European Low Fares Airline Association

Aviation and the EU ETS

A Presentation to the European Parliament

Brussels, 8 March 2006

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About ELFAA

- 10 member airlines including easyJet & Ryanair
- No state ownership
- 100 million passengers in 2005
- 30% of intra-European point to point traffic
- Significant contributor to regional integration and economies

Defining characteristics of Low Fares Airlines

- Focus on minimising costs and maximising efficiency
- Lower costs passed on to consumers as lower fares
- Mainly point to point services vs hub and spoke model
- Mainly use secondary and regional airports
- Direct services between the regions
- Operate younger, cleaner, aircraft fleets

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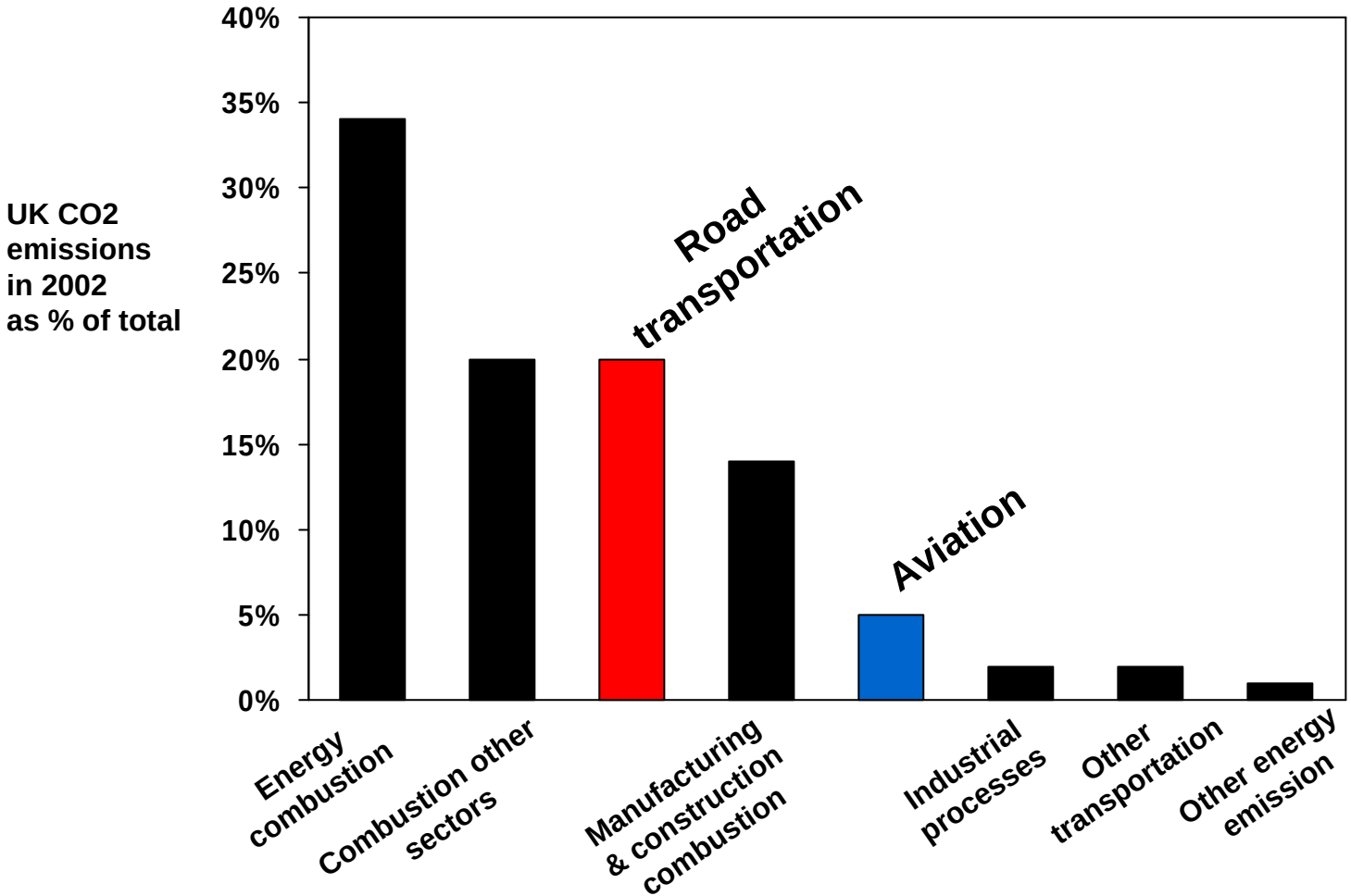
Aviation will likely account for 5% of total EU-25 CO2 emissions by 2030

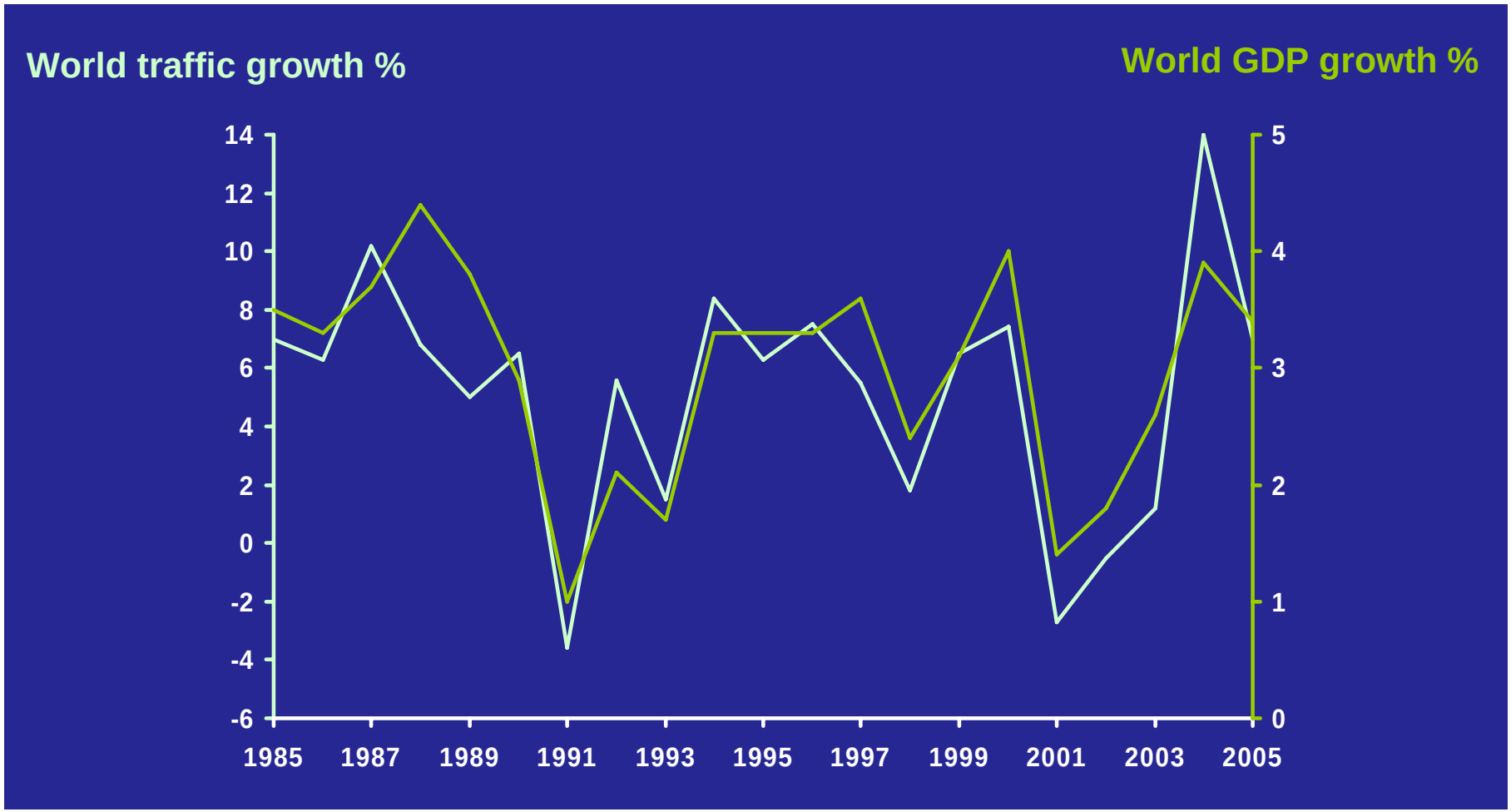
- Aviation accounts for 5% of UK CO2 emissions and a lesser amount for the EU-25
- Aviation is predicted to grow at between 3.5% and 5% p.a. over the next 15 years[1]



Source: EEA (2002)

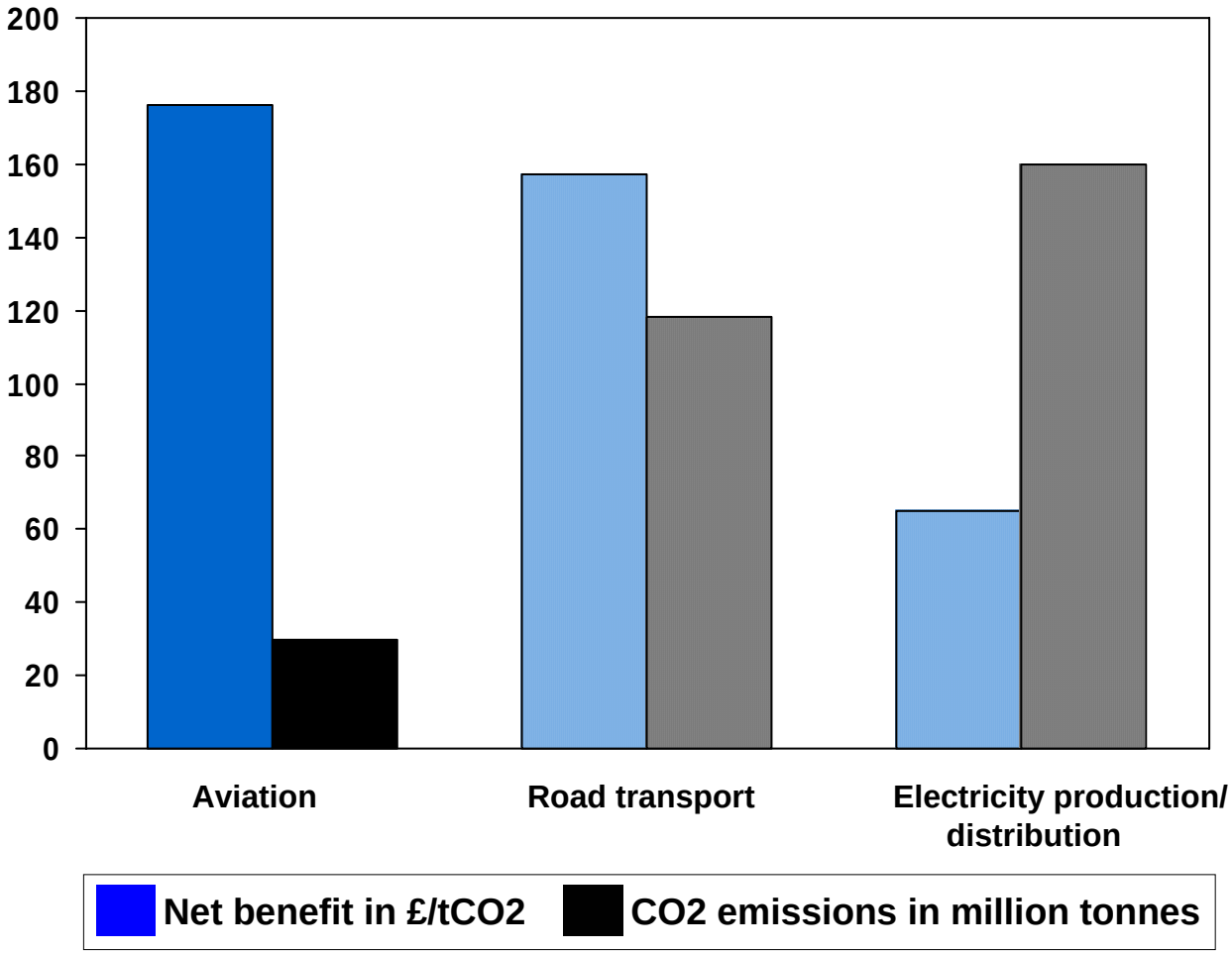
1. European Commission (1999) Towards meeting the challenges of sustainable development, COM (1999) 640 final predicts 5% growth per annum between 1990 and 2015. Boeing (2005) Current Market Outlook 2005, forecasts growth in Europe will be 3.5% between 2005 and 2024. This refers to all flights departing from or arriving in the EU.

Aviation growth is both a contributor to and an enabler of economic growth



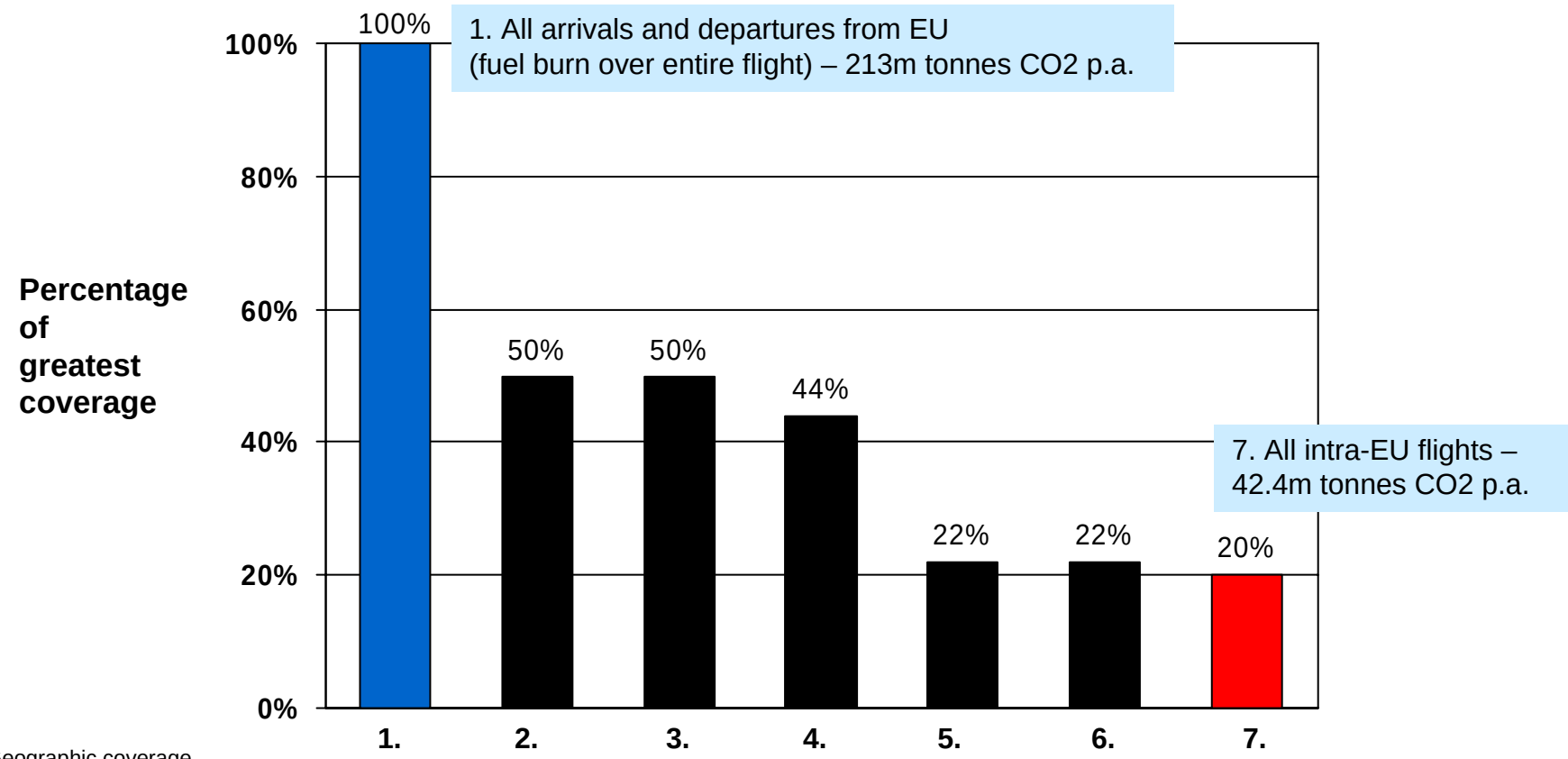
Source : ICAO, Global Insight

Aviation brings greater economic benefits for each tonne of CO2 emitted



Estimated net benefit of selected sectors in the UK (2002)
Source: ONS, EEA, UK NAP

Inclusion of intra EU flights will *only* address 20% of the EU aviation emissions footprint… or less than 1% of EU-25 CO2 emissions!



Geographic coverage
2. All departures from EU (fuel burn over entire flight)
3. All arrivals at EU (fuel burn over entire flight)
4. All arrivals & departures from EU (fuel burn over EU airspace only)
5. All departures from EU (fuel burn over EU airspace only)
6. All arrivals at EU (fuel burn over EU airspace only)

Airline abatement opportunities

- **The opportunity to reduce emissions is the *same* opportunity airlines have to reduce their fuel expenses today.**
- **Aircraft manufacturers have committed to a 50% cut in CO2 emissions by 2020[1]. Meanwhile, there is significant opportunity to reduce emissions through efficient ATM.**

One-off benefits (current technology)	Percentage reduction
Air traffic management (ATM) influence	8.4%
Other airline operational decisions	3.8%
Airline strategic decisions	5.2%
Total	17.4%
Procuring new aircraft (annual benefit)	1.0%

Indicative assessment of potential CO2 reductions in Europe (based on current technology)
Source: Frontier analysis using data from Eurocontrol, AEA and IATA

1. ACARE goals – fuel efficiency per passenger km

Guarding against distortion of competition

- **Demand for the services of Low Fares Airlines (LFAs) is more sensitive to price than for the services of the Full Service Airlines (FSAs) - so the relative impact of ETS will be greater on the LFAs**

- **Although the scheme has yet to be designed, current ETS permit prices could add 5% to 8% to an LFA's average ticket price. Based on typical price elasticities, this would in turn reduce demand for LFA services by between 7.5% and 12% but only 2% to 3% for the FSAs.**

- **LFAs tend to operate newer and cleaner aircraft - the distortion of competition between LFAs and FSAs may have the effect of reducing the drive towards introducing cleaner more energy efficient operations**

- **Many FSAs are static in size or declining. Consequently, these airlines often operate older, dirtier fleets – as they cannot afford to invest. The ETS design should not reward such airlines while the operators of the cleanest aircraft have to purchase allowances.**

Allocating allowances fairly

- There is much work to do to find the right mechanism for allocating allowances
- Defining aircraft as “installations” for allocation purposes is not feasible. The operator of the aircraft is likely to be the most workable option.
- Airlines most not be given an incentive to do nothing in the years before the introduction of the scheme – the quantity of allowances given to an airline must not depend on “grandfathering” of emissions
- Benchmarking using more meaningful measures, such as emissions per revenue tonne kilometre, should be advanced

An environmentally effective ETS

- Must include all aircraft operating to, from and within Europe
- Must incentivise technological and operational efficiencies, especially ATM
- Must allow for environmentally sustainable growth, reflecting the economic contribution of aviation
- Allowances must be based on industry best practice benchmark
- Allowances must be administered centrally by the EU only
- The Commission must conduct a thorough cost/ benefit assessment

ELFAA will publish a report on extending the EU ETS to include Aviation on 20th March