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Session 4: Evaluating economic instruments  
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**Introductory speech**  
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Ladies and gentlemen,

I am in a peculiar position. AEA airlines were the first to accept the principle of emissions trading – as one component of an all-encompassing emissions containment policy. In Europe, all other industries had already been targeted; we were next, and knowing this, what choice did we have but try and get it right, and then insist that all carriers should participate in a global scheme?

But that's not all: this comes on top of all the taxes individual EU governments are adopting for environmental purposes, or because there is a common misperception that aviation is inadequately taxed – and that we can subsidise governments further without suffering too much.

Come on, some of you in the audience will undoubtedly think, this is about saving the planet from the disastrous effects of climate change: someone's got to start, and if Europe wants to, let it. If you were thinking in terms of environmental benefits, I should be forced to admit you have a point. But it's not as

simple as that. Because **if Europe goes it alone**, if Europe makes flying prohibitive, what will happen is "carbon leakage": transiting in Dubai instead of London when flying from New York to Hong Kong, for example. The trend is already there. **The benefits for the environment? None.** Reducing our carbon footprint is not about who pays what to whom and where – it is about the amount of CO2 emitted, wherever it is. **The impact on European industry? Devastating. The impact on European economy? Huge.**

Is this systematic targeting of aviation a European phenomenon, though? **Far from it.** So-called market-based measures are being contemplated in many regions in the world, and this is an *accelerating* trend – there's no getting away from it.

So pretty soon, many governments might adopt scores of different measures – all of them "complementary", all of them adding up to an unaffordable bottom-line for something that has nothing to do with carbon offset, but everything to do with crippling airlines and their global network of services.

So my first point is: **this is a global issue, and if we wish to avoid a plethora of measures, we need a global framework.** And ultimately, the effect of such a framework should be for an airline to be able to offset its carbon emissions once, and not several times over.

The next question is then, **what kind of global mechanism** should we go for? Some say, **taxes**: eliminate so-called unnecessary travel, discourage cheap flights – in other words, impact demand by artificially raising the level of the air fare; i.e. intervening in the market, and promoting re-regulation of air transport. Ethically, I find this dubious: it means pricing some passengers out of the market, allowing only the wealthy to travel. Also, taxes are, by definition, general revenues, not allocated to a particular function – and thus have no immediate and automatic impact on the environment. Finally, remember that demand for air transport is both a cause and an effect of economic growth. Stifling air transport means stifling access of any given industry to other markets – and eventually production and employment at home. And in a globalised economy, exports go both ways – an aircraft filled with goods on departure will return full of other goods, which can be sold in industrialised countries. Stifling demand could thus stifle growth in underdeveloped countries as well.

**We think that a well-designed ETS is currently the best option we have.** The more efficient a facility is, the greater its likelihood of selling excess permits, i.e. of being rewarded for its efficiency. That's the idea behind an emissions trading scheme. But the scheme that is currently being discussed in the EU institutions is nowhere near a 'well-designed scheme'. Let me give you an example.

The EU Commission has taken a liking to auctioning; post-Kyoto EU industries are to be gradually included into auctioning of up to 100% of all permits by 2020. A detail? No, a major threat to efficiency, because 100% auctioning runs counter to the core principle of cap and trade; money does not flow to reward efficiency, it flows into the coffers of the auctioneer, i.e. the government. And industries like aviation cannot resort to other energy sources in the foreseeable future, so they will be obliged to pay via auction increasingly for their permits, and then trade for permits they will require to grow. A badly designed ETS cripples industries, and is not a good sales argument for the rest of the world. What we are looking for is that the general cap will ensure reduction of total emissions, and aviation will be able to meet growing demand. **Good for the global environment, good for the industry and the global economy.**

If we are to accept an Emissions Trading Scheme, we have to be sure it's going to work, environmentally and economically. But let us face the facts: international aviation is used to paying for the costs of its infrastructure; it will have to get used to paying for the use of environment as well. **Getting it right, and soon, is the key for sustainable growth.** That begins with an end in mind: **remain focused on neutralising the CO2 emissions of the aviation sector.**

We at AEA will continue to insist that technological and infrastructural improvements are necessary to reduce the

problem of aviation-related emissions; but a cap and trade system is most probably necessary to bridge the remaining gap, and we will continue to contribute to the creation of a workable and non-discriminatory ETS. **We will continue, with the rest of the global aviation community, to seek international consensus.** So let us join forces to get it right and make it work – in the interests of the environment and the citizen.

Thank you.