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ref: EU ETS

ERA INPUT ON EC CONSULTATION ON STRUCTURAL OPTIONS TO STRENGTHEN THE EU EMISSIONS TRADING SYSTEM

Context:

Last November the European Commission published "*The state of the European carbon market in 2012*" report and launched a consultation process with stakeholders and experts in the field of the European carbon market. This process is expected to be completed by a stakeholder meeting in the next months.

Although detailed comments on each of the options suggested in the Commission report will be provided on the occasion of the stakeholder meeting, the ERA Directorate is pleased to share some preliminary considerations on behalf of its members.

About ERA:

Founded in 1980, the European Regions Airline Association is a non-profit trade association representing some 50 intra-European airlines which annually carry 70.6m passengers on 1.6m flights to 426 destinations in 61 European countries. ERA also represents and supports more than 120 Associate and Affiliate members including airframe and engine manufacturers, airports, suppliers and service providers from all over Europe.

Position of ERA:

ERA would like to express its views on some of the proposals and conclusions drawn in the above-mentioned Commission report.

1. Review of the auction timetable as short term measure (paragraph 3 of the report):

This proposal seems to artificially manipulate the price of carbon without any comprehensive and full impact assessment justifying such an intervention. The financial consequences on airlines due to the Commission's intention to change the auctioning time profile have not been properly assessed and in our view will result in higher costs to air operators.

Any market-based measure scheme, such as the EU ETS, should let the basic forces of supply and demand set the price, without favouring any specific financial interests within the carbon market.

The Commission's claim that the impact of the back-loading is likely to be limited in the long term is speculative and potentially flawed since at the end of the 8th year trading period, when the economic crisis is expected to be over, the price for purchasing allowances is likely to be higher and the result for airlines will be a net loss caused by this arbitrary intervention.

Finally, should the EU ETS "stop the clock" proposal for aviation's inclusion in the EU ETS be rejected, the Commission's initiative to manipulate the carbon price may result in further international disputes with non-EU Countries and would ultimately hamper any solution at ICAO level.

2. Option b: retiring a number of allowances in phase 3

This proposal seems to artificially manipulate the price of carbon without any comprehensive and full impact assessment justifying such an extraordinary intervention. The financial consequences on

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participants in the EU ETS have not been properly assessed and in our view any regulatory intervention on allowances supply will result in higher costs to air operators that have already planned.

3. Option d: Extension of the scope of the EU ETS to other sectors

ERA supports this option as a means of ensuring all sectors are covering the impact of their emissions. Global aviation has already agreed and endorsed very ambitious targets: fleet fuel efficiency improvement by 1.5% per annum between now and 2020; net carbon emissions from aviation capped through carbon neutral growth from 2020; 50% net aviation carbon emissions reductions compared to 2005 levels. It is also worth mentioning that, on a global level, aviation industry counts for 2% of all human-induced CO2 emissions, whilst it is responsible for 12% for CO2 emissions from all transport sources (compared to 74% from road transport).

4. Option f: discretionary price management mechanisms

Creating an automatic mechanism for carbon price containment through a price floor or through a price management reserve would simply give rise to an arbitrary control of the market dynamics of supply and demand, ultimately leading to a substantial disregard of the very nature of the EU ETS as a quantity-based market instrument. Moreover it seems quite difficult to assess what the "excessive price level" should be and to rapidly adapt it to extraordinary circumstances.

Conclusion

As a general remark, the ERA expresses its concerns over intrusive legislative interventions in the market driven carbon market through proposals aimed at distorting the interplay of supply and demand.

A complete and structural change to the existing legislation would simply result in higher business and investment uncertainties and in higher costs to air operators, in a context of already harsh economic conditions in Europe and fierce opposition to the EU ETS scheme by non-EU Countries.

As long as the options envisaged by the Commission are not better described and carefully examined by full, published and comprehensive impact assessments, no further and detailed comment can be submitted by ERA on behalf of its members.

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