

Looming Bottleneck

Europe struggles to implement airline emissions trading plan

ROBERT WALL/PARIS and CANNES

In just seven weeks, airlines operating within the European Union will face a critical deadline for complying with the region's Emissions Trading Scheme, but industry officials are worried about whether governments are ready to do their part to meet the aggressive compliance schedule.

At the moment, airlines and regulators are mainly confronting a mountain of paperwork; nevertheless, there are potentially large financial implications associated with the raft of data the carriers have to submit and governments are vowing to process.

Errors can be costly, officials warn. Moreover, there are inconsistencies regarding how EU members are applying

the rules that can cause competitive imbalances.

Europe's application of ETS to the aviation sector to curtail the growth of carbon dioxide pollution from aircraft begins in 2012 and covers all flights into or originating in EU nations. The organization is capping CO₂ emissions at 97% of the average output between 2004 and 2006. A certain number of credits will be made available, and carriers operating beyond those guidelines will have to buy further allotments on emissions markets. To qualify for the free credits, starting in January, airlines will have to track ton kilometers flown on routes covered by the ETS as well as CO₂ output. The plan on how they will gather

this information is what must be submitted soon to national authorities.

Not surprisingly, a number of problems persist. For example, one industry official says some foreign carriers have not yet been told which national authority within the EU will regulate their ETS compliance, so they have no place to make a filing to gain credits. The EU issued an initial list of airline/country assignments in February, but a final one is still being compiled and may not be issued until the end of the month. In some cases, such as Hungary, there is no authority to handle the paperwork.

Extending the Aug. 31 deadline has been discussed, and last week the U.K. decided to do so, citing the EU's delay in issuing the airline/country assignment list. But emissions trading expert Sebastian Gallehr advises that whatever happens, airlines should not wait for further waivers and submit their plans on time—"just to be on the safe side."

Governments are supposed to provide feedback to airlines and stipulate any adjustments before the actual monitoring phase begins on Jan. 1. However, that

work will be done by nonexpert civil servants, who will be wading through thousands of pages of filings and in some cases asking for changes, warns Frederic Falise. He heads environment programs for SITA, which is developing an Aircraft Emissions Manager tool to help carriers with compliance.

Gallehr believes the turnaround time will not be met. During earlier rounds of ETS—before the inclusion of airlines—compliance authorities often took six months to report back. “Airlines will have to start monitoring things without having their monitoring plans approved. This is a real problem,” he warns.

What’s more, errors can be costly. A penalty of €100 (\$140) looms for each metric ton of carbon emissions not accounted for properly, says Abdul Wahab Teffaha, secretary general of the Arab Air Carriers Organization (AACO). That price is far above the current cost of an emissions credit.

In addition, small items can make a big difference, particularly in the ton-kilometer report that will govern alloca-

High-growth airlines fear they will be hit disproportionately

tions for nine years, says Gallehr. In the area of passenger weight, carriers can use an average of 100 kg. (220 lb.) or submit actual data. A choice like that, over nine years, can lead to significant differences in the number of carbon credits an airline can secure for free.

Another complication is that national bodies, not the European Commission, are devising details of the ETS rules—and there can be differences among them. German and French authorities, for example, define “payload” differently. One consequence is that “competition could be at risk,” notes Gallehr.

Moreover, airlines that have experienced good growth rates in recent years fear they may end up paying a dispropor-

tionately high cost. Arab airlines will have to buy 52% of their emission-credit needs once Europe’s trading system enters into force, Teffaha says.

Overall, airlines will have to buy 26% of required emissions credits when the ETS begins, but the auction level for Arab carriers is higher because their growth rate has

risen since the benchmark period. Teffaha says the situation will worsen. By 2020, the AACO’s members will be forced to buy 75% of their required emissions credits to satisfy the ETS if current growth rates are sustained, he asserts. The cost to Arab airlines will exceed €200 million.

As at many other airline groups, Teffaha says he is pushing for a global approach to avoid duplication between the European systems and emerging ones.

Teffaha’s organization has asked SITA to help 11 AACO members comply with the EU reporting system. Falise says the emissions manager being set up is designed to be able to grow, should international demands lead to a global ETS governing airlines. 