Aviation and the EU ETS
April 2010



easyJet plc

Background - the environmental challenge for airlines

- Aviation is currently responsible for less than 2% of global greenhouse gas emissions. However, the external challenges are becoming more onerous:
  - Aviation emissions are growing rapidly
  - Governments see aviation as a soft target for taxation
  - No rationale to argue aviation should be one of the few sectors not in an emissions control framework



- In order for air transport to have a sustainable future, it needs to:
  - Be part of a coherent trading scheme – hence EU ETS
  - Move beyond a dependency on kerosene fuel – technology must and surely will provide the long term solution
  - Meanwhile, adapt to a carbon constrained world and utilise fuel in the most efficient way

easyJet



- easyJet has grown to become Europe's third largest intra-European airline
- The business model is focused on a single mission – short-haul operations using '150' seater new technology aircraft in point-to-point markets
- Operating a distributed network across Europe
  - 185 aircraft flying over 45 million passengers per year
  - 500 routes from over 100 airports
  - Operating 1000 flights per day in 26 countries
  - Average passenger load factor 86%
- easyJet's carbon emissions were 4.3m tonnes of CO2 in 2008

easyJet is built on operating efficiently – this also makes us environmentally efficient

Aviation and Eu ETS



- The EU published the Directive on the inclusion of aviation in EU ETS in January 2009 and the legally binding implementing guidelines for the Monitoring & Reporting were adopted by the European Parliament in April.
- Operators will receive emission allowances, giving them the right to emit a certain level of CO2 per year. The total of these allowances creates a ‘cap’ on overall emissions.
- After each year, operators must surrender the number of allowances equal to their actual emissions in that year. The existence of a market in which these allowances can be traded enables participants to manage their emissions cost-effectively.
- Of the aviation allowances available, 85% will be allocated free of charge and 15% auctioned. The free allowances will be allocated according to a benchmark process which equates to an operator’s share of payload carried in the 2010 monitoring year.

The benchmark is critical to the allocation of free allowances

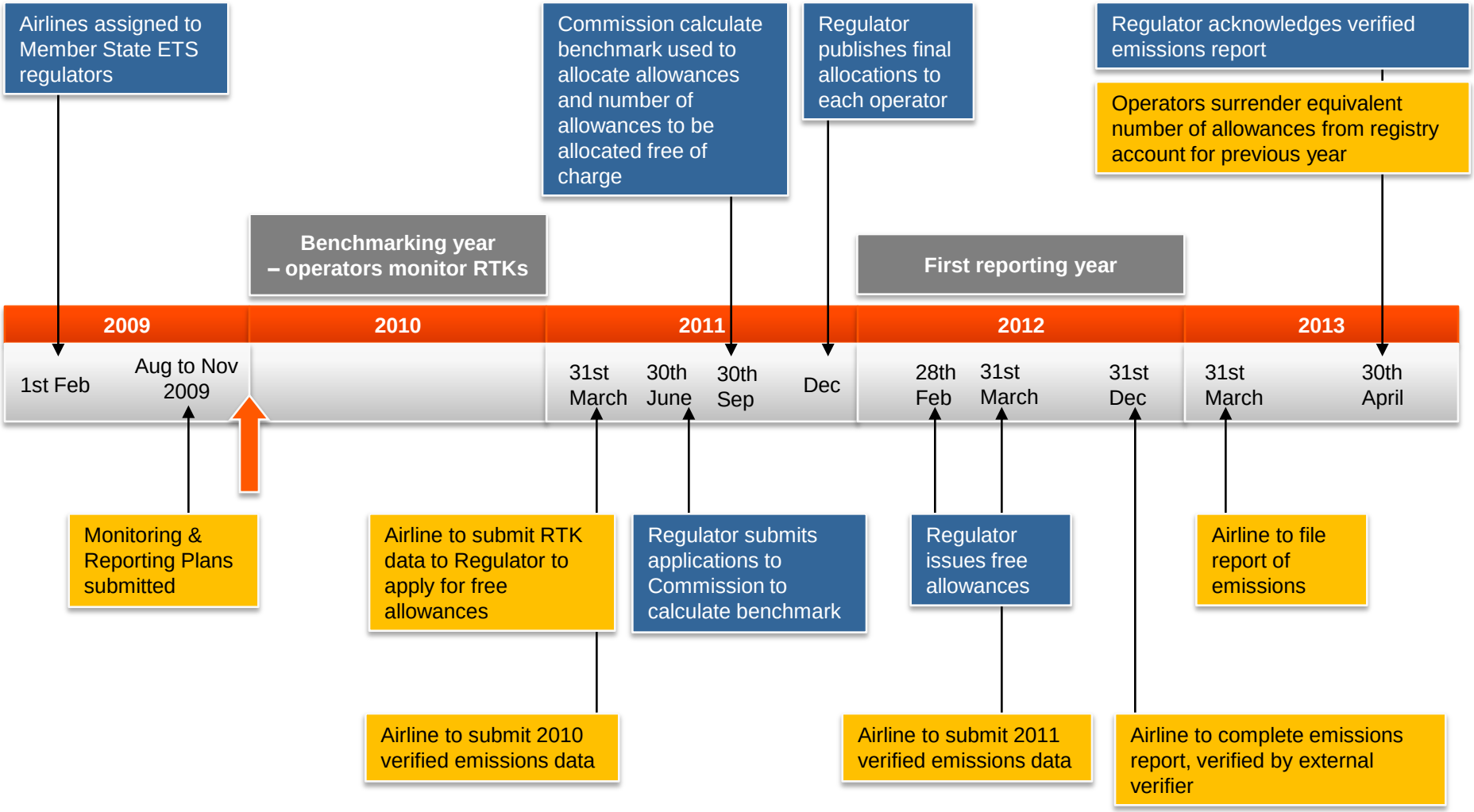
The Benchmark



- Airlines will receive free permits in accordance with their share of the Revenue Tonne Kilometres (RTKs) flown in 2010
- RTK is a measure of how much you fly (in tonnes – passengers are converted into weight) and how far you fly it – effectively a measure of economic output
- RTKs can be flown efficiently (relatively lower emissions for passengers and freight carried over a certain distance) or inefficiently – as an empty flight has similar emissions to a full flight
- Therefore the allocation of free allowances rewards airlines that are environmentally efficient – as they will be given relatively more free permits in relation to their emissions than inefficient airlines

Where we are in the process

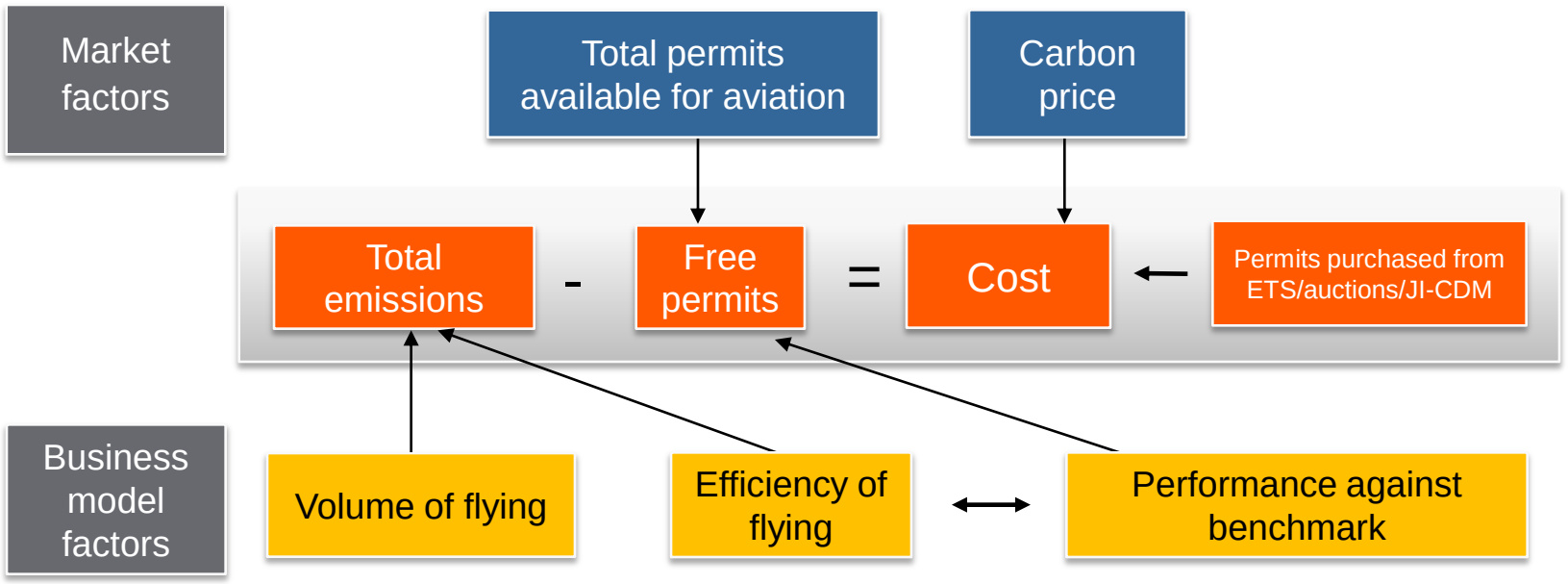




How ETS affects airlines – macro level

Two key factors determine the cost of ETS for airlines:

- The business model
  - The number of free permits they receive - a function of how well they perform on the benchmark
  - The extent to which free permits cover emissions - which depends on the total amount of flying and the efficiency of that flying
- The cost of carbon



How ETS affects airlines – route level



The two key drivers to environmental efficiency are seat density and load factor

Example: the same modern aircraft flown on the same route

easyJet A319	Traditional airline A319
156 seats	124 seats (source: Airbus)
85% load factor	68.9% load factor (source: AEA Europe, 2009)
132 passengers	84 passengers
57% more passengers	

The traditional airline has 27% more fuel burn per passenger than easyJet – so requires 27% more emissions permits

Where is ETS Going?



- Non-CO2 impacts
  - Very unlikely ETS will be adjusted to take account of aviation non-CO2 emissions
  - The EU Commission has already signalled it will take a different approach to these impacts
- Possible future global framework to manage aviation emissions
  - The Copenhagen summit did not reach any agreement on aviation – but has asked ICAO to develop a solution
  - Aviation needs to be put in a global framework – reflecting the international nature of the industry
  - However, this should build on regional schemes such as ETS, rather than seeking to develop a scheme that covers all airlines – which looks unachievable
- Legal challenge to aviation's entry into ETS from US airlines
  - Legal challenge begun in the UK in December
  - The European Low Fares Airlines Association (Elfaa) has taken advice on this, and we believe the design of the scheme is legal

Summary



- easyJet takes its environmental responsibilities seriously
- Investments in new technology are critical to ensuring a sustainable future
- easyJet is supportive of a well designed ETS for aviation

easyJet's business model can and will adapt to a carbon constrained world

Key Elements of the Directive



Key design element	Proposal
Geographic scope	All departing and arriving flights at European airports.
Coverage of climate impacts	CO2 only. Additional legislation to address NOx emissions was to be proposed by the end of 2008.
Allocation method	85 per cent of the aviation emissions certificates to be allocated based upon a common European benchmark. 15 per cent to be auctioned by Member States. Benchmark is based on RTKs (distance travelled multiplied by total weight of freight, mail and passengers carried). Distance Great Circle plus 95km. Operators may choose to apply (i) actual weight or (ii) standard weight in Flight Manual or (iii) default passenger weight of 100kg. Benchmark year is effectively 2010 for trading up to and including 2020. No legally binding hypothecation clause. The revenues generated from the auctioning of emissions allowances should be used to fund: climate change mitigation; research on clean aircraft; anti-deforestation measures in the developing world; low-emission transport.
Start year	First year of compliance 2012. Phase Three ETS runs from 2013 to 2020 inclusive.
Cap	The base year is the average emissions in 2004/5/6. Cap set at 97% of base year for 2012 and 95% of base year for 2013 onwards. Note: The Special Reserve is deducted from the base year prior to the Cap.
Trading entity and monitoring	Aircraft operator and actual fuel burn.

Key Elements of the Directive



Decision on allocation rules	Harmonisation at EU level.
Special reserve	Creation of a reserve for new entrants and fast growing airlines from within the cap, 3% of the total capped allowances for that phase. Allocated to new operators and those whose activity data shows an increase of more than 18% per annum.
Interplay with the Kyoto Protocol	Airlines are able to trade aviation allowances amongst themselves but will not be able to exchange an aviation allowance for a main scheme allowance. Airlines may meet their obligations to surrender allowances by using either aviation allowances or allowances from the main scheme (“EUAs”). In addition airlines may use certified emission reductions ("CERs") and emission reduction units ("ERUs") from project activities eg JI/CDM credits up to a harmonised limit of 15% for 2012. Level beyond 2012 to be decided as part of ETS Review.
Exemptions	Weight - 5.7t threshold. Heads of State exemption restricted to non-EU. Exemption for PSOs where they are either on specific routes between outermost regions or where capacity offered does not exceed 30,000 seats per year. Activity threshold exemption for commercial air operators who operate at a frequency lower than 243 flights into, out of, or within the EU in a four month period or with an emissions threshold of less than 10,000 TCO2 pa.