

## The EU ETS is not that big a deal – and it even has some ingenuity

Tue 20 Oct 2009 – Understanding the EU ETS Directive and the monitoring and reporting requirements indeed requires several readings, extensive research and a lot of patience, even for the brightest brains. At the end of the day, though, the ETS is not that complicated and is simply about data collection, transfer, storage and reporting. What kind of data? Flights, payload, fuel in tanks and fuel uplift. In most cases, flights and payload are already properly monitored by airlines. Similarly, fuel data is already available in most cases since it is included in the flight log, and flight logs are always a requirement. In other words, the EU ETS should be no big deal for most aircraft operators, argue *Julien Dufour* and *Gary Cleven*.



Gary Cleven (left) and Julien Dufour (right) of SustainAvia

However, the information might not be the usual payload and fuel consumption formula that each airline already calculates. There are specific rules for the ETS calculation that must be considered and that is where the problems and confusion often occur. An extensive understanding of the ETS regulations is required. There are some special cases such as the fuel in tanks before or after a maintenance event that might not be recorded in the flight log. In that instance, procedures must be adapted and in the case of ACARS-equipped aircraft, a new fuel reading after the maintenance event may be required to be transmitted and recorded.

So the data is available, it is just a matter of identifying its source, setting up the process to get it, adding new or modifying existing operational and management procedures, and using the data the right way to prepare the annual reports. No need for complex and costly IT systems in most cases. Excel can do the job! However, in the case of large airlines with a large amount of data to process, an IT application other than Excel might be required for sufficient automatic internal data control activities. In the case of in-house systems, the IT Department may be required to develop data extraction programs for automatic interfaces to the databases. Also, it would be wise to create a separate EU ETS database so only the data used for the EU ETS calculation will need to be backed up for the required 10 years.

Detractors of the ETS have complained about how soon the deadline was, how complex it is for operators to determine their administering member state, how unprepared the competent authorities were and how long the European Commission is taking to set up the emissions cap. But come on, is there really a problem out there?

The initial list of operators was published on 2 February, well ahead of the deadline. The final list was published only on 5 August, which was indeed very close to the first deadline and probably “surprised” a few operators although by not being on the first list never meant exclusion from the ETS since the list is not legally binding.

Our company has worked for more than 20 airlines and aircraft operators from around the world and we have dealt with 10 competent authorities (CAs). We can testify that most CAs have shown a great level of flexibility and pragmatism, allowing extended deadlines for aircraft operators that were not on the first list (e.g. France), allowing operators to submit preliminary plans to be updated at a later stage (e.g. Spain) or extending the deadline to give more time to operators to get ready (e.g. Greece).

Some countries even officially postponed the deadline so that it coincided with the coming into force of the national legislation, or even postponing the deadline for the Tonne-Kilometre Monitoring (TKM) Plan until the last minute (31 December) in the case of the UK. For Member States that have not yet passed the EU Directive into national law, the deadline for the submission of the Aircraft Emissions Plan was not even legally binding.

Some CAs such as in the UK, Germany and the Netherlands were particularly pro-active and full of initiatives to help the operators to understand the ETS requirements, providing guidance documents, FAQs and exemplar monitoring plans, and always available to provide detailed replies to emails or even phone queries. Even the UK Government announced that the UK Environment Agency would “work informally with the operator in an effort

to produce a successful application for an emissions plan.” What else could they do or say to lower the burden on operators?

However, an aspect of the EU ETS Directive that did lack clarity was the definition of the ‘de minimis’ exemption rule for commercial operators. Many CAs were not able to clearly explain this rule to operators, which led to a lot of confusion and led to many commercial operators submitting monitoring plans although they were exempted.

With regards to the delayed announcement of the emissions cap, why would this be a problem? Some say it prevents airlines from forecasting their carbon allowances requirements. But the cap is not the only parameter. The key parameter is the reported tonne-kilometres in 2010. Without this number, the emissions cap is irrelevant. In any case, we know that the range is 200-220 million tCO<sub>2</sub> and this is a good enough estimate given the much wider uncertainty related to the expected reported tonne-kilometres. The emissions cap could wait for another two years without harming anybody!

### **Collective effort**

“The climate change impact of aviation is insignificant, no more than 2.5% of global carbon emissions.” Is this really an argument? Climate change is a concern for all of us and there cannot be insignificant emitters because individually we are all insignificant emitters. It is the collective effort that will make a difference. Some European countries – for example, Sweden – have already imposed a carbon tax on domestic fuel and gas. Is there any reason to exclude aviation?

The EU ETS “will cost billions” to the industry. Of course, it is money that airlines could use to invest in new fuel efficient aircraft and phase out older aircraft, but how much will it cost per passenger? This is what really matters. Assuming a CO<sub>2</sub> allowance cost of 30 euros, it would cost around 4-5 euros for a one-hour round-trip flight in an A320 or 20-30 euros for a round-trip transatlantic flight on a B777. Is that really a big deal? Can’t this cost be partly or fully passed on to the customers?

There are some who don’t want this to happen because it is a disincentive to reducing emissions. If the cost cannot be passed on to passengers, then airlines will try to reduce emissions to reduce the costs – the whole point of the ETS! But if the cost can be passed on, the price of air travel will increase which will be a disincentive for passengers to travel which will, in turn, force operators to reduce the number of flights and thus reduce emissions. In both cases, emissions will be reduced.

The real shame of the ETS is that there is no specific requirement for the EU Member States to use the money generated by the auctioning to fight climate change. We believe this is the weakest point of the Directive. Although the increased fuel consumption and resulting increase in emissions costs will penalize airlines that operate older and less fuel efficient aircraft, some sort of additional financial incentive could be given to airlines to invest in more fuel-efficient aircraft – a kind of ‘cash for clunkers’ scheme for aviation. Some of the money collected by the Member States should also be used in research programmes to promote aviation biofuels or to develop optimized aircraft movements systems at congested airports.

The ETS will also create market distortion which may benefit selected non-EU airlines, especially network carriers using hubs located just outside of the EU. This lack of a level playing field is regrettable but probably unavoidable without a global scheme. The negotiation of a global scheme must be the top priority of a post-Kyoto protocol strategy to fight climate change, provided that the ‘common but differentiated responsibilities’ rule is applied to developing countries.

“The EU ETS is illegal because operators flying over, say, the US airspace would have to pay for their emissions to the EU.” This is a legitimate complaint of airlines since the regulatory activity of the governments is beyond the control of the airlines. However, one cannot complain about the complexity of the scheme and at the same time request that the EU ETS covers emissions above the EU airspace only, which would have added a lot more complexity to the compliance process. Instead of waiting impassively for a long-awaited global approach, the EC took the lead and paved the way.

Angry third countries? Well, the beauty of the directive is that if a third country adopts measures “which have an environmental effect at least equivalent to that of this Directive, to reduce the climate impact of flights to the Community”, it contains a provision to “provide for optimal interaction between the Community scheme and that country’s measures”. This is why the annual report must be segregated by airport-pair, so as to avoid double charging in the case of interaction with a similar cap-and-trade scheme elsewhere. It is now up to third countries to keep up the momentum, develop their own scheme or push for a global deal. The EU has done its homework.

But let’s go back to the basic principle of the ETS. In a few words, it is a market-based cap-and-trade tool that allows participants to buy and sell the right to emit a certain amount of CO<sub>2</sub>. If a sector cannot manage to stay below the cap, it must buy carbon credits from other sectors, thus subsidizing the carbon reduction efforts of others. So, yes, even if the aviation sector cannot manage to reduce its own emissions, it will anyway participate in the EU-wide effort to reduce emissions. Isn’t this full of ingenuity? In the end, and thanks to the ETS, by 2020 the carbon emissions of EU covered industries will be cut by 20% compared to the 1990 level.

There are many other areas of greater complexity within the aviation sector than the ETS. Any new process or regulatory requirement takes time to understand and implement. In the case of the ETS, the TKM Payload data only needs to be calculated once for the next 10 years and the Annual Emissions calculation will be a routine task once the airline has performed it the first time.

In short, the EU ETS is not that big of a deal, and there is even some creativity in it – and beauty!

*Julien Dufour is Founder & CEO of SustainAvia, an international aviation consultancy dedicated to the Aviation EU ETS. Julien Dufour will be a guest speaker on the EU ETS at the NBAA 62<sup>nd</sup> Annual Meeting & Convention in Orlando on October 21 and at the 3<sup>rd</sup> Annual Flight Operations Conference in Amsterdam on December 3. Gary Cleven is SustainAvia’s worldwide associate consultant. He has over 20 years of experience in aviation consulting. Among other EU ETS clients, Gary has recently worked for Air Mauritius, Garuda Indonesia and Pakistan International Airlines. More info at <http://www.sustainavia.com>.*