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European Emissions Trading Scheme Still Requires a Major Effort

An Editorial by Lufthansa Consulting

For most airlines flying to and from European destinations, the deadline for submitting the mandatory monitoring plans to their designated competent authority has already expired. Many airlines followed the call to hand in their monitoring plans by the respective deadline so as to benefit from the free allocation of CO2 certificates. In addition, they want to avoid sanctions from the EU, although so far no details of sanctions have been announced.

While ETS itself will officially start in 2012, the MRV (Monitoring, Reporting and Verification) cycle, as requested by the EU, will begin in 2010: Tonne-kilometres need to be monitored and reported in 2010, as they serve as the basis for the allocation of free emissions certificates in 2012. Emissions themselves need to be monitored and reported in 2010 and 2011 as a test run for 2012.

The scheme envisions airlines buying emissions permits to offset the emissions they release into the environment. One certificate must be obtained for each tonne of CO2 emitted. Although a percentage of these will be allocated for free via the EU, a significant amount will nevertheless need to be bought on the market.

Compliance with ETS requires significant administrative and procedural efforts

In their monitoring plans, airlines have to describe how they plan to monitor their tonne-kilometres as well as their annual emissions and how they intend to deal with risks, such as missing or unreliable data.

As in the ground sector, which participated in ETS since 2005, accredited verifiers have to approve airlines' annual emissions reports and thus implicitly the actual monitoring processes on which they are based, thereby ensuring that processes are not only described in the monitoring plans, but are actually implemented and working effectively.

While international organizations such as IATA and ICAO encouraged their members to submit their monitoring plans under protest, there currently appears to be no way around the European Emissions Trading Scheme. All airlines concerned must implement ETS by structuring their organization accordingly and allocating responsibilities for the obligatory data monitoring, reporting and verification processes.

Airlines that fail to create the necessary foundations risk not getting their tonne-kilometre or annual emissions report approved by a verifier, which could result in their not being allocated any free certificates and potentially additional EU fines of 100 euros for every tonne of CO2 emitted.

ETS poses many problems for participating airlines

The European Emissions Trading Scheme does not constitute a day-to-day problem for airlines but rather a challenge that reaches much further. In operational terms, an airline's main focus is on safety. All processes are geared to the safety and security requirements of the relevant authorities. Unfortunately, these requirements do not necessarily tally with the EU's requirements with regard to ETS. Lufthansa Consulting has witnessed many airlines complaining that ETS regulations encroach further upon existing, safety-related processes than previous EU regulations. ETS requires much more from single processes: more crosschecks and greater precision and detail. On top of that, ETS requires the participation of the complete process chain, which means that every department from strategy via finance up to operations needs to be involved. For many airlines, this represents a new challenge.

During its involvement in the preparation of monitoring plans for diverse airlines, Lufthansa Consulting noted that many airlines could not quite grasp the scale of the impact of ETS and therefore did not identify the right responsible staff to make the necessary preparations. The danger clearly is that although the monitoring plans are prepared nicely and accepted by the competent authority, the verifiers will not accept them.

The tonne-kilometre data, as well as the annual emissions data reported to the EU, have to be verified by an accredited verifier prior to being accepted by the EU. In order to prove their accuracy, the verifier will not only take a look at the monitoring plans themselves, but will actually examine whether the lived processes within the company are consistent with the ones detailed in the monitoring plans. Only then will the plans be approved.

In addition, the European Emissions Trading Scheme will have significant financial implications for airlines in the future. The costs cannot as yet be estimated precisely and will depend on how the price of emissions certificates, which will be influenced by legislative and market parameters, develops. Lufthansa Consulting's analysis shows that airlines will have to buy certificates to offset approximately 35 - 45% of their annual emissions in 2012. Large network carriers expect emissions costs to soar to the triple-digit million euro range in one year. Moreover, the introduction, preparation and execution of the processes needed for ETS will incur further administrative costs.

Future challenges

In order to minimize the negative effects ETS can have on single airlines, carriers need to start preparing for future challenges in good time.

Carriers will have to think about how to counter the additional costs. This might mean implementing an ETS surcharge or a completely new pricing strategy or launching marketing campaigns with a focus on additional green efforts. On the other hand, the concomitant costs should be included in the company's strategy and development planning. This would involve including ETS cost in route profitability calculations and profit forecasts. In addition, the existing network and fleet planning would need to be reviewed with regard to the ETS focus. In general, carriers will have to deal with the issue of fuel management in order to reduce their major cost block, which at the same time will have a direct impact on the amount of certificates they need to buy on the market.

Last but not least, airlines must deal with the question of how to obtain missing certificates and reduce the costs for the same. They need to know where they want to buy them, which kind of certificate they require and the financing strategy behind them.

In recent months, Lufthansa Consulting has successfully supported numerous airlines during their preparations for ETS. Their Emissions Trading Services help carriers to fulfil the requirements and implement them within the stipulated time. Several international airlines, particularly from Europe and Asia, and private aviation carriers have already sought assistance from the aviation consultants.

Working with its clients, Lufthansa Consulting has not only provided assistance with the design of ETS-compliant processes and thus with the generation of monitoring plans, but has also developed action plans to reduce fuel consumption and emissions and helped to create a comprehensive programme to reduce long-term costs. In Lufthansa Consulting's recent projects, the ETS compliance services provided have included process analysis and adaptation, an assessment of the financial impact of ETS on the company in question, the development and design of process flow charts with all the data verification mechanisms required to comply with ETS regulations and the subsequent completion of the annual emissions and tonne-kilometre monitoring plans.

If you require any further information about our Emissions Trading Services please contact: Aviation.Solutions@lhconsulting.com.

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