

The Inclusion of International Flights in the EU ETS: A Case Study of a Policy Akin to a Carbon Tariff

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Context

- PhD on carbon tariffs (border tax adjustments)
- Carbon pricing on goods traded across borders
- Attractive in theory (economy, environment, politics) – but conspicuously absent in practice
- Conditions under which gov'ts use (or don't use)
- Empirical case studies
 - EU ETS aviation inclusion
 - EU ETS stationary installations
 - California's cap-and-trade system
 - Australia's carbon pricing mechanism

Chronology

- 2008: Aviation Directive adopted
 - Scope: intra-EEA + int'l
- 2012: Policy became effective
- 2013: Temporary suspension of int'l flights (“stop the clock I”)
 - Scope: intra-EEA only
- 2014: Extension of derogation (“stop the clock II”)
- 2017: COM proposes to extend derogation

Inclusion of int'l flights = carbon tariff?

- Extends carbon price beyond domestic domain
- Increases environmental effectiveness
- Affects cross-border traffic by covering emissions produced outside of EU territory
- Designed to allow exemption if third countries adopt own mitigation measures

Key features of aviation inclusion

- Emissions coverage (2013 figures)
 - Full scope (intra-EEA + int'l): 210 Mt CO_{2-eq}
 - Stop the clock II (intra-EEA only): 53 Mt CO_{2-eq}
(25% of full scope)
 - Global commercial aviation: 709 Mt CO_{2-eq}
- 99% of EU ETS aviation emissions from some 300 airlines
- Enforcement (MS-based): financial penalty, name-and-shame, operating ban

What lead to exclusion of int'l flights?

- Domestic political opposition?
- Concerns about WTO law?
- Concerns about repercussions for international relations?
 - Fear of trade war?
 - Fear of hampering int'l climate efforts?
- Administrative complexity?
- Preference for alternative measures?

Domestic political opposition?

- Opposition: AEA, flag carriers (e.g. Lufthansa, BA), Airbus
- Support: ELFAA, low-cost carriers (Ryanair, EasyJet), NGOs (T&E, WWF)
- Airline positions according to their flight network, fleet age
- Impact on policy outcome: important factor in swaying MS (esp. Airbus, Lufthansa)

Concerns about WTO law?

- Legal literature: aviation inclusion likely compliant with WTO law
- COM eager to ensure WTO compliance
- COM confident that aviation inclusion WTO compliant, WTO law not seen as obstacle
- Impact on policy outcome: not relevant

Fear of trade war? (1/2)

- Threats and retaliation by “coalition of the unwilling” (China, Russia, India, US, others)
 - Int’l meetings (New Delhi, Beijing, Moscow), threats of retaliation
 - Legislation prohibiting airlines to participate in EU ETS
 - Non-compliance, even under intra-EEA only
 - Threats to ban EU airlines from airspace
 - Incidents of hassling EU airlines
 - China put on hold Airbus orders worth \$12bn

Fear of trade war? (2/2)

- Raised spectre of trade war among EU leaders
- COM realized implementation no longer politically feasible, TTIP priority, internal split
- Tremendous diplomatic pressure on MS from “coalition of the unwilling”
- United front of MS fell apart. In Nov 2012 “Airbus ministers” (FR, DE, UK) urged COM President Barroso to suspend int’l flights
- Impact on policy outcome: principal reason

Fear of hampering int'l climate efforts?

- Dispute over EU ETS aviation inclusion soured atmosphere at ICAO
- Some concerns that dispute spills over to UNFCCC negotiations
- But only minor concerns for EU policy-makers
- Impact on policy outcome: limited role, if any

Other concerns?

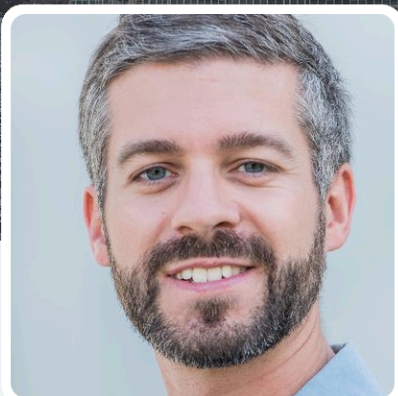
- Administrative complexity?
 - MRV no different for int'l than for intra-EEA flights
 - MRV simple and straightforward (based on carbon content of fuel consumed during flights)
 - Impact on policy outcome: not relevant
- Preference for alternative measures?
 - No alternative measures put in place to reduce emissions from int'l flights
 - Impact on policy outcome: not relevant

Conclusion (1/2)

- What lead to exclusion of int'l flights?
 - 3rd country opposition: threats and retaliation raised spectre of trade war for EU leaders
 - EU stakeholder opposition (esp. Airbus, Lufthansa)
- 2 EU-internal factors made EU vulnerable:
 - Scope too ambitious, regulatory overreach
 - Policy-making at EU level <-> MS-based enforcement

Conclusion (2/2)

- Lessons for carbon tariffs
 - Implementation may be difficult due to political risks
 - Policy-makers may encounter significant political opposition (3rd countries, domestic stakeholders)
 - Adoption may be feasible, but not necessarily implementation
 - Highlights discrepancy between theory and practice on carbon tariffs



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