AIRLINES FOR EUROPE

POSITION PAPER
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The Fit for 55 Package: Summary of the positions of Airlines for Europe (A4E)

The objective of this paper is to provide a brief overview of the positions that Airlines for Europe (A4E) is taking on the Fit for 55 (FF55) package. A4E has prepared detailed papers for nearly all of the FF55 proposals, providing further analysis of specific measures we support, challenges the industry is facing with certain clauses, and suggestions for how these issues could be overcome. Naturally, not all of this can be replicated in this summary format.

1. Decarbonising European aviation

The aviation sector provides numerous benefits to society. Air travel is the world's most rapid transport network. Its cargo and passenger operations are essential for trade, business, tourism, and economic growth in Europe and the world. Aviation connects people and remote regions and has made it possible for practically any EU citizen to lead their private and professional lives anywhere across the continent.

Prior to the Covid-19 pandemic, aviation accounted for 2% of global emissions. A4E is committed to reach net-zero CO2 emissions by 2050 and to significantly contribute to the EU's 2030 decarbonisation targets, in addition. A4E is already working towards these ambitious objectives. Our "Destination 2050: A route to net-zero European aviation" independent report lays out the roadmap for Europe's aviation ecosystem[1], to achieve this. Its main decarbonisation levers include:

1. **Upscaling Sustainable Aviation Fuels (SAFs) (99 Mt CO_2)**
   The wide-spread and mandatory deployment of SAFs can deliver significant emission abatements once these fuels become available at greater scale in the 2030s.

2. **Improvements in aircraft and engine technology (111 Mt CO_2)**
   Energy efficiency is a long-standing concern for the sector due to the cost of kerosene. New engine technologies (hydrogen, hybrid, electrical) will become earliest available as of the mid-2030.

3. **Economic measures: putting a price on carbon (22 Mt CO_2)**
   The aviation sector will not be able to reach carbon 'gross zero' and will therefore rely on market-based or compensation measures in combination with carbon removal certificates to reach climate 'net zero'.

[1] Destination 2050 - A route to net zero European aviation, A4E, ACI Europe, ASD, ERA, CANSO, February 2021. www.destination2050.eu/

4. **Completing the Single European Sky (18 Mt CO_2)**
   Improvements in air traffic management (ATM) and aircraft operations are not covered by the FF55 package but are also under review by the co-legislators and will be needed to harness greater efficiencies.

Additionally, the cost of these measures is likely to have an impact on demand, resulting in the net zero goal. Implementing these measures could make 2019 the peak year in absolute CO_2 emissions from European aviation. Due to the expected timing of innovations, however, the lion's share of emissions can only be abated from the mid-2030s onwards. The foundations for these reductions must be laid now.

2. Guiding considerations for the FF55 package

The Destination 2050 roadmap shows that air transport is a hard-to-abate sector, which will need to rely on a broad range of incoming, and yet-to-be-invented technologies to reach climate neutrality. The FF55 package addresses several of these solutions and proposes mission-critical support measures for example the SAF blending mandate.

We invite decision-makers to consider the following set of high-level A4E positions on the FF55 package:

1. European airlines have finite financial resources, not least due to the ongoing COVID-19 crisis. It is therefore important to make every euro count. Sweeping measures which increase airlines' costs well ahead of the time when alternative technologies become available on the market will not only fail to trigger carbon reductions but may well undermine our ability to decarbonise later.

2. Any additional income from carbon pricing schemes must be fully re-invested in the green transition of the concerned sector. This should not only include support for R&D and a just transition -- but must crucially also include funding for the introduction of short-term decarbonisation measures, including SAFs.

3. European airlines stand in direct competition with third country operators. All rules, thresholds, and mechanisms must be carbon-leakage proofed and guarantee a level playing field both for cargo and passenger flights. International agreements like CORSIA must be honoured and strengthened to move towards a global level playing field and to effectively address CO2 emissions from aviation, a truly global industry.

4. A just transition must avoid locking parts of Europe out of air travel. Measures must address the risks of cutting off remote regions or citizens who depend on smaller airports and less developed infrastructures.

Current and future technologies can bring significant emission reductions under the European

Green Deal, whilst driving economic growth, employment, and Covid-19 recovery. It will be essential to focus on demand-driven solutions and measures that improve the efficiency of Europe's air transport network as a whole and mitigate the social-economic impact of climate policies.

The challenge of the Green Deal is to reduce emissions, while at the same time increase social welfare and leave no region or group behind. A balanced EU climate policy must enable the successive decarbonisation of the industry whilst preserving its economic competitiveness and the social benefits aviation brings to EU citizens. This outcome is within reach if done in close coordination between industry and policymakers.

The following provides a summary of the key issues affecting aviation in the FF55 package.

3. Optimising the uptake of available and emerging abatement solutions

ReFuelEU Aviation (SAFs)

As outlined above, the upscaling of SAFs is a pivotal measure to decarbonise aviation in the short to medium term. A4E therefore strongly supports large parts of ReFuelEU, inter alia:

- the proposed blending targets, which are ambitious but realistic -- including the sub-mandate for renewable fuels of non-biological origin (RFNBOs) that will harness Power-to-Liquid technologies and synergies with green hydrogen.
- the 'zero-rating' of RED-compliant SAFs, in combination with the proposed sustainability reporting and transparency requirements for suppliers and enforcement rules.
- the flexibility granted to carriers to claim CO_2 savings under either the ETS or CORSIA, regardless of where and by whom the SAF is physically uplifted.
- the choice of a Regulation over a Directive to ensure the integrity of the EU single market for aviation, which entails an EU-wide harmonised blending target rather than national divergences.

A4E has two fundamental points, however, with the intention to further strengthen the SAF framework:

Firstly, it is important to note that it would be a tremendous logistical and commercial challenge to evenly and physically supply SAFs to all regions and smaller airports across the Union to meet blending mandates. A4E therefore recommends establishing a **SAF accounting system** modelled on the Guarantees of Origin that the EU successfully introduced for renewable electricity.

Under such a system, SAF suppliers would be able to set up supply chains in the regions that can offer the most competitive conditions for production. Suppliers would then be able to sell certificates for every unit of uplifted SAF, covering the price differential to conventional jet fuels.

Such a mechanism would drive down costs, allow for a faster build-up of SAF production capacities in regional clusters, facilitate a commercially viable upgrading of airport infrastructures, resolve the tankering issue, and avoid unfair distortions to the detriment of those regions or airports with limited abilities to produce or purchase physical SAF molecules, respectively.

Secondly, A4E does not share the optimistic price projections of the European Commission's Impact Assessment. The cost to produce SAFs will remain **multiple times the price of conventional jet fuel until 2030** and will remain higher than that of alternative fuels used in other transport modes. In absence of an **orchestrated support strategy**, the increased cost of SAFs will lead to the closure of routes and may put individual airlines in financial difficulty.

Today, the United States is best placed to become the leading region for SAF production worldwide, thanks to a bold mix of support measures that is focused on incentivizing -- rather than regulating. The EU and Member States should adopt a similar approach, at least until SAF market maturity has improved by 2035. The attribution of ETS allowances, its auctioning revenues and Innovation Fund should support SAF deployment through subsidies, capital grants, offtake agreements, auctioning schemes, and Contracts-for-Difference (CfD).

Finally, A4E makes a number of additional suggestions in the detailed A4E position paper on 'RefuelEU Aviation', including for example amendments to ensure that all SAFs are truly sustainable without compromise; measures to avoid carbon leakage and an uneven playing field between EU and non-EU carriers; changes to the tankering clause to avoid unintended safety risks or operational constraints; and calls to step up SAF market monitoring to harness all available capacity in the timeliest manner[2].

Renewable Energy Directive (RED)

A4E supports the principles underlying the EU renewable energy legislation. A4E notably advocates for the use of advanced biofuels and the application of strict sustainability criteria for the raw materials used in SAF. This must avoid competition with food production, detrimental land use changes and notably deforestation, as well as other unintended consequences. Europe needs sustainable fuels, not a new debate about the credibility and credentials of biofuels.

Alternative Fuels Infrastructure Regulation (AFIR)

Increasing the supply of electricity to stationary aircraft at airports is a concrete abatement measure that can be implemented in the short to medium term. Some larger European airports have already taken steps in this direction and A4E agrees that other airports should be encouraged to do so. However, for many airports, the proposed targets will require substantial investments in the coming years, (an estimated EUR 949 million total), while the potential emissions

[2] A4E position on Production and Deployment of SAFs in Europe and ReFuelEU, December 2021, link

reductions are modest, from 0.3% to 1% of total aviation CO_2 emissions if electricity is generated by renewable energy.

The proposed scope (TEN-T core and comprehensive network) includes small airports in peripheral regions which account for a small number of short-haul flights. For those airports, the required investments and operating costs are likely to exceed the potential emissions savings. A4E therefore recommends that the scope of AFIR is adjusted to focus on EU airports with 1 million passengers per annum or more, which would also align AFIR with the proposed Regulation on SAFs.

However, some of the investment costs (capex) could be passed on by airports to airlines through airport charges. It is therefore important that public funding is made available at EU or national level to airports through instruments such as the Connecting Europe Facility (TEN-T Regulation). In any case, such investments in airport infrastructure need to be scoped and delivered at efficient cost, subject to review by the national Independent Supervisory Authority established by the Airport Charges Directive.[3]

Energy Efficiency Directive (EED)

Already today, energy efficiency is an essential consideration in air transport. The transition of the EU aviation industry to climate neutrality will be driven by a broad set of policy measures in the FF55 package. The generic approach of the EED is unlikely to provide any meaningful support for hard-to-abate sectors such as aviation which is already subject to stringent carbon and energy pricing systems as the ETS. It may lead to increased compliance costs as airlines naturally operate across various EU and non-EU jurisdictions. A4E recommends to either exclude hard-to-abate sectors like aviation from the scope of the Directive, or to make the EED relevant by developing sector-specific measures, targets, and requirements.

4. Making sure carbon pricing tools deliver actual emission abatement

Emissions Trading Scheme for Aviation (EU ETS)

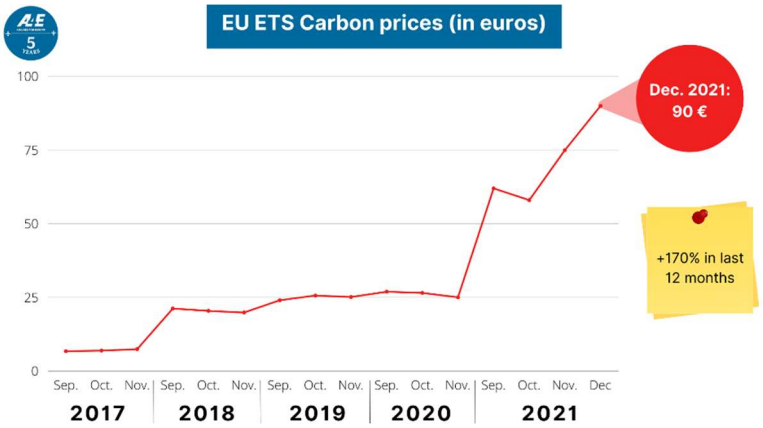
The ETS is an established instrument to limit, reduce, and price CO_2 emissions in aviation, especially over the next 10-15 years. As more low carbon technologies become available over time, reliance on the ETS can be reduced and residual emissions increasingly offset through carbon removals.

European airlines are very concerned, however, about a premature phase-out of free ETS allowances for the sector. The numbers in question are significant. In 2019, EU airlines spent EUR 950 million on ETS compliance, having to purchase certificates for 60% of their emissions at a price of EUR 25 per ton. Buying allowances for 100% of 2019 emissions at today's carbon price of over EUR 80 per ton would amount to compliance costs of EUR 5.2 billion annually. Costs may

[3] A4E position paper on the Alternative Fuels Infrastructure Regulation (AFIR), January 2022 link.

well reach EUR 6 billion by 2025, even as aviation emissions fall. The industry will not have the means to internalize these costs in the wake of the COVID-19 crisis.

As we have seen, effective abatement solutions for aviation will only become available at scale in the mid-2030s. In the absence of decarbonisation technologies, airlines will have no choice but to incur ETS costs that lead to higher prices for consumers, thereby shutting out the socio-economically weak from air travel, rendering routes to remote or less visited regions uneconomical, risking carbon leakage and creating an uneven playing field between EU and non-EU carriers. This will decrease the attractiveness of certain European tourist destinations and undermine the financial capacity of EU airlines to invest in low carbon technologies once they actually become available. All of these outcomes must be avoided.



A4E therefore proposes to prolong free allocations for aviation emissions until 2030 and to subsequently **tie the share of emissions eligible for free allocation to the share of available decarbonisation technologies, such as SAFs and RFNBOs or Recycled Carbon Fuels.**

In addition, the EU must ensure that Member States reinvest all income generated under the ETS into the deployment of decarbonisation solutions[4]. In our detailed assessment of the FF55 package, we outline additional issues that will require attention, including unfair competition between EU-based and third country transport providers[5].

Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)

EU participation in CORSIA is pivotal for the success of the UN scheme and its credibility. Pending the agreement on ambitious ICAO Long-Term Aspirational Goals (LTAG) in 2022, and given the absence of a better system, it is the sole way to tackle global CO_2 emissions from aviation today. The emissions reductions achievable on a global level go far beyond what is possible by regional - i.e., EU – regulation and only by way of global regulation can carbon leakage and competitive distortion between EU- and non-EU-airlines be fully avoided. The EU therefore must respect its multilateral engagement and reconcile the ICAO CORSIA scheme with the EU ETS in a way that does not penalise European carriers:

[4] A4E position paper and amendments on EU ETS and CORSIA, January 2022, link

[5] A4E assessment of the European Commission July 2021 Fit for 55 package, October 2021, link.

- On extra-EU flights, all offset credits under CORSIA must be available to all airlines equally. Excluding the eligibility of certain CORSIA offset credits only for EU/EEA/UK carriers would drive up costs and distort competition vis-à-vis non-European carriers.

- On intra-EU flights, the EU must avoid any double regulation by CORSIA and ETS requirements and instead integrate these schemes. This would (i) respect multilateral obligations under ICAO by fully implementing CORSIA, (ii) whilst at the same time ensuring the sector contributes to the global decarbonisation effort in a cost-effective manner.

Review of the Energy Taxation Directive (ETD)

A4E and its members are categorically opposed to ending the kerosene tax exemption, which would *de facto* create a redundancy to ETS charges on jet fuels. The argument of double taxation holds true even if the proposed kerosene tax is not specifically based on the carbon content of the kerosene as it is the explicit intention of the ETD to capture fuels with high climate impact. Such a double taxation is even less pertinent from a climate policy perspective if one considers that the aviation industry will have no scalable decarbonisation technology at its disposal for the next decade or so (see above).

A4E and its members strongly believe that the ETS is the preferable mechanism for putting a price on aviation emissions, when compared to a European framework of national kerosene taxes, for at least the following reasons:

1. The EU ETS would provide a harmonised market-based price for carbon in Europe. Experience from other sectors shows that Member States are bound to impose starkly diverging taxes on kerosene, thereby undermining the single European market for air travel.

2. The EU will have no influence to ensure that national revenues from a kerosene tax are reinvested in sustainable mobility. The aviation sector is subject to national charges and taxes – for example for security – that no other mode of transport must pay for state services. National tax increases on aviation should be compensated by tax reductions for the sector elsewhere.

3. As a cap-and-trade system, the EU ETS provides long-term certainty on the abatement curve, while offering the possibility to hedge against unforeseen fluctuations in prices on sufficiently liquid and deep carbon markets. National kerosene taxes offer less predictability and no opportunity to hedge against such risks.

4. A kerosene tax would disproportionately impact intra-EU travel and travel from the EU to third countries via EU airports in a sector that is intrinsically European and global. Such tax applicable to intra-EU flights only 40% will lead to more CO_2 emissions due to detours and avoidance of the scope and add to the carbon leakage problem. Meanwhile, the ETS applies to a wider geographic scope than the tax jurisdictions of the 27 EU Member States.

Regulation establishing a carbon border adjustment mechanism (CBAM)

A4E supports CBAM and believes that it can be applied in a way that enables the EU to forcefully drive emission abatement measures in a competitive international environment, without infringing on the rights of established and valued trade partners.

CBAM may also serve as a catalyst for the creation of international carbon clubs or similar agreements. While air transport is not subject to CBAM to date, it is by its very nature strongly exposed to carbon leakage threats. The introduction of a CBAM-like mechanism for air transport within ICAO rules or in bilateral agreements with key third countries would be preferable to a stand-alone mechanism but must not come in the way of EU action. The EU has a key role to play in the establishment of such a set of new international rules.

Neither the policy principles underpinning CBAM, nor the applicable WTO rules stand in the way of granting free EU ETS allowances to certain EU industries, for as long as the value of the free allowances attributed to EU companies is deducted from the carbon price imposed by CBAM on third country counterparts from the same sector that falls within the scope of the measure. To ensure a level playing field and prevent carbon leakage, decisions related to the allocation of allowances must be handled in conjunction with the establishment of mechanisms seeking to address the displacement of traffic flows or the competitive distortion such as a CBAM.

Annex 1: Comparison of geographic scopes: ReFuel EU Aviation, EU ETS, ETD