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Case for Auctioning of Allowances for aviation in EU ETS disproved

BRUSSELS – 13 October 2008. A report by Frontier Economics has found that UK Government-funded studies were seriously flawed and do not provide a basis for policy for the entry of aviation into the EU ETS. In particular, the case for auctioning allowances is disproved.

The Frontier Economics report “Impact of emissions trading on pricing and profits in aviation: review of Vivid Economics reports” was commissioned by the European Low Fares Airline Association – ELFAA to provide an objective review of two reports prepared by Vivid Economics for the UK government.

Among the Frontier findings were that the Vivid Economics reports:

- used “an inappropriate and oversimplified theoretical model” to underpin their conclusions
- showed no real understanding of how the industry works
- cited empirical evidence which is neither robust nor accurately reflects the contestable nature of the aviation market.

Frontier went on to show that, in a dynamically competitive industry, such as aviation, there is no prospect that airlines could make windfall profits from ETS.

Frontier concludes:

“It is impossible to base such a significant policy decision on the analysis and evidence presented in the Vivid Economics reports”.

ELFAA is disappointed that the debate over alleged windfall profits has been conducted, using such flawed analysis.

Secretary General of ELFAA, John Hanlon said:

“Given this new evidence, ELFAA calls on the UK Government to accept that airlines will not make windfall profits and for other Member States, the European Commission and the European Parliament to reject the calls for auctioning of aviation allowances - which are no more than an incremental tax take - and to instead focus on ensuring that the scheme provides the right incentive for airlines to invest in next generation aircraft.”



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NOTES TO THE EDITOR:

ELFAA airline members include: clickair, easyJet, flybe, Jet2.com, Myair.com, Norwegian, Ryanair, Sky Europe, Sterling, Sverige Flyg, transavia.com and Wizz Air.

ELFAA airline members will carry over 150 million passengers in 2008, using a combined fleet of some 500 of the most technologically-advanced, environmentally-efficient aircraft.

Low fares airlines currently account for over 35% of scheduled intra-European traffic.

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