

IETA Feedback: Revision of the EU Emission Trading System Directive

August 2020

This document provides feedback from the International Emissions Trading Association (IETA) to the European Commission's Inception Impact Assessment as part of the Revision of the EU Emission Trading System Directive 2003/87/EC concerning aviation. We welcome the opportunity to provide initial feedback on this important topic. Like many other organisations, IETA is keen to take the time necessary to study this complex issue in full. As such, this document seeks to pose preliminary comments that we believe should be considered when coming to a decision about Aviation. A more formal position will be made clear in the full public consultation.

Overview

The Inception Impact Assessment is seeking feedback on the Commission's plans to secure the aviation's adequate contribution to the Union's climate objective. There are two main areas of concern:

1. The interaction between aviation under the EU ETS and ICAO's CORSIA.
2. The share of free allocation of allowances (and the share of auctioned allowances) to airlines under the EU ETS.

Interaction between the aviation under the EU ETS and CORSIA

The existing interaction of EU ETS and CORSIA, as two market-based measures focused on reducing greenhouse gasses from the aviation sector, is a complex issue.

As an organisation, IETA strongly believes that a meaningful carbon price should be applied broadly and ambitiously to as many sectors and jurisdictions as possible. Our long-term vision is to work toward a global carbon price through international frameworks such as the Paris Agreement or CORSIA; this way, any possible market distortions and competitiveness concerns can be avoided.

Possible overlapping of two (or more) sets of programmes such as the case of EU ETS and CORSIA, without a clear distinction of the impact, can lead to inefficiencies and decreased support for the programme. In this case a number of airlines find themselves in a situation where they are potentially going to report and comply with two separate systems. The planned impact assessment should take this administrative burden on airlines as well as national administrators into consideration.

We would welcome clarification on the details of the various alternative solutions, particularly in terms of what happens to domestic flights currently covered by the EU ETS under different scenarios, and whether any changes to aviation's place in the EU ETS are anticipated prior to 2024. Both these issues are currently unclear in the Inception Impact Assessment documentation.

The share of free allocation of allowances

The issue of allowances for aviation cannot be considered in isolation. If CORSIA is to interact with the EU ETS, we believe that consideration should be given to ensuring that both systems work hand-in-hand.

Leading European policymakers have made clear that free allowances under the EU ETS will be reduced over time. IETA appreciates that this will be the case, as the EU moves to align the EU ETS with its ambitious climate neutrality objective. For export-heavy industries, we believe that this must be done carefully, given the risk of carbon leakage and the possibility of reduced European industrial competitiveness. Carbon leakage is not an issue for aviation, although the competitiveness of European airlines should be considered when it comes to discussion of allowance changes. We do believe that effort should be taken to examine whether the costs will simply be passed on to the consumer.

It is our view that the free allowances for Aviation will necessarily have to reduce. We would welcome further detailed analysis from the European Commission on how this might work in practice. To-date, Aviation has benefitted from high levels of free allowances, but we are aware that all industries must play their role in increasing climate ambition to meet the goals of the Paris Agreement. However, we do seek clarification regarding the special reserve, and what will happen to free allocations for new market participants.

The question we believe should be asked is not if free allowances will have to decline, but how best to do this to ensure a balance between climate goals and industrial competitiveness.

Conclusions

IETA is looking forward to the next step in the Public Consultation. We would like to encourage transparency from the European Commission in terms of publishing any reports or studies on these issues. We believe that the public sharing of analysis on EU ETS/CORSIA interaction and on the future of free allowances for aviation will ensure a robust discussion with all relevant stakeholders.

We would welcome the opportunity to participate in any stakeholder meetings organised to discuss the options under consideration.