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Insight: U.S., China turned EU powers against airline pollution law

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BRUSSELS/WASHINGTON (Reuters) - The European Union's landmark effort to charge foreign airlines for carbon emitted on flights in and out of Europe was already failing by the time French President Francois Hollande shared his deep concerns with the European Commission chief in October.

Smoke billows from a power plant as an aircraft flies by in Qingdao, Shandong province, January 12, 2008. REUTERS/Stringer

The U.S. aviation industry had mustered fierce political opposition, China was threatening to withhold aircraft orders from Airbus and the most influential European nations feared retaliation against their national carriers. Chinese and Indian airlines refused to submit emissions data; U.S. lawmakers were readying a law that could make it illegal to pay the tariff.

Ultimately it came down to an economy-versus-environment debate, with issues of national sovereignty and freedom of the skies also playing a decisive role in grounding the effort for now, to the relief of global carriers and airplane makers whose businesses stood to lose out.

Direct pressure from the EU's three most powerful members, and France in particular, forced an abrupt one-year postponement of one of the most contentious efforts to curb global greenhouse gas emissions since the 1997 Kyoto Protocol, according to European sources familiar with the negotiations.

Hollande, nervous about the possible job losses at major French and European employer Airbus, raised the issue with EC President Jose Manuel Barroso at a meeting in Brussels in October, one of dozens of such encounters focused mainly on taming the debt crisis, one of the sources said.

Barroso decided the EC needed to make its move before the United States finalized a law that would formally shield its airlines from complying “so as not to be seen to be pushed,” said the source, who asked not to be named because of the sensitivity of the disclosures.

Weeks later, on November 12, EU Climate Commissioner Connie Hedegaard told a hastily convened news conference that she was “stopping the clock” for a year before enforcing the law, a painful about-face on a signature initiative that has become the latest example of how difficult it remains to tackle climate change globally.

“Hedegaard was under extreme pressure,” one senior EU official said. Another source said Britain, France and Germany were pushing to abandon the inclusion of aviation altogether. Hedegaard held out for a freeze with automatic reimposition of the law if no progress were made at the International Civil Aviation Organization (ICAO), the United Nations’ aviation body.

“(Hedegaard) fought very, very hard for a year-long freeze,” said the source. “Barroso backed her.”

The delay took both environmental campaigners and industry by surprise, although pressure had been building steadily for months, even as the EC steadfastly defended the law.

A day after Hedegaard’s news conference, the U.S. Congress approved the EU Emissions Trading Scheme Prohibition Act, which can be used to shelter U.S. airlines from compliance with the EU law. U.S. President Barack Obama signed the act on November 27.

Less than two weeks later, Chinese carrier China Eastern Airlines announced plans to

buy 60 Airbus aircraft, a reversal of its earlier threats to withhold orders from Airbus because of the EU law. Fellow carrier China Southern ordered a further 10 Airbus aircraft last week.

China buys more than one in five Airbus planes currently being produced, according to the European aircraft maker.

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MORE TIME TO WORK

Hedegaard gives a different reason for the delay. She says that an ICAO meeting earlier in November had made good progress toward a global framework to address aviation sector emissions, and she wanted to give it more time.

Asked about the lobbying effort, Hedegaard declined to comment but told Reuters she had the support of Britain, France and Germany for the freeze, meaning it would almost certainly be endorsed by member states.

Commission spokesman Isaac Valero-Ladron declined to comment on any lobbying by member states, citing the ICAO progress.

The European Union has long taken the lead on tackling climate change with ambitious carbon-cutting goals. Its Emissions Trading System (ETS) was designed to be the cornerstone of its climate-change policy, and it has led the way in saying it will sign up for a second Kyoto period.

But its efforts have run into the counter-force of economic pressure in difficult times. The European Commission and environmental groups had argued that including the global aviation sector under the EU ETS was justified because airlines do not face any emissions regulation. Adding on an extra one or two euros per passenger per flight seemed entirely reasonable.

To opponents, however, charging all airlines for emissions generated in international airspace just because they were using EU airports was a major breach of national sovereignty.

EU AIRLINES URGE COMPROMISE

Long before Hollande's meeting with Barroso, nervous EU airline chiefs, including from French carrier Air France-KLM and Germany's Lufthansa, and top brass at Airbus wrote to the prime ministers of Britain, France, Germany and Spain, warning of the risk of jobs losses because of canceled orders and other potential retaliation.

"The aim must be to find a compromise solution and to have these punitive trade measures stopped before it is too late," the CEOs wrote in a letter in March.

Airbus, part of aerospace group EADS, said early this year that China had been holding back on deals to buy passenger jets worth at least \$12 billion. That forced the company to delay part of a planned production increase that would have generated an extra 1,000 jobs, it said.

Airbus employs about 55,000 workers, most in Europe. Beyond those directly employed are tens of thousands of workers whose employment is indirectly linked to Airbus.

Still, Hedegaard insisted publicly and privately that the only way the EU would back down would be the creation of an alternative global scheme, and that individual nations could be exempt if they introduced their own plans for cutting aviation emissions.



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For example, in a letter to Indian Civil Aviation Minister Ajit Singh on March 30, Hedegaard said the commission could meet half-way provided “India itself undertook comparable action” to tackle emissions.

Around the same time, before Hollande’s election in May, then French Prime Minister Francois Fillon wrote to Barroso urging a resolution, saying the European Union must “make all the necessary efforts” to find a solution acceptable to countries outside the region.

Only months later would other EU members begin to express their reluctance, according to an EU official close to the debate.

Some countries began to realize that their own agencies, not the EC, would be responsible for collecting fees from and imposing penalties on hostile non-EU airlines that have threatened to retaliate. Under EU law, penalties start at 100 euros (\$130) per ton of carbon.

U.S. AIRLINE LOBBY EFFORT

While China pressed from the east, U.S. politicians pressed from the west, with the powerful airline lobby joining forces in the name of protecting the sovereignty of U.S. airspace.

Florida Republican Congressman John Mica, who co-authored the House version of a bill blocking U.S. airlines from the EU ETS with Democratic Senator Claire McCaskill of Missouri and Republican Senator John Thune of South Dakota, says U.S. lawmakers made several direct appeals to their European counterparts to back down.

“We knew there was opposition from other countries. We met with the EU and also the folks we considered our allies,” Mica told Reuters in an interview.

Airlines for America (A4A), a lobbying group, spent more than two years convincing the Obama administration and Congress to oppose the EU scheme. It has spent over \$4.3 million so far this year to influence the blocking bill and other industry issues, according to lobbying tracking website Open Secrets.

The group is now taking advantage of its success to lobby for a national overhaul of U.S. airline regulations and taxes.

“This issue has really united unions, corporations and the industry in a new way, and the airlines absolutely want to build on that as we move into a national airline policy,” said Sean Kennedy, senior vice president for global government affairs at A4A.

PRESSURE ON ICAO

The way forward for the law after the one-year moratorium looks uncertain.

The dominant influence of Britain, France and Germany within Europe could make it difficult to restart the clock, although Hedegaard insists it would start automatically if ICAO fails to deliver.

Mica said the U.S. law was necessary because he is skeptical ICAO can deliver. More than a decade of fruitless debate at the ICAO was what led the EU to impose its aviation law in the first place.

More than a year of high international tension has galvanized the slow-moving U.N. body, which requires the approval of all 190 members to seal any deal. Its first meeting of high-level diplomats, which takes place in Montreal this week, is charged with devising a framework and will be closely watched.

“The United States and its coalition of unwilling surrogates blamed Europe and said an ICAO global agreement was the only way,” said Bill Hemmings, program manager at campaign group Transport & Environment, an environmental campaign group. “Well now’s the time for this coalition to deliver the goods in ICAO.”

(\$1 = 0.7705 euros)

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