

# **The government says airport expansion is fine, because aviation emissions will be capped by the emissions trading scheme. Smell a rat?**



The logic of a trading scheme is that it allows emissions reductions to take place wherever it is cheapest to do so, promoting both market flexibility and freedom of choice. A cap and trade scheme should, in theory, provide a guaranteed environmental outcome, namely that emissions from sectors covered by the scheme will not exceed the level fixed by the cap.

So what's the problem with the EU emissions trading scheme, and why doesn't the inclusion of aviation in the scheme from 2012 mean we can now sit back and relax while the airlines carry on polluting?

## **1. Aviation is still getting special treatment**

Aviation is, in several ways, being given a light touch under the ETS. First, the cap applied to the aviation sector is much more lenient than that given to the other sectors. For 2012 aviation emissions will be capped at 97% of the sector's average emissions between 2004 and 2006 (roughly double 1990 levels). From 2013 onwards a fixed cap of 95% will apply. Meanwhile, other sectors are expected to reduce their emissions in line with the EU's commitment that by 2020 total emissions will be reduced by at least 20% compared with 1990.

In case that wasn't enough, aviation is to be given the majority of its permits for free, unlike sectors such as power generation which will have to buy an increasing proportion of their permits at auctions - a cost likely to be passed on to consumers. So while the Government now has to ensure that pensioners can still afford to heat their homes (through good insulation and sufficient availability of renewable power, for example), the cost of flying – an activity enjoyed, as ever, primarily by the rich – will rise only incrementally and emissions from aviation will continue to grow.

## **2. The cap isn't really a cap**

The supposedly binding cap imposed on the scheme as a whole is in fact very leaky. If European polluters find it too difficult to reduce their emissions, and no sectors in the scheme have credits to spare, then permits can simply be bought from elsewhere in the world - from 'low emission' factories in China, for example. While relatively stringent restrictions are to be applied to the use of these 'project credits' by airlines (an attempt to balance the more generous cap for aviation, as described in point 1), in the scheme as a whole up to 50% of the required reductions can come from offsetting schemes outside the ETS. Since this option is generally cheaper and easier than making real reductions at source, sectors with easy access to project credits are likely to make the most of them, thus freeing up some of their ETS allowances to be sold on to airlines.

### **3. Extra climate damage from emissions at altitude will not be accounted for**

For aviation, the ETS will cover carbon dioxide only. But aircraft have an impact on the climate that is much more serious than its carbon emissions alone might suggest. At altitude, both nitrogen oxides and water vapour act, together with carbon dioxide, to increase global warming such that the climatic impact of aircraft is around twice as bad as that from its CO<sub>2</sub> alone. Because of this additional 'radiative forcing' from aviation, the European Parliament argued that emissions from aviation needed to be multiplied by 2 when drawing up the carbon accounts. The Council of Ministers disagreed. The final compromise was that while only CO<sub>2</sub> would be counted for compliance with the ETS, separate policy covering nitrogen oxide emissions from aircraft would be drawn up by the end of 2008. We're still waiting.

### **4. Emissions trading was never going to be enough**

Just as financial markets can't work on their own, nor can carbon markets. Lord Turner, chair of the FSA as well as of the Committee on Climate Change (CCC) has made this very clear. The CCC's first major report, in December 2008, considered wide-ranging policy measures that could help drive the dramatic cuts in the UK's carbon emissions that the Committee has recommended. Emissions abatement from the road transport sector, for example, could be achieved through a combination of economic measures such as higher taxes levied on more inefficient vehicles, *together with* mandatory efficiency standards for manufacturers, and explicit consideration being given to transport emissions when planning decisions are being taken, argued the report.

For aviation, the CCC noted that abatement was very much more difficult and that emissions are set to increase. Since the report fell short of recommending what abatement measures would be needed for aviation to be accommodated in the target to reduce total emissions by 80% by 2050, a second report focussing on aviation and other 'difficult' sectors is to be published in December 2009; the future inclusion of aviation in the ETS has clearly not sewn everything up. Yet the Government has already decided that the UK's share of emissions from international aviation will not be covered by the first set of carbon budgets announced at the time of the 2009 financial budget, and is meanwhile continuing to pursue the airport expansion plans set out in the 2003 White Paper.

Emissions trading is not wrong in principle, but it needs other policy levers alongside it to make it work.

For aviation, these are thin on the ground.

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