

## Runways, emissions and the EU ETS: why Tim Yeo is wrong



Cait Hewitt, AEF, 29<sup>th</sup> March 2012

Tim Yeo MP, who did some great work as chair of the Environmental Audit Committee and now chairs the Energy and Climate Change committee, announced this week that he had changed his mind about Heathrow expansion and now supported the idea of building a third runway. He had two reasons:

1. That the economic case in favour has now, he says, become overwhelming, and
2. That aviation is now part of the EU ETS so “increasing runway capacity in the UK has absolutely no impact on the level of aviation emissions” (Today programme 26.3.12)

He didn't mention noise, air pollution, or destruction of local villages. But even on his own terms he's wrong – on both counts.

### **The economic case has weakened**

On the economic case for new runway capacity, recent industry reports have been astonishingly flimsy. Tim Yeo this week repeated the claim, bandied about in recent months, that direct flights to China are essential for business. Yet if these routes were in such high demand by businesspeople they would surely prove more profitable than some of the short haul and domestic leisure flights currently clogging up Heathrow.

Yeo is right to argue that the economics relating to aviation have changed since the Coalition announced in 2010 that it was cancelling plans for a new runway at Heathrow. The oil price has risen from around 80 dollars per barrel in 2010 to over 120 dollars per barrel in 2012, and as any aviation economist will tell you it is oil prices, not taxes or emissions permit costs, that impact demand. And in relation to UK aviation, the Government in 2011 dramatically downgraded its forecasts for air passenger demand, in response to lower forecasts of economic growth going forward. In other words, the economic case for a third runway is looking worse than ever.

### **Would you trust bankers to run the economy? So why trust carbon traders to tackle climate change?**

On EU ETS, he is wrong to say that putting airlines in an emissions trading system means we no longer need to worry about airport expansion. Why? Because cap and trade systems are just one tool for managing emissions and can't work by themselves.

That is why three years *after* the launch of the EU ETS, the UK created the Climate Change Act 2008, committing us to reduce our emissions (including our emissions from sectors already included in the EU ETS) by 80% of 1990 levels by 2050.

It's also why the Committee on Climate Change was appointed to advise the Government on how to bring down UK emissions, including from sectors such as power which have been in the EU ETS right from the start and why, for the power sector, the Committee has advised a suite of measures relating to investment and planning decisions alongside EU ETS.

And it's also why the last Government, having done all the negotiating to agree aviation's inclusion in the ETS, went on to ask the CCC to assess how emissions from UK aviation could be brought back

down to 2005 levels by 2050. CCC's advice was to constrain demand growth, and research by AEF for WWF-UK suggests that the UK already has sufficient airport infrastructure to cater for 100% of the demand growth that CCC said was possible under the cap. What's the relevance of this to EU ETS? In fact the emissions target that was the basis for the CCC's advice is very similar to the emissions cap imposed by the EU ETS, which limits aviation emissions to 95% of their average level between 2004 and 2006. It's true that the EU ETS cap allows airlines to buy permits from other sectors while the proposed UK cap did not, but CCC's forecast is that by 2050 we will all be living in such a carbon-constrained world that there will be very few permits around to sell.

One of the key reasons why the UK has been developing parallel measures alongside EU ETS is that the price of permits is currently far too low to guide the right kind of investment decisions for the future (when permit prices are forecast to rise very dramatically), and this is well illustrated in the aviation sector. Ryanair recently introduced a flat rate EU ETS surcharge of just €0.25 (around 25p) on its flights. The revenue is predicted by financial analysts not only to cover the costs of all permits the airline will need to buy, but to generate some extra profit on the side.

### **What actually happens when EU environmental regulations start to bite?**

What if Tim Yeo wins the argument, and the Government decides to ditch any plans for UK leadership on bringing aviation within sustainable CO2 limits and instead relies entirely on the EU Emissions Trading System to deliver? What happens, in other words, when the runways that he says will have "absolutely no impact" on emissions levels have been built, employment at airports has been actively encouraged by local authorities, and people have come to regard several foreign holidays a year as some kind of right? Will the Government of the day announce to the aviation industry and the voting public that sadly, time is up – the runways must close, people must lose their jobs, and holiday homes must be sold, because a European environmental policy has made it all too expensive?

Perhaps the current Government's position on air pollution provides a clue. The UK is a signatory to mandatory, legally binding EU targets to cut air pollution levels in order to limit harm to human health. Yet in congested areas such as along major roads and, in London, around Heathrow, we have consistently failed to achieve these reductions. In February this year the Environmental Audit Committee challenged the Government on why air pollution which, it says, is causing tens of thousands of deaths in the UK every year, is not being effectively tackled. The response from Defra?

"The government ... supports further EU ambitions to reduce health and environmental impacts of air pollution ... However, there was never an intention for any of the [EU] deadlines to force measures that would impose disproportionate costs on society. Deadlines ... must reflect both the availability of measures and the affordability of implementation relative to the benefits,"

In other words: the EU law is too costly to comply with so will be disregarded.

AEF supports aviation's inclusion in the EU ETS, But for it to work, it's essential to put in place the right kind of planning and investment policies to give both consumers and the industry the right kind of signals. Giving the go-ahead for big new airport infrastructure in the South East would do exactly the opposite.