



Anglo-German Foundation
Deutsch-Britische Stiftung

eftec

FÖRDERVEREIN ÖKOLOGISCHE STEUERREFORM

GREEN BUDGET GERMANY

REDUCING GREENHOUSE GAS EMISSIONS FROM AVIATION

21 November 2005

PANEL DISCUSSION

Chris Dodwell (EU-ETS Team, UK Department for Environment, Food and Rural Affairs)
Kai Schlegelmilch (German Federal Ministry for the Environment)
Andy Kershaw (Climate Change Manager, British Airways Plc)
Nils-Axel Braathen (Environment Directorate, OECD)
Niels Ladefoged (DG Environment, European Commission)
Anselm Görres (Chairman - President of Green Budget Germany)

Dr. Anselm Görres welcomed the conference participants and guests to the panel discussion and gave a brief introductory speech, highlighting the importance of using as many instruments as possible to tackle the problems of climate change in general and the contribution of aviation in the particular. He noted that in relation to greenhouse gas emissions from aviation, the discussion should not necessarily take an either / or approach. Both ETS and ETR¹ could be successfully employed as steering mechanisms to facilitate emissions reduction.

In the light of this statement, he challenged the panel to say something in support of the instrument they did not prefer for tackling climate change.

Andy Kershaw responded by discussing the benefits of including aviation within the ETS, and by expressing scepticism that ETR was the way forward in this case. He did not feel able to say a great deal that was positive about ETR, referring to a Department of Trade and Industry estimate that taxation would result in 0.5 percent less annual growth [which does still imply substantial absolute positive growth] within the industry than a business as usual scenario up until 2050.

As the ETS would initially focus solely upon flights departing from the EU, he admitted that only approximately 20-30 percent of British Airways flights would be affected by inclusion within the scheme.

He also emphasised the need for the issue to be seen in perspective, noting that aviation is predicted to account for 5 percent of CO₂ emissions in 2050, according to the IPCC. He also emphasised the responsibility to the consumer to find least-cost solutions to the problem.

Nils Axel Braathen noted that the OECD does not have a preference for ETR or ETS, while suggesting that ETS might be the better option for aviation. He suggested that product labelling should be improved to facilitate consumer access to information on the effects of their purchasing actions. He also made the point that in the long term, the best way to include aviation in the EU ETS might be to include oil refineries in the trading scheme (i.e., an upstream approach - in contrast to the downstream approach presently applied in the EU), thus including the whole of the transport sector.

Niels Ladefoged noted that ETR and ETS should achieve the same outcome in theory. The advantage of an ETS was that it was proven to be a successful instrument, and it left the general public and those effected in no doubt of its objectives. While there is a danger of ETR being regarded as a pretext for 'yet more tax', it is difficult to dispute that ETS is an environmental tool.

¹ The abbreviation ETR stands for Ecological Tax Reform, ETS for Emissions Trading Scheme.

However, he admitted that inclusion of intra-EU aviation within the ETS would only cover between 40 and 50 percent of aviation within the EU - but pointed out as well that the ETS had the potential to be expanded to include other regions, perhaps more easily in legal and practical terms than some form of ETR.

Mr. Ladefoged went on to explain the context of the European Commission's work on aviation and the ETS. The European Commission, he said, had stated it would take action as regards aviation emissions if ICAO did not do so and thus, in 2002, discussions on how best to tackle emissions from aviation were initiated. The Commission's current proposal, he said, did not plan to allocate emissions certificates free of charge, thus sidestepping the problem of giving windfall profits to the industry.

Kai Schlegelmilch noted that he does not favour either ETR or ETS, arguing that the decisive factor is how the certificates are allocated in the latter case. Taking on earlier comments of Juliusz Komorek, the representative from Ryanair, who had been extremely critical of an ETS solution (not least because he claimed it would lead to widespread job losses at the company), Mr. Schlegelmilch pointed out that a benchmarking system could work - in relative terms - to Ryanair's advantage, because they have already taken action to increase passenger numbers per flight, thus decreasing CO₂ emissions per passenger, and this could of course be taken into account in this case. On the other hand, he acknowledged that grandfathering would probably prove more advantageous for other airlines than low-budget airlines like Ryanair, and that auctioning would also disadvantage Ryanair against other airlines with the potential to implement more measures to increase passenger numbers per flight, etc.

Furthermore, the issue does not require an either / or policy response, but it is rather a question of finding the right instrument mix. In his presentation he drew the audience's attention to several countries like the Netherlands, Norway and the USA, which all have kerosene taxation in place. And in the domestic arena, the hurdles in the way of implementing kerosene taxation brought up later in the discussions on international kerosene taxation do not apply. Hence, he continued, kerosene taxation for domestic flights is easy and quick to introduce, while a more comprehensive approach for all international flights at least is provided by the ETS. However, the latter fails to provide for cost equality, as all other means of transport (except for shipping) have to pay mineral oil taxes). For this reason, kerosene taxation is justified in parallel to inclusion within the ETS. Summing up, he can identify a clear role for both instruments in place at the same time.

He also drew the audience's attention to a recent scientific study carried out by the Federal Environment Agency on involving the entire transport sector, with the exception of aviation, in the EU ETS. The study, which planned to allocate certificates to oil traders, found that the ETS would be an effective policy option in this case, and that the steering effect achieved would be the same as the implementation of an ETR. Price increases of between 1 and 8 percent were to be expected.²

Chris Dodwell called the argument that auctioning would be worse for budget airlines into question, noting that if they had genuinely taken action to reduce emissions then they would have to buy less certificates. The more pressing question, he argued, was how to implement auctioning at all, as several questions remained open - how the revenues from auctioning would be recycled, for instance, and how to avoid the imposition of massive costs on airlines associated with auctioning. For this reason, he contended, some form of benchmarking must take place if air traffic is to be included within the ETS.

Another advantage of including aviation in the ETS is the speed at which an internationally binding piece of legislation can potentially be introduced, because the scheme itself is already in place. The inclusion of aviation within the ETS does not even require unanimity at EU level and represents a quick solution which would be able to address aviation emissions in just a few years. No such potential framework is in place for the introduction of an ETR, which requires unanimity - in fact, this is the reason why it took about eleven years to agree on the EU Energy Tax Directive, finally passed at the end of 2003. Finally, inclusion within the ETS has the support of many stakeholders within the industry, meaning that opposition to any policy developments will be less. In short, there are many pragmatic reasons that speak in favour of ETS as the preferable policy option.

² The study can be downloaded from the Federal Environment Agency at: http://www.uba.de/verkehr/downloads/Executive_Summary_EH_Verkehr.pdf or <http://www.umweltbundesamt.org/fpdf-l/2969.pdf>.

An ETR, Chris Dodwell continued, is probably a suitable instrument to address issues aside from CO₂ emissions, for instance, in the form of NO_x charges. In this capacity, taxation may well have a role to play alongside emissions trading, but faces significant hurdles before it can be implemented internationally.

The UK government, he concluded, is taking the issue extremely seriously and intends to press for interim measures prior to the inclusion of aviation in the ETS, perhaps in 2008 and certainly by 2013. Interim measures included offsetting carbon emissions from aviation, as the civil service is going to do from 2006, and Air Passenger Duty (APD). APD, while it is a useful political gesture, transparent and easy to implement, is perhaps not a particularly efficient instrument in environmental terms, as it does not incentivise fuel efficiency but merely passes on an extra cost to the consumer. In order to improve its environmental impact, Mr. Dodwell continued, the APD needs to be revised to reflect distance flown and the type of aircraft used.

Tom Roberts of the Centre for the Study of Environmental Change (CSEC) pointed out one problem with environmental taxation was the issue of what to do with the revenues raised. If money generated was not channelled into climate change issues, he contended, then the public would feel alienated by the tax and would fail to understand what its environmental impact was.

The ETS has another advantage over ETR in this respect, Chris Dodwell replied, as a 'name and shame' policy can be pursued informing the public on the behaviour of industry. The carbon disclosure project and the drawing up of carbon ratings for companies are important to inform the public of available data and through publicity help them to make informed decisions as consumers.

The importance of increasing awareness was emphasised by Kai Schlegelmilch. He praised BA's initiative to inform its passengers of climate change issues as a result of flight travel. Awareness is also increasing in government itself, as the German government offset its flights and journey-related emissions incurred as a result of the Earth Summit in Johannesburg in 2002. In addition, it offers to anyone to do the same for her/his journeys by using the facility of www.atmosfair.de, set up by the Ministry.

Anselm Görres also highlighted the importance of public support for policy measures. One of the greatest mistakes of the German ecotax reform, he said, was that it was misunderstood by the public and came to be regarded as a revenue raising measure, rather than an instrument of environmental policy. For instruments to receive public acceptance, he continued, a visible proportion of revenues must be channelled into green projects. He contrasted the German Ecotax with current ETR proposals in Japan, where it is planned that all revenues flow into green projects, whereas 88 percent of German Ecotax revenue was used to reduce pensions payments.

Robert Rabinowitz from the European Climate Exchange suggested that trading in the USA, which is based on technology standards rather than emissions, may be a better tool to promote the development and use of the best available technologies. He suggested that the focus of the conference may well have been too much on fiscal instruments.

Chris Dodwell replied that the best technology approach and the EU ETS scheme are not mutually exclusive: technology and targets are not alternatives, he pointed out, but complementary.

Kai Schlegelmilch seconded this, and emphasised the importance of UK's commitment to fixed targets, following rumours in the media that the UK was considering a shift towards US policy emphasising technology rather than targets. This was particularly important, he said, in the run-up to the United Nations Climate Change Conference in Montreal from 28th November to 9th December.

Morgan Foulkes representing UPS asked the panel if they regarded trading within a company as a feasible way to reduce emissions.

Kai Schlegelmilch answered citing the example of BP, which introduced emissions trading within the company in 1999 and was able to save £650 million and cut down on GHG emissions by 10 percent well before their target year as a result.

Barbara Ambrose of the European Regions Airline Association (ERAA) pointed out that carriers had already made considerable efforts to introduce technological improvements to their aircraft and that their proposals, submitted to the European Commission some time prior to the conference, suggested not only the inclusion of aviation in the ETS but a number of other measures as well, including improved air traffic management. She said that these were not apparent in the EU Commission's subsequent report on the issue.

In reply to Barbara Ambrose, Niels Ladefoged noted that the EU Commission did emphasise a more comprehensive approach to reducing aircraft emissions and did not focus solely on the ETS. But the report focused on the most important tool available, and that was ETS. For this reason, other instruments were analysed in less detail. As well, he said, it is not the role of the EU Commission to introduce improvements to Air Traffic Management, but that of the operators themselves, while the ETS concerns it directly. The role of the ETS was to create incentives for the operators to introduce such improvements, he concluded.

Nils Axel Braathen pointed out that it was a shame for 'older' airlines, such as British Airways or Lufthansa, that ETS had not been introduced in the 1980s, as Ryanair and other budget airlines would have been unable to penetrate the market in that case. He expects the impact of the introduction of ETS on budget airlines to be considerable.

In this context, Anselm Görres expressed his concerns about the motivations behind the industry's support for ETS.

Finally, Andy Kershaw defended the airline industry. He reiterated British Airways' commitment to the inclusion of aviation in a pragmatically designed ETS that increases costs in proportion to emissions, and incorporates benchmarking procedures to reward early action. He also highlighted the offsetting scheme at British Airways, in place since September 2005, and invited the audience to visit the website www.sustainableaviation.co.uk, which lists the long-term goals and commitments of the industry to achieve sustainability and improve customer awareness and understanding. He also emphasised improved aircraft efficiency and technology standards at BA, reporting that NO_x emissions had already been reduced, a process that would have to continue in the face of tighter regulation. He contended that the NO_x problem would best be tackled by setting standards, not by the introduction of an ETR.

Anselm Görres summed up, once again drawing participants' attention to the dominant thread that had emerged during the conference - that emissions trading, taxation, and other instruments are not mutually exclusive, but can be effectively implemented alongside each other. He then thanked all conference panellists and participants and drew the session to a close.

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