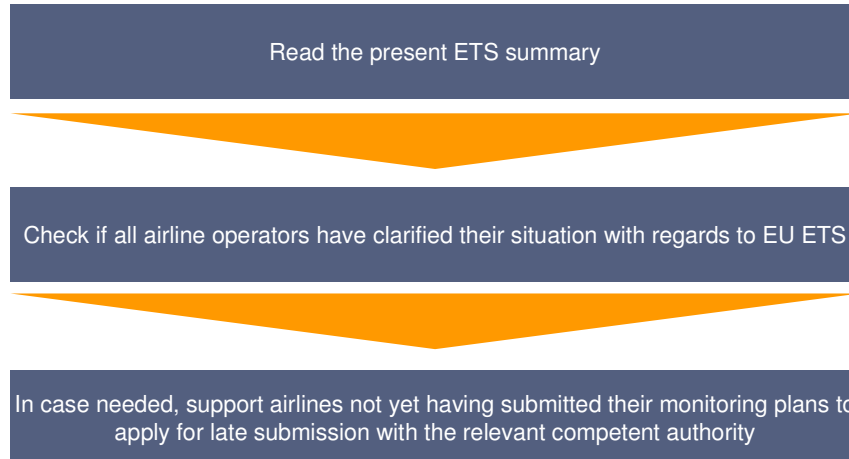




Basic EU ETS Information

1. Tasks recommended to be performed by CAA following the TRACECA ETS Seminar:



2. What is ETS?

The European Emissions Trading Scheme is a measure taken by the EU to incentivise the reduction of CO₂ emissions by allowing a certain amount to be produced per year and obliging to cover extra CO₂ emissions by the acquisition of emission certificates (1 certificate for 1 tonne of CO₂ produced).

This scheme is already implemented in ground sectors such as energy production or high energy consuming industries such as cement, iron & steel, pulp & paper or mineral oil refining.

In January 2009, directive 2008/101/EC was published to include the aviation sector into EU ETS from 2012 onwards. In order to participate, airlines have to monitor and report Annual Emissions and Tonne Km data regularly from 2010 onwards.



3. Flights Covered:

The EU ETS covers all flights to and from EU airports from 2012 onwards.

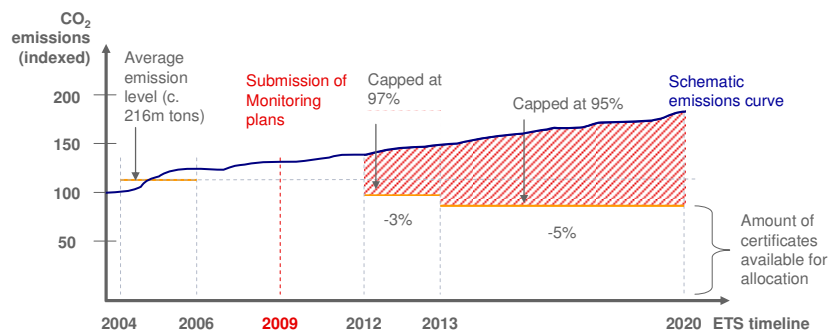
Some exceptions are related to the aircraft size, the frequency of flights, the total CO₂ emissions produced and the type of flights and depend on the definition of each Member State:

- Commercial operators with less than 243 flights in each of 3 consecutive 4 months periods or with total yearly emissions of less than 10,000 tons are exempt from the European emissions trading scheme
- Flights performed by aircraft with a certified maximum take-off weight of less than 5.700 kg are not subject to EU ETS
- Special flights such as e.g. government flights, military flights, search and rescue, firefighting, humanitarian and medical service flights, etc.

4. Emission Cap:

In order to define the EUA Allowance for each aircraft operator, an emissions cap is set based on historical emissions:

- Baseline = average annual emissions of all flights to and from EU airports in 2004-2006. The final figure has not yet been officially announced by the EU but is expected to amount to around 216m tonnes of CO₂
- Cap in 2012 = 97% of baseline
- Cap for 2013-2020 period = 95% of baseline





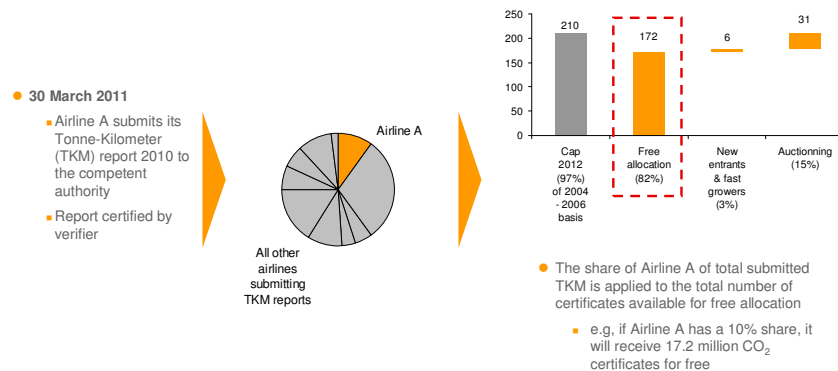
5. Allowance:

The EUA Allowance, 82% of the cap, is divided amongst the aircraft operators who have submitted their monitoring plans in relation to the relative weight of submitted tonne-km for 2010. This EUA Allowance is provided free of charge to the aircraft operators.

3% are reserved for new entrants and fast growing airlines and 15% will be auctioned by the EU.

In addition to the freely allocated EUA Allowance,

- Operators emitting more than their free allocation can buy CO2 certificates (EUA, EUAA, CER) on the open market
- Those emitting less can sell excess allowances



Example by Lufthansa Consulting

6. Application for free Allowances:

Aircraft operators who wish to apply for free allowances are required to submit a monitoring plan for annual emissions and tonne-km. This monitoring plan is required to outline how tonne-km data and emissions data are obtained, processed, registered and monitored. The structure of these monitoring plans is pre-determined by the templates published by the competent authorities. Originally, the deadline for submission was fixed for 31st August 2009, however some member states have delayed the deadline, such as:

- Bulgaria (13th Oct 09)
- Germany (20th Oct 09)
- Greece (30th Sep 09)
- Hungary (To be defined)
- Italy (30th Sep 09)
- Latvia (31st Oct 09)
- Slovenia (Dec 09)
- Sweden (15th Oct 09)
- UK (12th Nov. 09)

7. Monitoring Plans:

It is in the interest of the aircraft operator to have adequate and detailed monitoring plans to ensure compliance with EU ETS requirements. Furthermore, the monitoring plans are the reference for





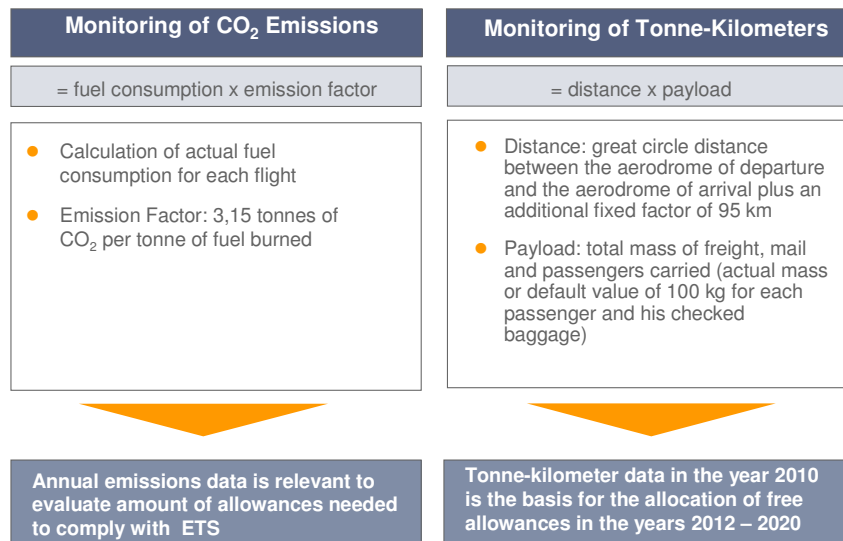
supervision by the competent authorities and for assessing whether aircraft operators are monitoring their annual emissions and tonne-km data in accordance with the requirements of the legislation and regulations on emission trading. Moreover, the verifier has to use the monitoring plans as reference point for verifying the annual emissions report and the tonne-km report. The monitoring plan is thus the translation of the general requirements on monitoring and quality assurance which the aircraft operators are required to implement. The monitoring plans contain references to underlying procedures that should ensure that the reported data is complete, accurate and in line with all relevant provisions of the Monitoring and Reporting Guidelines (MRG)

8. Annual Emissions and Tonne-Km reports:

The Annual Emissions report has to be submitted every year in order to determine the amount of CO2 certificates that have to be surrendered.

The Tonne-Km report has to be submitted once for 2010 in order to determine the allocation of free allowances

For both types of reports, the Member States have prepared templates to fill out.



Source: Amendment of Directive 2003/87/EC, Annex Part B

9. Administration:

All aircraft operators falling within the scope of EU ETS are assigned an “administering Member State”. This Member State’s national law will apply, and obligations arising from the scheme (e.g. to report annual emissions or surrender allowances) will be towards this state.

- For EU operator = licensing Member State
- For non-EU operator = Member State with greatest estimated emissions in base year





10. Verification:

A verifier has to verify the emissions report and tonne-km report according to the Monitoring and Reporting Guidelines by the EU. At the end of the verification process, the verifier comes to a verification opinion that states with reasonable assurance whether the reports are free from material misstatements and there are no material non-conformities. If that is the case, the reports are satisfactory. The findings, verification methodology and verification opinion are submitted by the verifier in the verification report which is sent to the aircraft operator. By the 31st of March of the year following the reporting year, the aircraft operator will submit the emissions reports together with the corresponding verification report to the competent authority.

Note that it is in the aircraft operator's responsibility to commission an accredited verifier to verify the emissions and tonne-km reports.

11. Further information relating to EU ETS:

- http://ec.europa.eu/environment/climat/aviation_en.htm
- Guidance for the Aviation Industry – Monitoring and Reporting Annual Emissions and Tonne-km Data for EU Emissions Trading (To be found on above website)

12. Glossary of Emissions Trading

Explaining the terminology and political milestones of International Emissions Trading

Aircraft operator

Person who operates an aircraft at the time it performs an aviation activity or, where that person is not known or is not identified by the owner of the aircraft, the owner of the aircraft.

Allocation

Allocation of emissions allowances.

Attributed aviation emissions

Emissions from all flights falling within the aviation activities, which depart from an airport situated in the territory of a Member State and those which arrive in such an airport from a third country.

Auction

Auction (complete or partial) of the emissions allowances initially allocated. In 2012 the auction rate will be 15%.

Banking

The possibility of carrying over emissions allowances from one compliance period to the following period is known as banking. Banking is most worthwhile if increased prices for emissions allowances are expected, or to hedge against future price changes.



Benchmark for allocation

97% of the CO₂ emissions from the basic years 2004 to 2006 are allocated as emission rights to the airline industry

Borrowing

The possibility of preterm usage of emission allowances. Emission allowances of prospective allocation periods are used already to cover emissions in the present. Borrowing is the opposite of banking. Borrowing is only allowed between the years of one allocation period and not between the allocation periods.

Cap

Upper CO₂ emissions limit at the national level and target for all macro-sectors (energy production, industry, trade, commerce and services, transport and households) and particularly for what is known as the emissions trading segment, that is the parts of industry that participate in emissions trading in accordance with the guideline.

Clean Development Mechanism (CDM)

The opportunity for countries or companies to acquire Certified Emission Reductions (CER) that can be used to meet their own commitments by investing in projects in developing and newly industrializing countries.

Emissions allowance

Permission to emit one ton of CO₂ in a specified period of time.

Emissions report

Based on the monitoring guidelines and the submitted monitoring plan, each aircraft operator has to monitor its emissions and submit an emission report at the 1st of March to its competent authority covering the emissions data of the previous year. This emission report has to be verified by an independent, accredited verifier before being submitted to its competent authority.

Emissions trading (ET)

A market-based approach to achieving the environmental protection goals defined by the Kyoto Protocol. This approach allows countries that reduce their greenhouse gas emissions further than required to trade their excess certificates to offset emissions from other sources within or outside the country. Trading can take place at national or international level, or between companies.

EU Allowances (EUA)

Emissions certificates as defined by the European emissions trading system. They are only traded by participants in the EU emissions trading system. Installation operators can use EUAs to fulfill their obligation to surrender emissions allowances.

Flexible mechanisms

The Kyoto Protocol makes provision for three instruments that provide flexibility to its signatories in implementing their reduction goals: emissions trading, Joint Implementation (projects carried out jointly by industrial countries) and the Clean Development Mechanism. The underlying philosophy of all three flexible mechanisms is that countries can make some of the reductions to which they have committed themselves outside their own country.



Joint Implementation (JI)

The opportunity for countries or companies with projects in other countries which have signed the Kyoto Protocol to acquire Emission Reduction Units (ERUs) that can be offset against their own commitments.

Kyoto Protocol

The 1997 Kyoto Protocol commits the 39 participating industrial nations as a whole to a five-percent reduction from 1990 levels in their emissions of gases damaging to the climate, such as carbon dioxide, by 2012. It came into force on February 16, 2005. The European Union must thus reduce its average emissions between the years 2008 and 2012 by eight percent compared to the level in 1990. To achieve this goal, the member states are working separately in some areas and together in others. The most important climate protection measure is currently the establishment of the European emissions trading system for companies.

Monitoring

Method of monitoring and calculation of CO₂ emissions. The monitoring and calculation of CO₂ emissions in addition to the yearly emissions reports are the main components of the emission trading scheme. The monitored emissions of an airline operator for the subsiding calendar year are the basis for the hand over of emissions allowances to the competent authority.

