



IATA¹ views on the structural reform of the European carbon market

In 2012, the European Commission published a report on the state of the European carbon market (COM(2012) 652). One of the main problems identified in the report is the surplus of allowances that has accumulated as a result of lower emission levels from stationary installations than anticipated.

As a short-term measure, the European Commission proposed to postpone the auctioning of 900 million allowances in phase three of the EU emissions trading system (EU ETS). The European Commission also launched a consultation on several options to reform the European carbon market: increasing the EU's GHG reduction target; retiring a certain number of phase three allowances; revising the annual reduction in the number of allowances; bringing more sectors into the EU ETS; limiting access to international credits; and, introducing discretionary price management mechanisms.

In this context, IATA would like to call on European institutions and member states to take account of the following considerations:

- **Regulatory predictability:** interventions in the carbon market undermine regulatory stability and decrease the confidence of stakeholders in the scheme. The EU ETS is a cap-and-trade mechanism where the price of carbon is the result of demand for allowances and of a pre-defined environmental outcome which determines supply. If demand and prices drop because emissions reduction targets are met, it seems inappropriate and unfair to penalize participants by changing the rules in the middle of the game and artificially increasing prices while not giving participants the choice to opt out.
- **Acceptability by third countries:** third countries have objected strongly to the application of EU ETS to their airlines and to emissions outside of European airspace. Manipulation of the carbon market would further strengthen their reservations against the European scheme. Also, in the current state of play, the possibility to use international credits for compliance under EU ETS has greatly contributed to stimulating investment in low carbon technologies in developing countries. Decreasing the proportion of international credits that can be used under EU ETS will therefore have a detrimental impact on investment and emissions reductions in developing countries. Developing countries may be less willing to support climate change measures if international credits become irrelevant.
- **Economic impact on airlines:** if demand from stationary installations is lower than the number of allowances available, the situation for the aviation sector is very different. Although the number of aviation allowances in phase three will be 95% of aviation's historical emissions, aviation will be a net buyer of allowances. According to the European Commission, aviation's demand for allowances will exceed the number of freely allocated aviation allowances by 74 million in 2013, increasing to 108 million in 2020². As a consequence, slight changes in the price of allowances have a great impact on the airline industry. For example, an increase by a mere 1 euro could increase the cost of compliance for airlines by €730 million in phase three, which is more than two times the net profits of airlines in Europe in 2011. A competitive air transport industry is a major contributor to European Union economic prosperity. The air transport industry supports 7.8 million jobs in the European Union and contributes to €475 billion to EU gross domestic product (GDP), equivalent to 3.9% of GDP.³ The economic impact on airlines of any reform of the European carbon market should therefore be duly assessed and taken into account.
- **Cost-effective environmental policy:** market-based measures to address greenhouse gas emissions must be cost-effective. And indeed, the European Union deemed emissions trading to be preferable to other measures because it achieves environmental goals in a cost-effective manner. Therefore, any measures considered should not have the effect of imposing an additional cost burden on airlines for achieving the same environmental outcome.

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² European Commission Staff Working Document, 12.11.2012, http://ec.europa.eu/clima/policies/ets/cap/auctioning/docs/20121112_swd_en.pdf

³ ATAG, Aviation Benefits Beyond Borders – European Union, www.aviationbenefitsbeyondborders.org.

Aviation and climate change

IATA is committed to addressing climate change using a four-pillar strategy of improved technology, efficient operations, efficient infrastructure, and market-based measures to fill the remaining emissions gap.

Global airline operations produced 670 million tonnes of carbon dioxide (CO₂) in 2011, just under 2% of total human CO₂ emissions. In 2009, IATA airlines took a landmark decision to adopt a set of ambitious targets to mitigate GHG emissions from aviation:

- an average improvement in fuel efficiency of 1.5% per year from 2009 to 2020;
- a cap on net aviation CO₂ emissions from 2020 (carbon-neutral growth); and
- a reduction in net aviation CO₂ emissions of 50% by 2050, relative to 2005 levels.

These collective targets were endorsed by the aviation industry in the joint submission to the International Civil Aviation Organization (ICAO) in September 2009.

To achieve it, a multi-faceted approach is required with a strong commitment from all aviation stakeholders. The IATA four-pillar strategy provides the building blocks to achieve the industry's targets and includes the following elements:

- improved technology, including the deployment of sustainable low-carbon fuels;
- more efficient aircraft operations;
- infrastructure improvements, including modernized air traffic management systems;
- market-based measures, to fill the remaining emissions gap.

The application of market-based measures to aviation

IATA urges governments to agree on a global approach to market-based measures and refrain from applying regional or national measures:

- Aviation is a global industry. For a typical flight, CO₂ will be emitted over several different countries, over international waters and even different continents. While it is simple for government to account for emissions from stationary sources, doing this with mobile sources such as aircraft is a lot more complex.
- Also, with some aircraft operators flying to almost one hundred different countries, the multiplication of regional and national measures results in an unsustainable patchwork of uncoordinated administrative and reporting requirements.

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