



AIR TRANSPORT

**CPMR ISLANDS COMMISSION
WORKSHOP ON ISLANDS TRANSPORT
Shetland, 22nd & 23rd of November 2007**

1 – The new definition of PSOs in the Proposal for a Regulation of the European Parliament and of the Council on common rules for the operation of air transport services in the Community (recast)

2 – The inclusion of Air Transport in the proposed CO₂ Emission Trading Scheme

I - The new definition of PSOs

- 229 lines operate under PSO, of which 2/3 (145) are on island routes
- Of which: 1 in Finland, 25 in France, 23 in Greece, 29 in Italy, 1 in Ireland, 26 in Portugal, 16 in Spain, 24 in the UK.

**COUNCIL REGULATION (EEC) No 2408/92
of 23 July 1992
on access for Community air carriers to intra-
Community air routes**

- *Article 4*

1. (a) A Member State, following consultations with the other Member States concerned and after having informed the Commission and air carriers operating on the route, may impose a public service obligation in respect of scheduled air services to **an airport serving a peripheral or development region in its territory or on a thin route to any regional airport in its territory**, any such route being considered vital for the economic development of the region in which the airport is located, to the extent necessary to ensure on that route the adequate provision of scheduled air services satisfying fixed standards of continuity, regularity, capacity and pricing, which standards air carriers would not assume if they were solely considering their commercial interest.

The EU Commission's proposals

- *Article 16*

General principles for public service obligations

1. A Member State, following consultations with the other Member States concerned and after having informed the Commission and air carriers operating on the route, may impose a public service obligation in respect of scheduled air services to a **regional airport** servicing a peripheral or development region in its territory *or on a thin route to any regional airport on its territory*, any such route being considered vital for the economic development of the region in which the airport is located.

That obligation shall be imposed only to the extent necessary to ensure on that route the **adequate minimum** provision of scheduled air services satisfying fixed standards of continuity, regularity, *capacity and pricing* **or minimum capacity**, which standards air carriers would not assume if they were solely considering their commercial interest.

- **ANNEX II**

- Definition of regional airports for the purpose of Article 16**

- Are considered to be regional airports, all airports that fulfil at least one of the following criteria:

- (a) Annual traffic volume does not exceed 900000 passenger movements annually;
 - (b) Annual traffic volume does not exceed 50000 tonnes freight throughput annually;
 - (c) **The airport is located on an island of a Member State;**

The EU Parliament's position

following the Degutis Report (A6-0178/2007)

- paragraph 1, subparagraph 1

A Member State, following consultations with the other Member States concerned and after having informed the Commission and air carriers operating on the route, may impose a public service obligation in respect of scheduled air services **to a regional airport in its territory**, any such route being considered vital for the economic development of the region in which the airport is located. That obligation shall be imposed only to the extent necessary to ensure on that route the minimum provision of scheduled air services satisfying fixed standards of continuity, regularity, pricing or minimum capacity, which standards air carriers would not assume if they were solely considering their commercial interest.

A Member State, following consultations with the other Member States concerned and after having informed the Commission, the airports concerned and air carriers operating on the route, may impose a public service obligation in respect of scheduled air services **to an airport in its territory, any such route being considered vital for the economic and social development of the region which the airport serves**. That obligation shall be imposed only to the extent necessary to ensure on that route the minimum provision of scheduled air services satisfying fixed standards of continuity, regularity, pricing or minimum capacity, which standards air carriers would not assume if they were solely considering their commercial interest.

- **(Annex II is suppressed)**

PROPOSED CPMR AMENDMENT TO THE DEFINITION OF AIRPORTS ELIGIBLE FOR PSO FOR SCHEDULED AIR SERVICES

- Proposed amendment (instead of amendment 33 on article 16):
A Member State, following consultation with the other Member States concerned, and after having informed the Commission and air carriers operating on the route, may impose a public service obligation in respect of scheduled air services to an airport serving a peripheral or development region in its territory, if it can demonstrate that any such route is vital to meet the objectives of economic, social and territorial cohesion for the region serviced by the airport.

Airports located in islands and outermost regions, which are excluded from the benefit of road or rail services to the rest of Europe, are automatically considered as eligible for the imposition of public service obligation on their scheduled air services

II - The inclusion of Air Transport in the proposed CO₂ Emission Trading Scheme

- The EU is Committed to **reduce emissions of greenhouse gases by 30%** by 2020 compared to 1990 levels, provided that other developed countries make similar commitments (20% otherwise)
- **Direct emissions from aviation account for about 3%** of the EU's total greenhouse gas (GHG) emissions.
- EU **emissions from international aviation are increasing fast** – by 87% since 1990 – as air travel becomes cheaper without its environmental costs being addressed. For example, someone flying from London to New York and back generates roughly the same level of emissions as the average person in the EU does by heating their home for a whole year.

- The EU Emissions Trading Scheme, which started on 1 January 2005, currently covers only energy-intensive industrial installations – more than 10,000 of them across Europe, which are collectively responsible for nearly half of total EU CO₂ emissions. In future, air operators will also be covered. Like industrial installations, airlines will receive tradeable allowances to emit a certain level of CO₂ per year from their flights. After each year operators must surrender a number of allowances equal to their actual emissions in that year. The total number of allowances available to airlines in the future will be capped at the average level of emissions in the years 2004-2006.
- Aviation will be brought into the EU ETS in two steps. **From the start of 2011, emissions from all domestic and international flights between EU airports will be covered.** One year later, at the start of 2012, the scope will be expanded to cover emissions from all international flights – from or to anywhere in the world – that arrive at or depart from an EU airport.
- **The scheme will cover any aircraft operator, whether EU- or foreign-based,** operating international flights on routes to, from or between EU airports. **All airlines will thus be treated equally.**

- Including aviation in the EU emissions trading scheme will not directly affect or regulate air transport tickets. However, aircraft operators may have to invest in more efficient planes or buy emission allowances in the market in addition to those allocated to them. The associated costs per ticket are likely to be modest. **Assuming airlines fully pass on these extra costs to customers, by 2020 the ticket price for a return flight within the EU could rise by between €1.8 and €9.** Due to their higher environmental impact, long-haul trips could increase by somewhat more depending on the journey length – for example **a return flight to New York might cost an additional €8 to €40 depending on the market price for CO2 allowances.** However, ticket price increases are in any case expected to be significantly lower than the extra costs airlines have passed on to consumers due to world oil price rises in recent years.

- According to the different scenarios analysed, the **reduced growth in demand would vary from 0.1 to 2.1%, assuming CO2 allowance prices of €10-€30**
- Including aviation in the EU **ETS is projected to have only a marginal effect on airlines' profitability since they would be able to pass on most or all of the extra cost to customers.** Since all airlines will be treated equally, competition between them is not expected to be significantly affected. **Carriers travelling shorter distances, using older aircraft or carrying fewer passengers or less cargo would be affected to a greater extent than more fuel-efficient carriers.** Competition between airports and in the tourism sector is also not expected to be significantly affected since forecast demand growth remains high.

CPMR raises the issue with the Parliament

- P6_TA-PROV(2006)0296 Reducing the climate change impact of aviation European Parliament resolution on reducing the climate change impact of aviation (2005/2249(INI)):

“Asks that special attention be paid to the situation of the most isolated territories which are particularly dependent on air transport services, and especially to insular or outermost regions, where alternative solutions are limited, or do not exist;”

The EU Commission's Position

DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2003/87/EC so as to include aviation activities in the scheme for greenhouse gas emission allowance trading within the Community

« Special consideration to the treatment of air services to remote or isolated regions, which are particularly dependent on air transport services, **can best be given within the framework of existing measures such as public service obligations** and aid having a social character under Article 87(2) of the Treaty »

The Commission's thinking...

- *5.3.4. Impacts on remote and isolated regions*

The results for the **outermost (ultra-peripheral) regions (UPRs)** for the different geographical scope options, for allowance prices of €6 and €30 and for different assumptions about the share of allowances auctioned would vary, but could reach up to 80 million €. « **However, airlines flying to UPRs tend to operate commercial services. Therefore, these cost increases would be expected to be passed on to customers, to a large extent or even in full, with limited effects on demand.** »(!)

- The situation is different for **other disadvantaged regions and some UPR routes**, where airlines tend not to operate commercial services but are subsidised by Member States. The potential extra costs for maintaining existing air services known to be subject to public service obligations (PSOs) has been estimated, assuming that all additional costs would need to be paid by Member States. Apart from Italy, which has relatively-speaking more PSOs, only countries that have UPRs would risk having to spend more than €1 million per year to neutralise the effects on PSO routes.
- Finally, potential impacts on **flights serving airports located on islands have been assessed. In three Member States extra costs for these services could be just over €1 million per year, under the cheapest scenario, and more than €20 million per year, under the most expensive scenario.**

Conclusions

- No guarantee that carbon allowances will remain cheap. The higher the pressure to reduce CO₂, the more expensive they should become.
- EU Commission thinks that this may be compensated in islands by PSOs or social aids...
- ... but the proposed 3rd Air Package wants to delete the reference to islands, and to replace it with an imprecise reference to regions with social and economic difficulties!
- Not all island air routes have PSOs anyhow.
- Social aids can alleviate costs for residents only, and not for tourists.
- In the long run, this could have a severe impact on island residents and on the islands tourist industry