

Sandbag welcomes the opportunity to provide feedback on the Commission's Inception Impact Assessment for the revision of the EU ETS Directive concerning aviation. As the Assessment highlights, it is crucial that this revision preserves the environmental integrity and effectiveness of the Union's climate action policies. Particularly in the context of the European Green Deal and the enhanced ambition for 2030, changes to the EU ETS for aviation should not result in a step backwards in terms of tackling CO₂ emissions, but a step forward. The aviation sector should also contribute to the goal of a climate-neutral EU economy through an improved, focused EU ETS that drives emission reductions.

Assessment of CORSIA

The major question facing the future of the EU ETS rules for aviation is whether and to what extent they will be integrated with the CORSIA global aviation offsetting initiative. Compared to the EU ETS, CORSIA is not a credible climate policy. It only proposes to tackle the growth in aviation emissions from 2020 onwards, and this only through offsetting, while real emissions from aviation keep increasing. Participation in the scheme is voluntary until 2027, and it only applies to flights between countries which both participate in the scheme. Furthermore, CORSIA has no compliance mechanism. Its governance is highly untransparent, which increases the potential for undue industry influence. CORSIA also allows for airlines to use alternative fuels instead of paying for offsets, but the sustainability criteria for assessing these fuels are negligible compared to the existing EU standards for alternative fuels under RED II.

Even without considering these myriad issues, CORSIA is significantly less ambitious than the EU ETS in terms of its carbon emissions trajectory. While the EU ETS has a cap of 111 MT CO₂ in 2030, the CORSIA offsetting trajectory for 2030 is 163.5 MT CO₂.¹ The EU ETS also provides a much stronger price incentive for decarbonisation than CORSIA, as the allowances (EUAs and EUAs) which airlines must purchase under the EU ETS are significantly more expensive than the price of offsetting under CORSIA (while still not high enough to properly reflect environmental externalities). Ultimately, introducing CORSIA on top of the EU ETS would make no meaningful dent in greenhouse gas emissions.²

The challenges faced by offsetting, many of which were exposed and never addressed in the last decade under the Kyoto Protocol, all but demonstrate the ineffectiveness of this instrument. The one claim CORSIA has over the EU ETS is that it is a global system. The EU and its Member States have made considerable efforts under ICAO to bring the international community to a common policy for tackling emissions from aviation. However, the resulting policy, CORSIA, is not ambitious enough, and is beset by the aforementioned issues which make it unlikely to achieve even its limited ambitions. As a stand-alone climate policy for aviation, CORSIA in its current form is not compatible with the EU's commitments under

¹ Transport & Environment (2018). UN Aviation climate scheme threatens gaping hole in EU 2030 targets. https://www.transportenvironment.org/sites/te/files/publications/2018_10_TE_briefing_CORSIA_gap_study_0.pdf

² Transport & Environment (2019). Why ICAO and CORSIA cannot deliver on climate.

https://www.transportenvironment.org/sites/te/files/publications/2019_09_Corsia_assesement_final.pdf

the Paris Agreement, the European Green Deal or with the scope of revised climate ambition for 2030. The EU should continue to push for stronger global action on aviation emissions, and join in global initiatives, but not at the expense of the climate action achieved to date and that which the Union intends for the future.

Offsetting does not seek to directly reduce the emissions produced by the polluting activity, but merely tries to compensate for these emissions by contributing to an “emission-reduction” project elsewhere. Offsetting has a variety of challenges that make it a contested and unproven means of tackling carbon emissions:

- Calculating the savings in carbon emissions generated by offsets is an uncertain science and often opaque. CORSIA’s Technical Advisory Body, which will assess suitable offset programmes, will operate behind closed doors with limited scope for transparency.
- In order to adequately compensate for CO₂ emissions, offsetting projects must be of a permanent nature. For forestry projects, this is difficult to monitor and thus to guarantee that an offset reflects a lasting emission saving.
- With offsets there is a risk of double-counting, whereby the emission savings of a project are claimed by both the offsetting airline and the country where the project is based. In this way, the emission-saving impact of a project is over-estimated and real emission levels are not adequately reflected.
- Offsetting projects may often have negative implications for the local environment, biodiversity, land rights and food security, or create perverse incentives which may even result in increased emissions.
- To make a tangible contribution to climate action, an offsetting project should bring additionality; that is, it should not be a project that would have been undertaken by other (state) actors if the offsetting airline had not invested in the project. The additionality of offsets is particularly difficult to assess.

Options for the implementation of CORSIA

The EU must develop an approach to aviation emissions that retains the integrity of the EU ETS. The EU should not take steps backwards in its climate action policy just because other global actors are unwilling to match the EU’s ambition. The EU can continue to set a precedent for climate action more ambitious than that agreed on a global level. This precedent will also make it possible for other states to extend their ambition on aviation emissions beyond that set by CORSIA. For example, in their plan for establishing a UK ETS, the UK governments intend to retain emissions trading for flights between the UK and the EEA, rather than simply choosing to apply the much lower standards under CORSIA. The EU’s insistence on maintaining a high level of climate ambition for aviation will allow other states to follow suit.

If the EU's climate ambition under the European Green Deal is to be maintained, only the policy options that maintain or increase current levels of emission reductions are acceptable. Our assessment of the policy options for the implementation of CORSIA defined in the Inception Impact Assessment are as follows:

1) EU ETS full legal scope	This is the preferable option as it is the strongest in terms of CO2 emission reductions, as the trajectories and price signals set under the EU ETS are much stronger than those under CORSIA. It would also provide increased revenue from auctioning.
2) Intra-EU/EFTA ETS only	This option would maintain the status quo and so would not diminish climate ambition, but it would also not increase ambition.
3) CORSIA only	This option must be automatically excluded as it would replace the EU ETS trajectory and carbon prices with the much more conservative CORSIA alternatives. It would increase aviation emissions by 683.8 MT CO2 compared to the 2030 ETS trajectory. ³
4) ETS-CORSIA clean cut	This option essentially maintains the status quo in terms of CO2 emission reductions, as CORSIA will not add any significant reductions on top of the ETS. However, the EU's involvement in CORSIA would put it in a better position to push for increased ambition on the global level.
5) ETS-CORSIA mix	This option must be discounted, as by relying on CORSIA offsets to tackle all post-2020 aviation emissions it would completely remove the emission-reducing effect of the EU ETS's 2030 trajectory.
6) ETS-CORSIA mix according to licence of aircraft operators	This option is also a step back from current ambition, as fewer airlines would fall under the scope of the EU ETS than currently do. It should therefore be excluded. (This measure would also distort competition.)

It is also important to note that any of the options which (partially) replace the EU ETS with CORSIA offsets will have a knock-on effect on the EU ETS more broadly. Airlines currently purchase EUAs from non-aviation sectors, and any reduction in their need to do so would serve to reduce the carbon price within the EU ETS, which is already not high enough to adequately incentivise decarbonisation. Therefore, a drop in ambition in the aviation sector could damage decarbonisation in the power and heavy industry sectors. It would also result in lower auctioning revenues.

Free allowances and auctioning

When considering the issue of the allocation of free allowances for aviation under the EU ETS, it must be recalled that the aviation industry does not currently pull its weight in terms of climate action. Aviation's greenhouse gas emissions are growing rapidly, and yet the sector still avails of exemptions from fuel taxes, exemption from VAT on international flights, subsidies for airports, and most recently European airlines

³ Transport & Environment (2019). Why ICAO and CORSIA cannot deliver on climate.

https://www.transportenvironment.org/sites/te/files/publications/2019_09_Corsia_assesement_final.pdf

have received over €30 billion in aid from Member States in the wake of the Covid pandemic.⁴ The Inception Impact Assessment notes that the aviation sector should contribute to a climate-neutral EU, and this requires that the treatment of the sector should better reflect the polluter pays principle.

Free allowances are a problematic feature across the EU ETS, as they diminish the incentive for actors in polluting sectors to invest in decarbonisation. A phase-out of these allowances in all sectors, including aviation, is required by 2030 at the latest.

85% of allowances for aviation are currently made available under free allocation. These cover 45.5% of aviation emissions, which necessitates that airlines buy EUAs from non-aviation sectors. The cost of compliance with the EU ETS has been relatively very low for airlines, representing only 0.3% of their operating costs for flights which are covered by the ETS.⁵ The Commission’s 2017 impact assessment found that airlines have been able to pass on these costs to consumers with an increase of less than 1% in ticket prices. This report also found that there is little risk of carbon leakage in the aviation sector given the low carbon price.⁶ Changes to the allocation of free allowances for aviation should be considered in light of the fact that the current ETS system does not impose an undue burden on airlines and customers, and that there is not a risk of carbon leakage from the sector. Our assessment of the options for the phase-out of free allocations are as follows:

0) Status quo	This option should be discounted as it perpetuates the free allocation of licences which distorts the decarbonisation incentive.
1) Immediate phase-out	This option would allow for an immediate rectification of the aviation industry’s relative lack of accountability for climate action. The current infrastructure of the ETS is technically advanced enough to accommodate such a rapid phase-out of free allowances.
2) Swift phase-out	This option also achieves a quick phase-out of free allowances. As it does so at a slower pace to option 1, it would mean lower auction revenues.
3) Slow phase-out	This option achieves a phase-out of free aviation allowances by 2030 but seems unnecessarily slow given that there is no great danger of carbon leakage in this sector.
4) Slow reduction	This option should be discounted as it does not lead to the elimination of free allowances by 2030.

⁴ Carbon Market Watch (2020). Airline Bailout Tracker. <https://carbonmarketwatch.org/our-work/aviation-emissions/aviation-bailout-tracker/>

⁵ EASA (2020). The EU Emissions Trading System. <https://www.easa.europa.eu/eaer/topics/market-based-measures/the-eu-emissions-trading-system>

⁶ European Commission (2017). SWD 2017/31. <https://ec.europa.eu/transparency/regdoc/rep/10102/2017/EN/SWD-2017-31-F1-EN-MAIN-PART-1.PDF>

Conclusion

The EU ETS on its own is not a sufficient tool to counter carbon emissions from the aviation sector. The instrument still needs broad reforms and should not be seen as a panacea. Other policy instruments will also be required to decarbonise the aviation sector, and to address other non-CO2 climate impacts of air travel. Nevertheless, the EU ETS is a much more potent tool than CORSIA for reducing aviation emissions, and it should not be reduced or abandoned as the EU seeks to participate in global initiatives through the ICAO. Instead, the EU ETS rules for aviation should be improved through the phase-out of free allowances and the extension of the scheme's coverage.

Sandbag is a non-profit think tank which uses data analysis to build evidence-based climate policy. We focus on EU policies such as the EU ETS, the Effort Sharing Regulation and emissions reductions in industrial sectors.

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