



**Commission's proposal to restrict
EU ETS to European regional airspace**
*Status update of the legislative process &
Consequences for the carbon markets*

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Argus European Emissions Markets 2014
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4 Oct 2013: ICAO 38th Assembly Resolution – Regional MBMs ok under the condition of mutual agreement

- Decides to develop a global MBM scheme for international aviation; decision to be made by the 2016 ICAO Assembly (§ 18)
- Implementation from 2020 as part of a basket of measures to achieve ICAO's global aspirational goals (CNG2020) (§ 7)
- Should take into consideration Special Circumstances and Respective Capabilities of States (SCRC) (§ 20)
- **Allows states or groups of states to implement their own regional MBM in the interim period under the condition of seeking mutual agreement (§ 16a)**
- 1% RTK de minimis on routes to / from developing countries (§ 16b)



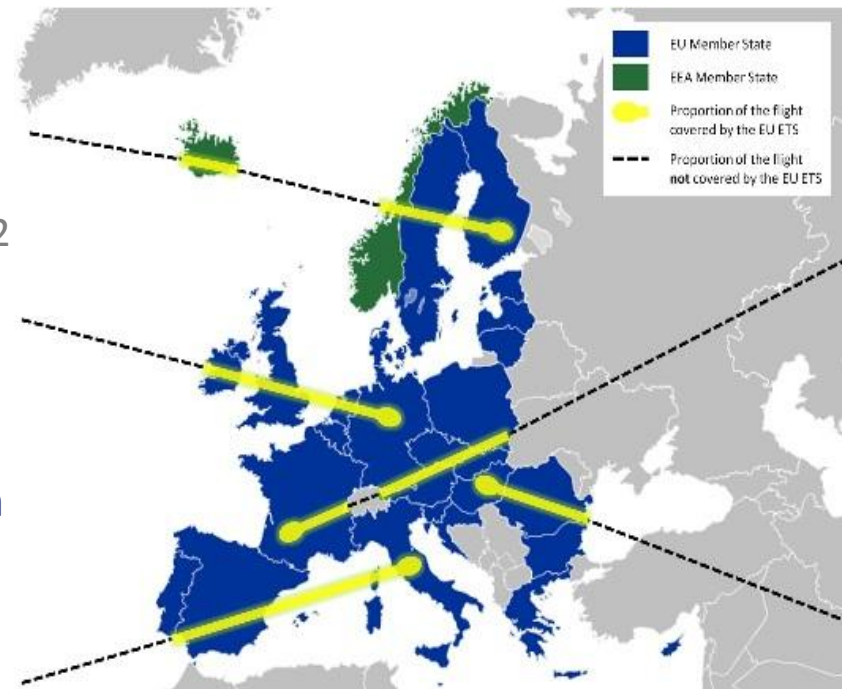
61 countries submit reservations to ICAO Resolution – EU against concept of mutual agreement

- 61 countries submitted reservations / objections to ICAO resolution
- Brazil, India and China agree with CNG2020 but with Common But Differentiated Responsibilities (CBDR), i.e. CNG2020 responsibility of developed countries
- Most of developed countries against CBDR (§ 16b)
- **EU against the concept of mutual agreement when implementing a regional MBM (§ 16a)**
- Russia clearly against MBM in general
- Clear division between developed and developing countries



16 Oct 2013: Commission proposes to restrict EU ETS to European regional airspace

- Airspace approach would apply from 2014 until an MBM is implemented in 2020
- Key features:
 - Emissions from intra-EEA flights covered
 - Part of extra-EEA flights within EEA airspace covered from 2014
 - Flights to / from 80 developing countries exempted
 - Non-commercial operators below 1000 tCO₂ exempted
 - 2-year compliance cycle
- EU considers it has a fundamental right to regulate aircraft emissions within its own airspace (Chicago Convention)



27 Nov 2013: MEP Peter Liese (ENVI) supports the Commission's proposal and proposes measures to strengthen it

- Member States should use revenues generated from auctioning for efforts to tackle climate change (principle of 'earmarking')
- European airspace approach should only apply until the 2016 ICAO Assembly
- If a legally binding MBM is not agreed at the 2016 ICAO Assembly, the EU ETS should switch back to its original full scope
- To keep the environmental effectiveness, the percentage of auctioning should increase to 40% from 2015 onwards
- To ensure environmental integrity, the cap should decrease by a linear factor of 1.74% from 2015 onwards

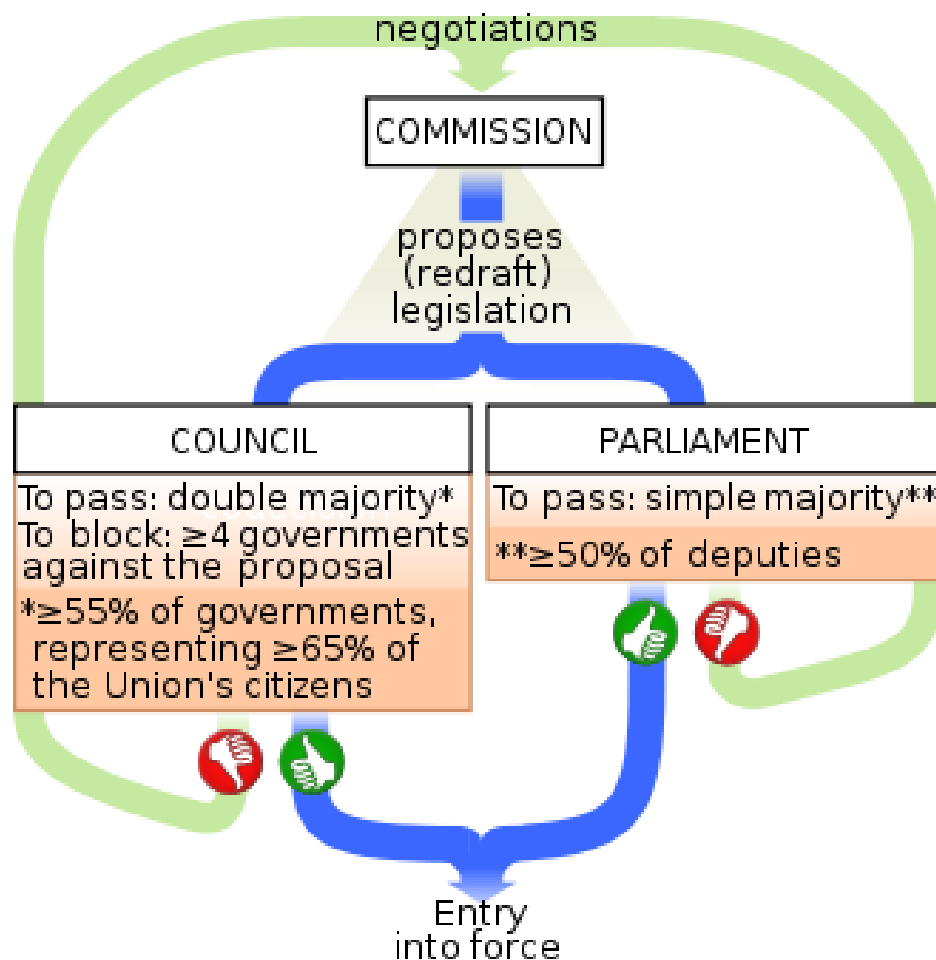


28 Nov 2013: UK announces a return to stop-the-clock as Cameron prepares a visit to China

- France, UK and Germany are for a return to stop-the-clock (STC)
- *'Path to a global MBM should be encouraged'*
- Airbus orders and European jobs are also at stake!
- STC best way *'to reduce the risk of international retaliation'*
- Surprisingly, the announcement coincides with David Cameron's trade visit to China!
- **STC with a review after the 2016 ICAO Assembly is emerging as the position of the Council**



Co-decision process starting – A compromise must be found!



Agenda

- 21 January: TRAN / ITRE votes
- 30 January: ENVI vote
- 18 February: First Trilogue
- 3 March: Environment Council
- 4 March: Second Trilogue
- 14 March: Transport Council
- 31 March: Aviation ETS 2013 reporting deadline
- 2-3 and 14-17 April: European Parliament plenary sessions
- 24 April: European Parliament closes for election period

30 January: ENVI committee's vote for European airspace approach becomes the official position of the Parliament

TRAN committee (opinion)

- Scope 2013-2016: Intra-EEA flights
- Scope 2016-2020: depends on outcome of 2016 ICAO Assembly:
 - Intra-EEA if global measure is agreed
 - Airspace approach otherwise
- Earmarking of auction revenues for climate-related funding
- 31 in favour, 6 against, 4 abstentions

ITRE committee (opinion)

- Scope 2013-2020: Intra-EEA flights only
- Open review after 2016 ICAO Assembly
- 29 in favour, 22 against

ENVI committee (official position of Parliament)

- Supports the Commission airspace proposal in principle
- Scope 2013: Intra-EEA flights
- Scope 2014-2016: European airspace approach
- 'Snap-back' to full scope after 2016
- Earmarking of auction revenues for climate-related funding
- 49 in favour, 6 against

18 February – A compromise looming after the first trilogue?

- **Compromise proposed by the Commission: STC until 2016 with switch-back to full scope if no agreement for a global MBM at the next ICAO assembly**
- Indeed possible compromise between '*European Regional airspace in 2014-2016 + full scope in 2017-2020*' and '*stop-the-clock in 2014-2016 + European regional airspace in 2017-2020*'.
- **Earmarking of auction revenues: strongly supported by Parliament but strongly opposed by the Council**
- Decreasing of the cap which was originally proposed in the ENVI committee's November report was removed from the ENVI committee's final 30 January 2014 vote, was put back on the table during the trilogue as an item of negotiation.

4 March – Compromise confirmed at the second trilogue!

- Scope reduced to intra-European flights in 2013, 2014, 2015 and 2016
- Stop-the-clock minus (STC -) because as compared to STC certain flights are now excluded (eg. Flights between Switzerland and the EEA)
- Review after 2016 ICAO Assembly, switch-back to full scope in from 2017 if no clear agreement on a global MBM
- Deadline for reporting 2013 emissions: 31 March 2015
- Deadline for surrendering 2013 allowances: 30 April 2015
- Earmarking? No but countries will have to inform the Commission how they use the money and the Commission will publish a report.
- Small emitters below 1000 tCO₂? Probably exempt.

STC- represents a quarter of full scope in terms of environmental effectiveness!

	Full scope	STC	STC+ (EC)	STC+ (ENVI)	STC- (Council)
Emissions covered	100%	25,30%	38,50%	38,50%	24%
Cap	95% in 2013-2020	95% in 2013-2020	95% in 2013-2020	95% in 2013-2014, then progressively down to 84,56% in 2020	95% in 2013-2020
Free allowances	85%	85%	85%	60%	85%
2020 Cap (M tCO2)	210	53	81	72	50
2020 Free allowances (M)	179	45	69	43	43
2020 Auction allowances (M)	32	8	12	29	8
2020 Shortfall above cap (est. 300 M tCO2 in 2020 at full scope)	90	23	35	43	22
2020 est. cost for aviation in allowances (M)	121	31	47	72	29

Source: Verifavia

FORGET ABOUT BUSINESS JET OPERATORS!

FORGET ABOUT NON-EU AIRLINES!

FORGET ABOUT SPOT TRADING!

...

FOCUS ON EU AIRLINES!

FOCUS ON FORWARD TRADING!

REVIEW YOUR AMBITIONS DOWNWARDS!

But...

- ENVI Committee must approve the compromise on 19 March...
- If approved the compromise will go to Parliament in April
- If not approved, back to full scope!





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