within the scheme at the expense of another outside of the scheme;
- the pros and cons of the use of a CO<sub>2</sub> multiplier and the complimentary use of charges or other flanking measures to establish full coverage of the climate impact of aviation in order to avoid the identified potential adverse effects from incomplete coverage.

## **Third working group: Allocation**

The third working group will last for two days and will look at the mechanics of including aviation in the EU ETS and questions of allocation.

### **Day 1**

The first day will consider the mechanics of including aviation in the EU ETS and how to resolve the difficulties created by the exclusion of international aviation from international emissions trading under the Kyoto Protocol.

In the second phase of the EU ETS which runs from 2008-2012, Commission Regulation 2216/2004/EC (“Registries Regulation”) provides for allowances for use in the EU ETS to be created from Assigned Amount Units (“AAU”, the international currency provided for under the Kyoto Protocol). Allowances will be created by adding an allowance identifier to an AAU.

This creates a difficulty for the inclusion of aviation in the EU ETS because international aviation is not included in the targets under the Kyoto Protocol and Decision 2002/358/EC. Member States will not therefore hold AAUs in respect of emissions from international aviation.

The position is different for domestic aviation which is included in the targets. AAUs will be issued in respect of emissions from domestic aviation and Member States will be required to retire AAUs to cover such emissions.

The feasibility study considered possible solutions to this problem:

- 1) extending the scope of the Kyoto Protocol;
- 2) borrowing AAUs from sectors not covered by the EU ETS;
- 3) requiring aviation to buy all allowances from other sectors;
- 4) requiring aviation to account only for emissions growth above a baseline;
- 5) semi-open trading for aviation preventing operators in the aviation sector from selling allowances to operators in other sectors; and
- 6) use of a gateway permitting aviation to sell at most as many allowances as the aviation sector has already bought from other sectors during the trading period.

#### *Questions for the working group*

The working group is invited to consider how to ensure that the accounting system established in the Registries Regulation which ensures consistency between trading under the EU ETS and trading under the Kyoto Protocol, is not adversely affected by the inclusion of aviation. Any design solution needs to balance the introduction of specific rules for aviation against the overall objective of its inclusion in the EU ETS, i.e to contribute towards tackling climate change in the simplest and most cost-effective manner possible.

In particular, the working group should consider the pros and cons of each of the solutions considered in the feasibility study including the impact on the operation of the emissions allowance market.

## **Day 2**

The second day will consider issues relating to setting the overall emissions limitation for the aviation sector and the apportioning of that limitation between operators.

The Communication acknowledges that the rules in the existing EU ETS may not be suitable for the aviation sector. It concludes that “given the level of integration in the Community’s air transport market, a harmonised methodology should be agreed.”

#### *Questions to be considered by the working group*

The Working Group is invited to consider:

- the different models used within the EU and internationally to calculate growth and emissions projections for both the aviation sector and other sectors of the economy, and the different assumptions used therein;
- the range of overall emissions limitations which should be considered for the aviation sector, taking into account different results from models;
- which elements of setting and apportioning the overall emissions limitation can be harmonised across the EU;
- the impact on the competitiveness of Community industry, the impact on the price of allowances, tickets (considering *inter alia* the existence of alternative means of transport) and on emission allocations and the proportionate distribution of costs between industry and transport end users.

#### **Fourth meeting: Permitting, MRV and penalties**

The fourth meeting will consider questions related to the administration of the aviation sector within the EU ETS such as permitting, monitoring, reporting and verification of emissions and enforcement.

##### *Questions for the working group*

#### 1) Permitting

The working group is invited to consider how best to administer the inclusion of aviation in the EU ETS and in particular to consider whether a permitting procedure similar to that applied under the Directive to other sectors is necessary and appropriate for the aviation sector, or whether alternatives permitting procedures should be considered.

In considering this issue, the working group should take into account the conclusion in the Communication that “it is fundamental that the entity made responsible must be the one with the most direct control over the type of aircraft in operation and the way in which they are flown. Therefore, the Commission considers that aircraft operators should be the entities responsible within the EU ETS.”

#### 2) Monitoring, Reporting and Verification

The Working Group is invited to:

- assess how monitoring and reporting the climate impact of aviation can be addressed by adding further annexes to Decision 2004/156/EC, taking the existing methodologies used therein as a benchmark and noting the potential for achieving greater accuracy over time; and
- explore whether the flexibility offered by the tier system of Decision 2004/156/EC would be appropriate for the aviation sector or whether further harmonisation is required.

#### 3) Penalties for non-compliance

The Working Group should consider:

- whether the compliance measures applied under the Emissions Trading Directive should also be applied to aviation; and

- how existing compliance measures currently applied to the aviation industry can be used in addition to those already instituted under the EUETS to ensure compliance with the obligations imposed by the scheme.