



CO₂ Newsletter

2010/04

Aviation Industries in the European CO₂ Emissions Trading Scheme 2012-2020:

- + How to optimize free allocation for Small Emitters
- + How to avoid the risk of losing free CO₂ Allowances for nine years for late comers
- + Check-List and overall Recommendations

Affected aviation operators have to submit verified CO₂- and tonne-kilometres (tkm) reports until March, 31st 2011 to their assigned Competent Authority (CA). Otherwise, the risk is very high that affected operators will **not receive free allocation for nine years until 2020**.

This GALLEHR+PARTNER CO₂ Newsletter gives information on important facts regarding the necessary reports and shows possible financial risks and recommended actions for operators who missed to participate in the ETS until now. It will also give hints regarding the Eurocontrol Small Emitters Tool allowed to estimate CO₂-emissions.

CO₂ and tkm reports

Until March, 31st 2011 ETS-affected aviation operators have to submit verified CO₂ and tkm reports to their Competent Authority. Among others, the following steps are necessary:

Preparation of the Reports

The reports have to be prepared according to your submitted and -hopefully- approved monitoring plans, which have to correspond with the amended EU monitoring guidelines.

Before verification, it is recommended to undertake a pre-audit of the results, eliminate possible errors and identify optimisation potentials.

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If you need competent support in preparing your reports or full service ETS-Support please do not hesitate [contacting](#) GALLEHR+PARTNER

Verification

Both reports have to be verified successfully by an accredited independent verification body before being submitting to the CA.

Recommendation:

If not done yet, you should select and mandate a verification body as soon as possible which is accredited by your assigned Competent Authority in order to reserve the necessary time for your verification.

You can ask your CA for a list of accredited verifiers or GALLEHR+PARTNER to support you in this.

After the reports are finished, the verifier will check if they have been prepared corresponding to the approved monitoring plans. In any case the verifier will have to visit your administrative office in order to check the reported data, relevant documentation, processes and software. For plausibility checks the verifier will also inspect detailed data for individually selected legs but usually not for each leg.

CA Communication requirements

Each CA can stipulate specific rules for the communication. The German CA DEHSt for example requires the reports to be filled in specific online forms and the verified reports will have to be sent to the CA via encrypted software "VPS". Personal Identification, Qualified Electronic Signature via German signature card and a compatible card reader are further obligatory requirements.

Recommendation:

Check now with your Competent Authority for specific reporting and communication requirements.

The Eurocontrol Tool

The Eurocontrol Tool is originally developed for closing CO₂ data gaps in case that some flight records are not available. Non-commercial operators emitting less than 10,000 t CO₂/a, so called Small Emitters, are permitted to use the Eurocontrol Tool for their entire emissions estimations if approved in the CO₂ monitoring plan.

Eurocontrol estimates unreasonable high.

GALLEHR+PARTNER intern calculations resulted in 20% higher CO₂ estimates in average by the Eurocontrol Tool compared to real measured values. It was said on a CA conference that the tool is calculating up to 160% higher CO₂ emissions for specific aircraft types.

The reason for these high over-estimations is that there are currently only just a few aircraft types considered. Eurocontrol is in a process of asking operators with aircraft types not considered so far to contact them directly at "ets.info@eurocontrol.int". Due to this process GALLEHR+PARTNER is pretty confident that Eurocontrol will be able to have the tool improved until 2012, when the financial impact of

CO₂ emission estimates starts to become relevant.

But nevertheless the principle of the EU-ETS in general is, that estimations have to be done conservatively. Due to this, using the Eurocontrol tool will most probably result in some 20% financial disadvantages anyway even if the tool becomes more accurate until 2012.

Small Emitters Example: 500k\$ losses

Taking a standard Small Emitter with annual CO₂ emissions of 8,000 tonnes as an example, even a reasonable over estimation of 20% could have easily an overall financial impact of at least USD 478,000¹ until 2020 under conservative estimations.

Recommendation:

Due to the risk of serious financial losses, GALLEHR+PARTNER recommends even for Small Emitters to use the more accurate standard methodology A or B instead of the Eurocontrol Tool to calculate the annual CO₂-emissions.

To change the methodology for calculation, the CO₂ monitoring plan needs to be changed and re-approved by the CA. Due to the fact, that the calculation with the standard methodology will be more accurate than the simplified Eurocontrol Tool estimations, this approval should easily to be achieved.

Even if this change of the monitoring plan can be done at every time, GALLEHR+PARTNER recommends changing the monitoring plan in 2011 with the effective start of the methodology on January, 1st 2012.

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If you need robust and approvable monitoring plans or general business orientated ETS strategy advise, please do not hesitate [contacting](#) us.

Late Entry Strategy/Possible Penalties

Nearly all corporate operators in the aviation sector globally have already checked and fulfilled their ETS obligations. They are very much aware of the competitive advantage and the financial

¹ EUAA@25 EUR Ø '12 to '20, USD/EUR = 1,328

impact of the EU Emissions Trading Scheme as such and specifically of the huge impact of the current and future obligations.

But nevertheless there are still many small aviation operators worldwide -especially non-commercial ones- which did not yet undertake the necessary actions even if affected by the EU-ETS rules and laws.

Secure free allocation for nine years by acting now

To secure your free allocation until 2020, it is absolutely necessary to report your verified 2010 tkm and CO₂ emissions following your CA approved Monitoring Plans by March 31st 2011 at latest.

Taking the example of a Small Emitter with annual CO₂ Emissions of 8,000t, the overall financial losses by not submitting appropriate documents will result in USD 2.4 Mio².

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If you [contact](#) us immediately, there is a very good chance for GALLEHR+PARTNER to tie up a specific emergency package for you **to get access to free allocation even if you have not done anything so far.**

Financial penalties in addition of losing free allocation

Be aware that non-commercial operators are even **affected** by the EU-ETS with **only one single flight** to, from or within the EU territory as well as Iceland, Norway and Liechtenstein. Commercial operators are affected if they are exceeding specific limits (see also our CO₂ Newsletter 04/2009³)!

There are financial penalties for those operators not fulfilling their obligations, currently for not submitting CO₂ monitoring plans and CO₂ emission reports. The penalty varies between the member states, in Germany it could amount up to some 60,000 USD.

Not submitting a tkm-report until March 31st 2011 will not be penalised directly. But as stated

² EUAA@25 EUR Ø '12 to '20, USD/EUR = 1,328

³ See also [GALLEHR+PARTNER CO₂ Newsletter 2009-04](#)

before, those operators will not get free allocation of CO₂ emission rights for 9 years until 2020. This would be an indirect but even higher penalty for most of the operators.

From 2012 on, not reporting the annual CO₂ emissions and to surrender the corresponding emission rights to the CA will be penalized additional. If you miss to report and surrender until this strict deadline, the current legislation allows member states to impose a direct penalty of 100 EUR/t CO₂.

As an example taking a very small operator with annual CO₂ emissions of only 500t this means an additional financial penalty of approximately USD 66,000 per year on top of the obligation to submit emissions rights of a value of at least some USD 16,000!

Check List for March 31st 2011

This GALLEHR+PARTNER check list shows you what has to be ready and prepared until end of March 2011. Please be aware of the fact, that even if data is available, almost all tasks need a lot more than only some days to prepare.

- ✓ Monitoring Plans approved by your CA
- ✓ Independent Verification Body mandated
- ✓ Tkm report optimized
- ✓ Reports generated and verified
- ✓ Identification and Communication Requirements with CA implemented and checked
- ✓ Reports sent to your assigned CA until March 31st 2011

Overall Recommendations

In this chapter, GALLEHR+PARTNER compiled some of the most important recommendations for successful preparation.

General recommendations

- + **CA approved Monitoring plan is confirmed:**
If the monitoring plans are approved by your CA, you are allowed to report against them in any case. E.g. if you wrote in the approved tkm plan that you will obtain the Great Circle Distance (GCD) data by your own specified source then this source has to be accepted by the verifier.

- + **Consider additional Countries⁴**
Flights to, from or within Iceland, Norway and Liechtenstein have to be considered as well.
- + **Leave exempted legs out⁵**
Exempted legs should not be reported, CRCO codes in the flight plan are only hints for exemptions.
- + **Check appropriate unit conversion**
Remember correct unit conversion e.g. nm into km and lbs into metric tonnes.
- + **Check your special CA communication requirements**
There are special identification and communication requirements for each CA. If you will not be prepared to communicate in the appropriate way including all needed certificates, you will risk free allocation and additional penalties.

Special recommendations for the tkm-report

- + **Optimise your tkm for 2010**
More tkm approved for 2010 means higher free allocation for each of the nine years from 2012 until 2020. The tkm-report for 2010 has the most important financial impact for your organisation. The 2010 approved tkm will be the **only basis for your free allocation of emission rights for nine years until 2020.**
- + **Add 95 km per leg to the GCD**
On top of the GCD determined according to WGS84 you have to add 95 km per leg as basis for your tkm calculations.
- + **No estimated legs in tkm report allowed**
In most of the EU member states there is no possibility to estimate the tkm conservatively as can be done in the CO₂-report. → Insufficient data for a leg means no tkm for this leg.
- + **GCD only by WGS84 rules**
Even for Small Emitters the GCD for each leg has to be obtained following the WGS84 rules; therefore aviation operators without appropriate software or data sources should arrange for appropriate data source or competent service.
- + **Submit Reports meeting the Strict Deadline**
In most of the Member States the tkm-report will be the formal application for free

allowances. Make sure to submit it in time.

Special recommendations CO₂ -report

- + **No financial impact of CO₂ reports '10 and '11**
The CO₂-reports 2010 and 2011 are mostly for test purposes. Under normal circumstances the amount of CO₂-emissions in these reports do not have financial implications for your organisation. Financial implications of CO₂-reports will start from 2012 onwards.
- + **Eurocontrol tool for Small Emitters**
Small emitters with approved simplified procedures can use the Eurocontrol tool to estimate the fuel consumption. Be aware of the fact that this tool is overestimating.

Summary

Being prepared for March 31st 2011 will maybe be the most important milestone for each aviation operator regarding the entire EU-ETS consequences. Reporting your verified CO₂ Emissions and your tonne-kilometers of 2010 following your approved monitoring plans and the compulsory processes will be the only way to secure free allocation of EUAA for the entire nine years of Emissions Trading.

Even if reporting is not rocket science, especially for Small Emitters, you have to take your obligations seriously and you should set up competent processes to avoid competitive disadvantage and penalties.

GALLEHR+PARTNER collected extensive experience as full service provider in excellence for Emissions Trading and Risk Management since 2003 and helped small, medium and large operators to gain significant additional profits or avoid financial losses.

If you have any questions regarding the Aviation EU-ETS, we are the right partner for you.

⁴ See [Annex 1 of DIRECTIVE 2009/29/EC and Commission](#)

⁵ See [Decision of 8 June 2009](#)

Further Information

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▶ **GALLEHR+PARTNER: The leading Navigator and Full Service Provider for CO₂ Emissions-Administration, -Management and -Trading since 2003**

Aviation Operators

Stationary Industries

Energy Utilities

Selected GALLEHR+PARTNER References in the Aviation Sector