

EU EMISSIONS TRADING SYSTEM (ETS) AND ICAO CARBON OFFSETTING AND REDUCTION SCHEME FOR INTERNATIONAL AVIATION (CORSlA)

Abstract

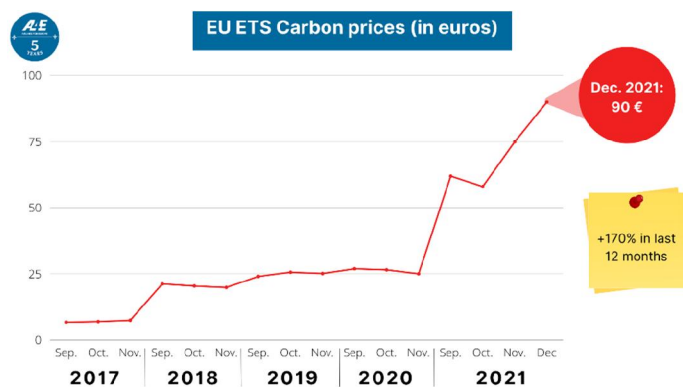
This paper sets out A4E’s analysis of the July 2021 EC Proposals for the review of the EU ETS for Aviation and a Council Decision implementing CORSlA.

European airlines are fully committed to decarbonise air transport and accelerate their efforts to make Europe the world’s first carbon neutral continent by 2050 through the reduction of CO₂ emissions in absolute terms and through CO₂ mitigation. Acknowledging its responsibilities despite the current crisis, the EU aviation sector recently published “Destination 2050 - A route to net zero European aviation” roadmap showing a pathway to reaching net zero CO₂ emissions by 2050¹.

Emissions Trading Scheme for Aviation (EU ETS)

The ETS is a crucial instrument to limit, reduce, and price CO₂ 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 sums in question are significant. In 2019, airlines spent EUR 950 million on ETS compliance, having to buy 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 EUR 80 per ton would amount to compliance costs of EUR 5.2 billion annually. Costs may well reach EUR 6



¹ Destination 2050 - A route to net zero European aviation, A4E, ACI Europe, ASD, ERA, CANSO, February 2021.

www.destination2050.eu/

Launched in 2016, Airlines for Europe (A4E) is Europe’s largest airline association, based in Brussels. The organisation advocates on behalf of its members to help shape European aviation policy to the benefit of consumers, ensuring a continued safe and competitive air transport market. A4E is one of the initiators of European aviation’s [Destination 2050](http://www.destination2050.eu/) decarbonisation roadmap, with a pledge to reach net zero CO₂ emissions from all flights within and departing Europe by 2050. In 2019, A4E members carried more than 720 million passengers via a modern fleet of over 3,000 aircraft – accounting for more than 70 per cent of the continent’s journeys. Members with air cargo and mail activities transport more than 5 million tons of goods each year to more than 360 destinations either by freighters or passenger aircraft. Follow us on Twitter [@A4Europe](https://twitter.com/A4Europe).

billion by 2025, even as aviation emissions fall.

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 unlevel playing field between EU and with non-EU carriers whilst decreasing the attractiveness of certain European tourist destinations, and undermining the financial capacity of EU airlines to invest in low carbon technologies once they actually become available. All of these outcomes are to be avoided.

In order to do so, the following adjustments should be made:

1. Phasing of free allowances and emergence of aviation decarbonisation technologies (Article 3d (1a-1c))

Effective abatement solutions for aviation will only become available at scale in the 2030s. A4E therefore proposes to prolong the phasing out of free allocations for aviation emissions until 2030 and to subsequently tie the share of emissions eligible for free allocations to the share of guaranteed available decarbonisation solutions such as sustainable aviation fuels on the EU market as per the ReFuel EU SAF blending mandate proposal's Article 13 and Annex I.

Proposed amendments: In 2024, ~~25%~~ 15% 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.

1a. ~~From 2025 to 2029, 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.~~

1c. As from 1 January ~~2027~~ 2030, all of the quantity of allowances in respect of which free allocation would have taken place in that year shall be auctioned.'

2. Ramping up SAFs and synthetic fuels (Article 3)

To further promote SAFs, renewable fuels of non-biological origin (RFNBOs) and recycled carbon fuels (RCFs) whose prices will remain multiple times higher than that of conventional fuel in the foreseeable future, aircraft operators covered under the ETS Directive shall receive free allocation when using SAFs and RFNBOs or RCFs for activities covered under this directive.

Mirroring the U.S. federal and state-level tax credits, loan guarantees, grants and support for carbon capture and storage (CCS) establishing the U.S. as the most advantageous region of the world

to produce and use SAF², this proposal would equip the European sustainable fuel industry and European airlines with a tool to better compete on the global stage.

Proposed amendments:

a) The amount of free allocation should be equal to one allowance per tonne of CO₂ saved through SAFs and two per renewable fuels of non-biological origin and recycled carbon fuels equivalent to 3,16 allowances for per tonne of SAF and 6,32 per ton of renewable fuel of non-biological origin and recycled carbon fuel.

b) The quantity of allowances should be proportionate to the total greenhouse gas emissions saved according to the treatment of these fuels under Directive (EU) 2018/2001 and the implementing acts in Article 14(1) of the ETS directive.

c) RFNBOs and recycled carbon fuels supplied to the aviation should receive the double amount of free allowances. For a transitional period until the implementing acts referred to in Article 14 (1) enter into force renewable fuels of non-biological origin and recycled carbon fuels should be rated with zero emissions.

3. Supporting the deployment of aviation decarbonisation technologies (Article 10a)

Member States shall use no less than the full amount of the aviation allowances auction revenues to support aviation decarbonisation efforts and technologies reducing greenhouse gas emissions from aviation, and in particular the deployment of sustainable aviation fuels.

The Innovation Fund shall dedicate particular attention to aviation related projects. The revenues referred to in Article 21(2) of the Proposal ReFuel EU Regulation (EU) shall be allocated to the Innovation Fund.

4. A fair transition towards climate neutral aviation in Europe (Article 3c(7))

A socially just transition must ensure that lower income customers are not categorically locked out from air travel due to increased costs. Measures must address risks of cutting off remote regions or citizens who depend on smaller airports and less developed infrastructures. More attention should be paid to the negative impact of the proposed reform on less-connected European regions which have less transport alternatives and rely on air transport for education, training, goods and services.

Proposed amendments:

² Sustainable Skies Act bill, introducing tax credits for SAF production, May 2021, [link](#)

a) Member States [...] shall take no action against aircraft operators in respect of emissions taking place until 2030 from flights to and from an aerodrome located in an outermost region of a Member State and an aerodrome located in the EEA, in Switzerland or in the United Kingdom. outside that outermost region.

b) Member States [...] shall take no action against aircraft operators in respect of emissions taking place until 2035 from flights between an aerodrome located in an outermost region of a Member State and an aerodrome located in the same Member State outside that outermost region.

5. Protecting the EU ETS from abusive trading behavior

The value of a cap-and-trade system such as the ETS resides in its capacity to provide long-term certainty on the abatement curve, while offering the possibility to hedge against unforeseen fluctuations in the ETS price on sufficiently liquid and deep carbon markets. Measures to prevent financial speculation in European carbon markets should be considered if disorderly trading or abusive behaviour is identified in the market.

Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)

A4E encourages the wider adoption of more ambitious decarbonisation objectives at ICAO, including increasing the ambitions of CORSIA, and related actions including the long-term global aspirational goal for international aviation (LTAG) to be agreed at ICAO level in 2022. A global carbon price is a good long-term regulatory goal. If it is achieved, it will incentivise cost-effective decarbonisation for all players. A global carbon pricing system would help to gradually close the gap in ambition between the EU and the rest of the world as we all decarbonise our sector.

Ensuring strong sustainability criteria for offsets will be crucial for the credibility of the sector and of instruments such as CORSIA. In line with UN goals, these credits should be truly sustainable and without any compromise, notably when it comes to impact on deforestation or food/feed supplies. Internationally agreed standards following these sustainability principles need to be agreed upon.

EU participation in CORSIA is pivotal for the success of the scheme and its credibility. The EU needs to respect its multilateral engagement and reconcile the ICAO CORSIA scheme with the EU ETS in a way that does not penalise European carriers. Unfortunately, the EU proposals fail to meet several of the objectives of the proposal:

- prevent and remove market distortion between EEA and third country carriers
- preserve the advances made in ICAO and foster further multilateral cooperation
- minimize deviation from CORSIA or EU ETS principles
- limit the increase in cost in the light of COVID-19 impacts

For these reasons, the following adjustments should be made:

1. Avoiding distortion of competition in the compliance to CORSIA on extra-EEA flights (Article 11a (2a-b), Article 25a (7) and (8))

The inclusion of measures to address the risk of distortion of competition caused by a third country applying CORSIA in a less stringent manner than in the EU are welcomed clauses, but likely to be procedurally burdensome and complex to implement. Limiting the eligibility of CORSIA offset credits authorised for EU/EEA/UK carriers would distort the competition vis-à-vis non-European carriers. CORSIA would be made more expensive for European carriers than for their global competitors if eligible credits are restricted unilaterally. Doing so may open a race to the bottom as it could invite non-European countries, in their own CORSIA implementation, to allow local carriers to use cheaper offset credits not eligible to European carriers. It is essential that all offset credits under CORSIA remain available to all carriers, independently from their nationality, origin or destination.

Proposed amendments: Article 11a, 2a and 2b should be deleted

2. Preserving ICAO advances by implementing CORSIA within Europe (Article 25a (4))

On intra-EU/EEA/UK flights, the EU must respect multilateral obligations under ICAO by fully implementing CORSIA. Implementing a hybrid system avoiding double regulation combining CORSIA and ETS instead, would allow the EC to achieve two goals: 1/ respect Europe's multilateral obligations under the UN ICAO by fully implementing CORSIA, whilst at the same time 2/ ensure the sector contributes to the global decarbonisation effort in a cost-effective manner.

3. Respecting the ICAO decision-making process (Article 25a (3))

In 2020, the ICAO Council agreed that actual 2020 emissions should be excluded from the CORSIA baseline, and that during the pilot phase only 2019 emissions would be used. The ICAO Council's decision to exclude 2020 emissions from CORSIA's design elements was supported by European States and the European Commission. The proposed reference to a change to a 2019-2020 baseline instead of 2019 is pre-empting future ICAO Council discussions. In addition, the assessment of countries' implementation of CORSIA should be done at the ICAO and not by the Commission.

Proposed amendments: The Commission shall adopt an implementing act listing countries other than EEA countries, Switzerland and the United Kingdom, which are ~~considered to be~~ applying CORSIA for the purposes of this Directive, with a baseline of 2019 for 2021 to 2023 and for each year thereafter with a baseline to be determined by the ICAO Council ~~a baseline 2019-2020 for each year thereafter~~