



OPINION

European Economic and Social Committee

Notification on Revision of the EU Emission Trading System for Aviation

Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC as regards aviation's contribution to the Union's economy-wide emission reduction target and appropriately implementing a global market-based measure
[COM(2021) 552 final]

TEN/756

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Referral	Council of the European Union, 20/09/2021 European Parliament, 13/09/2021
Legal basis	Article 192 TFEU of the Treaty on the Functioning of the European Union
Section responsible	Transport, Energy, Infrastructure and the Information Society
Adopted in section	09/11/2021
Adopted at plenary	08/12/2021
Plenary session No	565
Outcome of vote (for/against/abstentions)	209/3/5

1. **Conclusions and recommendations**

- 1.1 The Commission's initiative amending Directive 2003/87/EC as regards aviation's contribution to the Union's economy-wide emission reduction target is a welcome step in reducing the climate impact of the aviation sector. We support the proposed amendments, but emphasise the need to maintain a level playing-field and protect social and working rights. While not the largest emitter of emissions in society or indeed in transport, aviation and all its stakeholders must play their part in helping us achieve a sustainable aviation industry. This can only be done through social dialogue and engagement with trade unions in the sector, who are a critical part of the climate transition.
- 1.2 In general we are opposed to the allocation of free allowances within the emissions trading system (ETS), unless for the purposes of ensuring fair competition. In the case of intra-EEA flights, there is less risk to a level playing-field; however, we must remain vigilant to carbon leakage, particularly in leisure and long-haul traffic. Therefore, we would support maintaining the proposed date of 2027 for full removal of free allowances and, in the meantime, adjust the free allowance allocations to focus on fair competition. By doing this, we can implement the ETS, improve the uptake of sustainable aviation fuels (SAFs) and decrease the level of free allowances, while avoiding distorting competition within the market.
- 1.3 It is imperative that the proposal acts to protect the level playing-field in order to support companies that provide decent work and social standards. It is also important to avoid long-term negative effects on working conditions due to unfair competition from companies not operating under the ETS. As such, we would recommend launching a "social impact assessment" that considers the link between the application of the ETS, fair competition, and the potential social damage of carbon leakage. Furthermore, we propose two mid-term assessments, which would analyse the social, environmental and economic impact of the amended ETS. This should take place two years and four years after the amended ETS enters into force and should provide all stakeholders with an opportunity to review the application of the ETS and the aims of the programme. These assessments will also provide an opportunity to check the recovery of the industry against the aims of the ETS.
- 1.4 Financial intermediaries should be excluded from the EU ETS trading scheme, so that only installations emitting carbon dioxide in their production processes are allowed to trade emission allowances. This is to eliminate any risk of speculation and is similar to the Chinese approach, which banned financial institutions from participating in their allowance trading system.
- 1.5 The majority of extra-EEA traffic runs through central hubs either within or outside the EEA. Currently, most passengers have a number of options for their extra-EEA flight through both internal and external hubs. However, with the increased cost of the ETS, there is a significant risk that EEA operators will be undercut by cheaper operations based in hubs outside the EEA. To counteract this, the allocation of free ETS allowances must be replaced by a targeted mechanism against competitive disadvantages in order to protect European airlines and European hubs.

- 1.6 The EU must promote a more ambitious, uniform global regulation on carbon pricing, and must have a mandate to negotiate for this at global level. In addition to its global mandate, we propose the application of one or both of these mechanisms in order to ensure fair and sustainable implementation of the ETS and support a broader application base in the short term:
- a) introducing a carbon border adjustment mechanism;
 - b) replacing the free allocation system with targeted protection against unfair competition.
- 1.7 The ETS should support a move towards more sustainable modes of transport, including within the aviation sector, and should therefore promote a reduction in the use of business aviation. The ETS should encourage the use of sustainable mass transport and therefore force business jet users to pay higher charges.
- 1.8 ETS revenues should be invested in development projects that will further reduce the environmental impact of aviation, by supporting a reduction in cost and greater uptake of SAFs. It should also support the transition of airports, fuelers and ground handlers to new regulations being imposed on SAF usage in European airports through the ReFuelEU proposal. Revenues must also support a just transition for workers in the aviation industry who have been negatively affected by climate change. To implement this, an aviation social fund should be created that will allow for the training and transition of aviation workers. Such a fund could be managed by the European Commission, with the support of both employers and trade unions.
- 1.9 Through the ETS, the proposal should encourage operators to develop inter-modal transport networks in their major hubs in order to expand to a greater network of destinations, while also reducing unnecessary ultra-short-haul flights. This could be done by increasing the level of free allowances in their place elsewhere in the airline's network to areas that do not have convenient rail connections.
- 1.10 The EU should engage with European works councils (EWCs), sectoral social dialogue committees and other joint forums, such as the Aviation Roundtable, on the continued impact of the revised ETS throughout its implementation. Particular consideration should be given to social dialogue with workers and to understanding the needs and concerns they have in relation to sustainable aviation.
- 1.11 The special status of EU outermost regions should be retained and such regions should be exempt from the ETS as per Article 349 TFEU, which allows for derogations from the application of EU law in these regions.

2. **General comments**

- 2.1 We welcome the Commission's initiative amending Directive 2003/87/EC as regards aviation's contribution to the Union's economy-wide emission reduction target. While not the largest emitter of emissions in society or indeed in transport, aviation and all its stakeholders must play their part in helping us achieve a sustainable aviation industry and reach our climate objectives, as outlined in the Paris Agreement and in the "Fit for 55" package.

2.2 Through such initiatives, stakeholder engagement and social dialogue, many of the social and economic threats to workers in the aviation sector can be mitigated, and we would welcome the Commission's efforts to ensure that all stakeholders, in particular trade unions and EWCs, are engaged on the topics of climate change and just transition throughout the passage of this proposal, as well as on all future work on sustainable aviation.

3. **Specific comments**

3.1 **Consideration of the effects of the COVID-19 pandemic**

3.1.1 The aviation industry has been among the hardest hit throughout the recent COVID-19 pandemic and, as such, this proposal must give consideration to allowing the aviation industry the space and time it needs to recover. However, it has become clear that the aviation industry has an inherent sustainability problem, in both the social and the environmental sense, and any recovery, including any support given to the sector, must consider efforts made to make the industry more sustainable in the long-term.

3.1.2 Data released by Eurocontrol show that the aviation sector still has a long way to go to recover to the traffic levels of 2019. In the summer of 2021, traffic levels returned to just 70% of 2019 levels¹ and the general expectation of Eurocontrol is that 2019 levels of traffic will only return in 2023². Given this, it is clear that the aviation industry has, and will continue to have, depleted levels of traffic well into 2023 at the earliest. Additionally, workers have been proportionately affected by the drop in traffic. While information on this remains hard to find, the European Transport Workers' Federation (ETF) estimates that approximately 60% of ground staff workers were out of work during the pandemic³. The creation of any measures that will distort competition during this recovery period could have adverse consequences both on workers and on the industry as a whole.

3.1.3 Nevertheless, we only support the allocation of free allowances within the ETS to prevent a distortion of competition or carbon leakage. Consideration must be given to the potential carbon leakage that might occur by airlines switching to cheaper destinations, particularly in the leisure market. There remains a risk that many typical leisure destinations could be overlooked in favour of destinations outside the EEA as they provide cheaper emissions charges compared to their EEA counterparts. For extra-EEA flights, further consideration needs to be given as there is a significant threat of third country operators exploiting the ETS and unbalancing the level playing-field.

3.1.4 As such, it is our view that while the date of the removal of free allowances should remain at 2027, free allowances should only be granted to protect fair competition. By doing this, this proposal can achieve its aims and protect the level playing-field as the industry tries to recover and compete under the new ETS.

¹ <https://www.eurocontrol.int/publication/eurocontrol-data-snapshot-16-recovery-wide-variations>.

² <https://www.eurocontrol.int/publication/eurocontrol-forecast-update-2021-2027>.

³ <https://www.etf-europe.org/ground-handling-sector-fights-for-its-survival-as-more-than-half-of-airport-based-workers-are-out-of-work/>.

3.2 Fair competition and carbon leakage

- 3.2.1 Aviation is a highly mobile and heavily liberalised global industry. Therefore, the sector is prone to significant competition, much of which does distort, or has the potential to distort, the market. This can clearly be seen in the social issues facing the aviation market, where companies have used favourable social conditions within the EEA and in third countries to exploit workers and reduce labour costs. This practice is now common in aviation and is a warning to us when considering environmental costs. As such, strong legislation is required to ensure there is no carbon leakage or exploitation of the ETS by countries or companies, in particular those outside the scheme. This is most relevant when considering inter-continental traffic, for example those passengers who transit through the EEA rather than having their point of departure or arrival destination in the EEA, or those who leave or arrive from the EEA but who transit through non-EEA hubs.
- 3.2.2 We welcome the proposal to incorporate the full application of the ETS on all intra-EEA flights as this will help maintain a level playing-field within the market. We also support the intention in the proposal to eliminate free allowances, but stress that such allowances should only be given in order to maintain fair competition. The scope of this application should not be limited to competition between airlines but should be expanded to ensure fair competition between EEA and non-EEA hubs competing for connecting traffic, as well as leisure destinations competing with non-EEA destinations.
- 3.2.3 When it comes to long-haul traffic, major EEA carriers and hubs face significant competition from air carriers and hubs in the Middle East. This competition is felt most when passengers do not arrive within the EEA, but rather transit through while travelling inter-continently or when they leave from or arrive in the EEA but connect through a non-EEA hub. Given the proximity of other major aviation hubs outside the EEA, we must ensure airlines can remain competitive in this market. Traditionally, legacy carriers in this market have high levels of social standards and decent work. In other regions, particularly the Gulf region, workers are denied fundamental workers' rights, such as freedom of association, and all measures must be taken to ensure carriers based in these countries do not benefit at the expense of European companies and European workers. Therefore, targeted protection mechanisms are needed to stop competitive disadvantages.
- 3.2.4 The price of EUA allowances has increased since January 2020 from about EUR 20/tonne to above EUR 70/tonne. On the demand side, installations, i.e. enterprises that need allowances as they emit CO₂ in their production processes, compete with financial institutions and intermediaries. The latter are fully aware that the former need allowances to conduct their business. Moreover, there is no market cap on price, as the penalty for emitting without an allowance does not remove the obligation to purchase such an allowance⁴.
- 3.2.5 It is imperative that the proposal protects the level playing-field among these carriers, and to ensure there are no long-term negative effects to workers' social conditions due to unfair

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<https://zpp.net.pl/en/press-release-new-eu-emissions-trading-scheme-how-to-mitigate-the-risks-for-european-consumers-and-smes/>.

competition from those companies not operating under the ETS. To ensure a complete analysis of the challenges, we would recommend launching a social impact assessment that considers the link between the application of the ETS, fair competition, and the potential social damage of carbon leakage. Furthermore, we propose two mid-term assessments that would analyse the social, environmental and economic impact of the amended ETS. This should take place two years and four years after the amended ETS enters into force and should provide all stakeholders with an opportunity to review the application of the ETS and the aims of the programme. These assessments will also provide an opportunity to check the recovery of the industry against the aims of the ETS.

3.2.6 To further the fairness of the proposal, we propose the consideration of two additional elements to the proposal:

a) Carbon border adjustment mechanism (CBAM)

The application of a CBAM will limit carbon leakage and encourage non-EU actors to improve their own environmental footprint. The aviation industry is not bound by borders, and, as such, it is difficult to legislate within the EU borders, as much of the traffic will operate outside. As mentioned previously, higher levels of social standards in the EU aviation sector must be protected as a priority, and a CBAM will support this. As the Commission supports the growth of the aviation sector through the development of comprehensive air service agreements with third countries, it should consider applying a CBAM to transfer flights from non-EU hubs, or other means of supporting the sustainable growth of extra-EEA operations.

b) Further measures to protect the level playing-field

The revision of the EU ETS must address the risk of carbon leakage. Carbon leakage is a significant threat to the EEA aviation market, given its proximity to a number of hubs which run a significant amount of extra-EEA traffic. Currently, most passengers have a number of options for their extra-EEA flight, which includes both internal and external hubs. However, with the increased cost of the ETS, there is a significant risk that EEA airlines will be undercut by cheaper operations based in hubs outside the EEA. To counter this, the allocation of free allowances must be replaced by a targeted mechanism against competitive disadvantages, in particular to protect European airlines and hubs.

3.3 Consideration for price modulation based on aircraft capacity

3.3.1 Broader consideration should be given to the possibility of applying a modular pricing system for ETS allowances that follows the "polluter pays" principle and promotes mass transport rather than private transport. As of September 2021, business aviation had increased by 27% compared to 2019 levels⁵, likely as a result of the reduction in capacity within the scheduled passenger aviation sector. Unlike scheduled passenger aircraft, business jets have a significantly lower passenger capacity. Despite this, they are treated in the same way as aircraft that have much higher capacity.

⁵ <https://www.eurocontrol.int/sites/default/files/2021-09/covid19-eurocontrol-comprehensive-air-traffic-assessment-30092021.pdf>.

3.3.2 The ETS should support a move to more sustainable modes of transport, including within the aviation sector, and should therefore promote a reduction in the use of business aviation. The ETS should follow the "polluter pays" principle, thereby forcing business jet users to pay higher charges. Operational measures could also be considered to discourage the use of business jets, by prioritising scheduled passenger traffic in other ways such as in network charges and airport slots.

3.4 **Reinvestment of ETS revenues**

3.4.1 Revenues earned from the ETS must be invested in the sector to support a socially and environmentally sustainable sector as well as a just transition. It is well known that the aviation industry's transition to carbon neutrality will require significant investment and the ETS is an opportunity to provide the necessary investment for this. This investment should focus on increasing the availability and usage of SAFs, while also driving down their cost to ensure users can maintain profitability while decarbonising the sector.

3.4.2 We welcome the Commission's broad ambition in the aviation-related aspects of the "Fit for 55" package, and support the continued development of sustainable aviation measures in both the revision of the ETS directive and the proposal for a Regulation on ensuring a level playing-field for sustainable air transport. These two proposals are complimentary and, as such, the revenues made from the ETS should support their aims. Therefore, ETS revenues should be used to promote access to and reduce the cost of SAFs throughout the EEA. Furthermore, the ETS could provide financial aid to airports, fuelers and ground handling companies to transition to the new requirements for SAF availability at airfields.

3.4.3 The revenues should also be reinvested in development projects that will further reduce the environmental impact of aviation. Technology such as hydrogen fuels are an option to reduce the impact of aviation in the long-term. Such technology, however, is cost prohibitive and remains far away from reaching application in the market, although investment in hydrogen projects and other alternative fuels will support cost reduction and higher uptake over time.

3.4.4 Revenues must also support a just transition for workers in the aviation industry who have been negatively affected due to climate change. It is anticipated that certain aviation infrastructure will become defunct over time as technology develops. These workers could be left without jobs, and reskilling and upskilling opportunities are required so that these workers can transition to new green and sustainable jobs. To implement this, an aviation social fund could be created that will allow for the training and transition of aviation workers. Such a fund could be managed by the European Commission, with the support of both employers and trade unions.

3.4.5 In addition to the fund, the Commission should engage with EWCs, sectoral social dialogue committees and other joint forums, such as the Aviation Roundtable, on the continued impact of the revised ETS throughout its implementation. Particular consideration should be given to engaging in social dialogue with workers and to understanding the needs and concerns they have in relation to sustainable aviation and the just transition in the sector.

3.5 Expansion of inter-modal transport

- 3.5.1 Inter-modal transport is an easy and cost-effective way to immediately reduce the climate impact of transport. Today, many airlines already allow passengers to purchase inter-modal tickets, particularly through agreements with rail operators. Such agreements allow for an overall reduction in flights, but also promote the use of sustainable mass transport in an efficient way.
- 3.5.2 The proposal should encourage operators to develop inter-modal transport networks in their major bases to allow expansion to a greater network, while also reducing unnecessary ultra-short-haul flights. This could be encouraged by increasing the level of free allowances in their place elsewhere in the airline's network to areas that do not have convenient rail connections when airlines move routes to non-aviation modes of transport.

3.6 Regional connectivity

- 3.6.1 In the absence of an alternative form of transport, there is a risk that the ETS could lead to reduced connectivity to remote regions of Europe. It is essential that any action taken must not threaten connectivity to peripheral European regions and Member States.
- 3.6.2 Peripheral regions rely on aviation to ensure their connectivity and economic development. Their reliance is due to their remoteness, small size, insularity and heavy dependence on connectivity to the continent for goods, access to services, connectivity and territorial cohesion.
- 3.6.3 Additionally, these regions have some of the lowest GDP rates in Europe and, as such, they must be protected and promoted. Therefore, we propose that the special status of EU outermost regions (Guadeloupe, French Guyana, Martinique, Mayotte, Reunion Island, St. Martin, Azores, Madeira, and Canary Islands) be retained, and that such regions be exempt from the ETS as per Article 349 of the TFEU, which allows for derogations from the application of EU law in these regions.

Brussels, 8 December 2021

Christa SCHWENG

The president of the European Economic and Social Committee
