

Analysis and suggested amendments to the European Commission's proposal for the aviation EU ETS revision

Summary

The European Commission's proposed revision of the EU ETS for aviation, and implementation of CORSIA, lays out the groundwork for the welcome phase out of free allocation, but fails to uphold, let alone strengthen, carbon pricing for the aviation sector by prioritising the risky and ineffective implementation of CORSIA over a full-scope inclusion of flights under the EU ETS.

As highlighted in the impact assessment, the impact on prices from the proposed measures will be very limited, and carbon costs are largely passed-on to consumers. On the other hand, ending free allocation of allowances could generate significant revenues, especially when it is combined with the full scope coverage of the EU ETS. The phase out of free allocation should therefore be more rapid than proposed, and result in full auctioning of allowances from entry into force of the regulation, rather than from 2027.

The proposed CORSIA implementation option is insufficient and de facto constitutes backsliding against the current level of ambition. The full scope option with EU ETS coverage of all incoming and outgoing flights should be favored instead. At a minimum, alternative options should be considered to ensure that the very large share of emissions from flights to and from the EEA which will not be offset under CORSIA are priced under the EU ETS (or UK/Swiss ETS). The provision to apply the EU ETS to flights to and from countries which do not adopt CORSIA by 2027 is welcome, but is not sufficient as it still leaves the door open for CORSIA to replace the EU ETS.

Free allocation

Carbon Market Watch welcomes the proposal to phase out free allocation. The impact assessment published alongside the Commission proposal has confirmed previous impact assessments which found a very limited risk of carbon leakage in the aviation sector, and a variable but often substantial rate of cost pass-through.

The explanatory memorandum accompanying the proposal clearly notes that an immediate phase out of free allocation would be preferable: "*The comparison of the analysed options shows a strong case for moving to full auctioning from the date of entry into force of the revised legislation.*" (p.7). Such an immediate shift to full auctioning is therefore preferable. It remains unclear why a progressive phase-out, ending in 2027, was preferred to an immediate end to free allocation. In fact, the impact assessment specifies that full auctioning is the preferred option, and that the "*rate of phase out [...] is subject to political decision*" (p. 92).

The risk of carbon leakage in the aviation sector remains highly theoretical. For example, while airlines could relocate their connecting flights to hubs outside of the EU if carbon costs were too significant, changing hubs is very costly. It is therefore not an attractive option under moderate carbon prices (as noted in the impact assessment, p.54).

The ICF study which served as a basis for the impact assessment found that there is overall a low risk of leakage due to higher auctioning share, and that carbon costs remain within the range of fuel cost variations.

At the same time, full auctioning is also a fairer approach to climate policy, as it implements the polluter pays principle. Given the unequal access to air travel around the world and within the EU, pricing carbon from aviation is socially progressive. Therefore, better reflecting the polluter pays principle by requiring airlines to pay for their emissions would be beneficial for society by both reducing negative externalities and reducing inequality.

ETS scope and CORSIA implementation

The proposed implementation option for the ETS amounts to backsliding compared to the current EU ETS rules, which goes against both the EU's green deal agenda, and the Paris Agreement.

Contrary to what the Commission proposal claims, implementing the EU ETS only on intra EEA flights, and covering flights to and from the EEA through CORSIA does not maintain the current level of ambition. The current level of ambition is that, from 2024, the EU ETS will apply to the full scope of aviation emissions, as specified in the "stop the clock" regulation. The impact assessment clearly shows that emissions are lowest when the ETS is applied, as opposed to CORSIA. Other independent analysis have also highlighted the lack of ambition from CORSIA, such as the Climate Action Tracker which rated the international aviation sector's climate target as "critically insufficient", its lowest rating. The current proposal would therefore lead to higher levels of emissions compared to the planned ratchet of the EU ETS from 2024. This goes against the preference of the 91% of respondents from the public consultation who stated that the aviation sector should contribute more to the fight against climate change.

Furthermore, the EU only recently decided not to rely on international carbon credits to meet its NDC target, and allowing airlines to use such credits to comply with CORSIA undermines this progressive decision. In fact, the EU has adopted an economy-wide target, as the Paris Agreement requires from developed countries. This must include emissions from air transport, including flights to and/or from the EU, which was the case in the EU's first NDC. No longer including such flights in the updated NDC would constitute backsliding, and using international credits to offset these emissions would be contrary to the EU objective.

Carbon costs and public revenues

The carbon costs associated with CORSIA are virtually zero, and even those costs associated with full scope ETS are very limited. Under the highest price scenario in the impact assessment, the full scope ETS option would increase the price of the average extra-EEA flight by 6€, on a 300€ ticket (p.50). As stated in the impact assessment: "*The EU ETS price signal is 6 to 31 times higher, depending on the scenario, than any price signal that airlines would pay under CORSIA. The policy options where EU ETS coverage is wider provide a stronger price signal for airlines.*" (p.75). Implementing the EU ETS would therefore yield greater benefits than CORSIA when it comes to setting a fair price on emissions from aviation.

However, given the large volume of flights, even this negligible increase in ticket price would have the potential to raise significant public revenue. The full-scope ETS option is the one which yields the highest benefits for EU27 employment and value added (p.57), although these benefits are limited in all options. Under a full auctioning scenario, auctioning revenues for the full scope ETS option are nearly six times higher than for options which implement CORSIA on flights to and from the EU. These range from approx. €7 billion for options where the ETS is only applied intra-EEA to approx. €41 billion when all flights are included under the ETS, over the 2023-2030 period (impact assessment, p.58).

CORSIA: uncertain participation and ineffective implementation

Banking on future CORSIA participation by large countries such as China, Brazil, India or Russia is an approach full of risks. First, because there is no guarantee that these countries will indeed participate, especially given that some, such as China, have publicly criticised CORSIA and have not shown strong interest in implementing the system. Even with high participation, the share of international emissions covered by CORSIA is low, and does not constitute a breakthrough in regulating international aviation emissions at a global level. Annex 10 of the impact assessment states “*Latest modelling has shown that CORSIA could mitigate 0.4% of international aviation emissions in 2025 through offsetting (and biofuels) under full participation scenario on eligible routes, 4.6% in 2030 and 9.7% in 2035. Looking at total aviation emissions (including domestic aviation), these shares would range between 0.3% in 2025 and 6.3% in 2035.*” (p.181).

Second, the nature of CORSIA, which relies on offsetting, leads to achieved “mitigation” outcomes which are far more uncertain than those achieved under the EU ETS. Under the ETS, allowances used by airlines directly offset emissions in other ETS-covered sectors (bar a small share absorbed by the MSR) and a cap on the total amount of available allowances applies. On the other hand, credits under CORSIA are used to compensate for growth in emissions, and at risk of failing to have sufficient environmental integrity.

Furthermore, as noted on page 80 of the impact assessment, the EU ETS has successfully avoided competitive distortions because it applies to all carriers operating a given flight (covered by the ETS). CORSIA, on the other hand, will only avoid distortions if it is implemented by all States. Implementing CORSIA on international flights at the expense of the EU ETS is therefore not only detrimental for the climate, but also creates added complexity and uncertainty with respect to equal treatment for all carriers.

Therefore, the provision to cover in- and outbound flights under the ETS from 2027 if these flights are not covered by CORSIA, is a welcome step. But it does not go far enough, as the EU ETS should be the default system in force, instead of a safety valve which is only triggered when CORSIA is not applied.

Proposed amendments to the Commission proposal

We suggest two main amendments to the Commission proposal:

First amendment under article 1, to ensure full auctioning by 2024 instead of 2027:

“(2) Article 3d is amended as follows:

(a) paragraph 1 is replaced by the following:

~~‘1. In 2024, 25% of the quantity of allowances in respect of which free allocation would have taken place as published in accordance with Article 3c shall be auctioned.’~~

(b) the following paragraph 1a, 1b, 1c and 1d are added:

~~‘1a. In 2025, 50% of the quantity of allowances in respect of which free allocation would have taken place in that year, calculated from the publication in accordance with Article 3c shall be auctioned.~~

~~1b. In 2026, 75% of the quantity of allowances in respect of which free allocation would have taken place in that year, calculated from the publication in accordance with Article 3c shall be auctioned.~~

1c. As from 1 January 2027~~4~~, all of the quantity of allowances in respect of which free allocation would have taken place in that year shall be auctioned.’

~~1.d. Allowances which are allocated for free shall be allocated to aircraft operators proportionately to their share of verified emissions from aviation activities reported in 2023. This calculation shall also take into account verified emissions from aviation activities reported in respect of flights that are only covered by the EU ETS from 1 January 2023.’~~

Second amendment under article 1, to ensure full scope coverage of the EU ETS:

“(5) Article 11a is amended as follows:

(a) paragraphs 1 to 3 are replaced by the following:

‘1. Subject to paragraphs 2 and 3 of this Article, aircraft operators that hold an air operator certificate issued by a Member State or is registered in a Member State, including in the outermost regions, dependencies and territories of that Member State shall, **on a voluntary basis**, be able to use the following units to comply with their **CORSIA** obligations, **in addition to surrendering allowances to comply with their ETS obligations**, as laid down in Article 12 in respect of emissions from flights to and from countries that are listed in the implementing act adopted pursuant to Article 25a(3):

[...]”