blueskies PROJECT

Is the Sky Falling for Airline Profits in the European Union?

The Consequences for Airlines from the Inclusion of Aviation in the EU Emissions Trading System

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About the Blue Skies project

The Blue Skies project is a collaborative research initiative that works to help make aviation safe, affordable, secure, and clean. The project provides in depth legal, political, and economic research on issues that vitally affect the aviation sector. Through this research and outreach to key stakeholders, the project seeks to build consensus and positive collaboration.

Our first report, a collaboration between Climate Advisers and the Center for American Progress, seeks to create common understanding of the economic consequences of one of the most controversial aviation emissions policies currently under consideration, the inclusion of aviation in the European Union Emissions Trading System. This report is analytical and does not attempt to advocate for a specific policy or set of policies.

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Introduction and summary

The European Union's decision to include the aviation sector in its Emissions Trading System as of January 1, 2012, sparked considerable ire across the world. The new policy, an expansion of the European Union's existing greenhouse gas cap-and-trade system, seeks to reduce greenhouse gas emissions from one of the fastest-growing sources of emissions—the aviation industry. The new policy will require airlines to obtain permits for each ton of greenhouse gas emissions produced by all of their flights departing from or arriving in the European Union and other participating states.

Most controversially, the policy includes all airlines—not just EU airlines—and all emissions over the entire flight path, including outside EU airspace. Airlines based inside and outside of the European Union, as well as some countries where these non-EU airlines are based, allege that the policy is illegal and will result in substantial increases in costs and ticket prices, resulting in a decline in demand for air travel. The European Union counters that the policy is well within its rights and will have minimal adverse impacts on the aviation sector.

Scholars around the world have attempted to weigh in on these questions, but until now no consensus has emerged among the experts. This report attempts to clarify the economic impacts of the European Union's actions by synthesizing and summarizing available economic studies. Altogether, we looked at 37 studies to produce this report. Our review shows that the existing literature makes the following findings:

- In the near term, the EU aviation policy will increase airline profits because carriers are likely to be overcompensated by aspects of the policy designed to reduce the cost for airlines of complying with the new rules.

- EU airlines will profit more than non-EU airlines because EU airlines have more flights covered by the new policy, even though the policy itself is not overtly protectionist.

- Traditional so-called "network" airlines—those that use a traditional hub-and-spoke system for scheduling flights—will receive a larger increase in profits than low-cost airlines that operate mostly within the European Union because network airlines have more operations covered by the policy and because the demand for network airline flights is less responsive to changes in price.

- Some airlines may continue to oppose the EU aviation policy for other reasons, enumerated toward the end of this report.

The findings presented here necessarily rely most heavily on a limited number of studies (16 of the 37 papers reviewed) that model policies similar to the actual EU emissions policy being implemented and that provide sufficiently detailed results with respect to profits and other key metrics. In the interest of improving certainty about the consequences of this policy, the report describes how future studies could provide more clear and useful results.

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just, and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is "of the people, by the people, and for the people."

Center for American Progress

Climate Advisers is a consulting firm specializing in U.S. climate change policy, international climate cooperation, global carbon markets, and climate-related forest conservation. Climate Advisers is known for its vision, policy expertise, political acumen, and access to senior policymakers in the United States and around the world. Our clients include leading national governments, financial institutions, companies, think tanks, philanthropic foundations, conservation organizations and climate advocacy groups. Climate Advisers helps clients develop and advance environmentally effective, economically affordable and politically realistic climate change policies, strategies, and investments. In short, the firm is working with others to actively shape the low carbon economy.

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