EU Climate Policy

WILL POLICYMAKERS FINALLY WALK THE TALK?

For more than a year, Brussels has been negotiating the "Fit for 55" package. In terms of aviation, concepts for fair competition with non-European competitors and against carbon leakage are still missing. The upcoming trilogue negotiations will show how serious European and German politicians are about not disadvantaging domestic airlines and risking jobs.

When she presented the European Green Deal in December 2019, the president of the European Commission Ursula von der Leyen said: "The European Green Deal is on the one hand about cutting emissions, but on the other hand it is about creating jobs and boosting innovation." She added that this project "is very ambitious, but it will also be very careful in assessing the impact and every single step we are taking." As far as aviation and the "Fit for 55" package are concerned, reality is far from the claims made by the president of the European Commission. In particular, adequate solutions to carbon leakage and distortion of competition are still missing. Similarly, on a national level, the German coalition agreement states: "Our goal is to create a fair framework in international competition for effective climate protection in air transport". This announcement is correct. But it must lead to tangible policy. If the German government and other EU member states want to live up to self-imposed claims, they have to get the "Fit for 55" plans for air transport corrected. The current proposals would create massive competitive disadvantages for European network airlines and hubs. Airlines and hubs on the Bosporus and Persian Gulf would benefit.

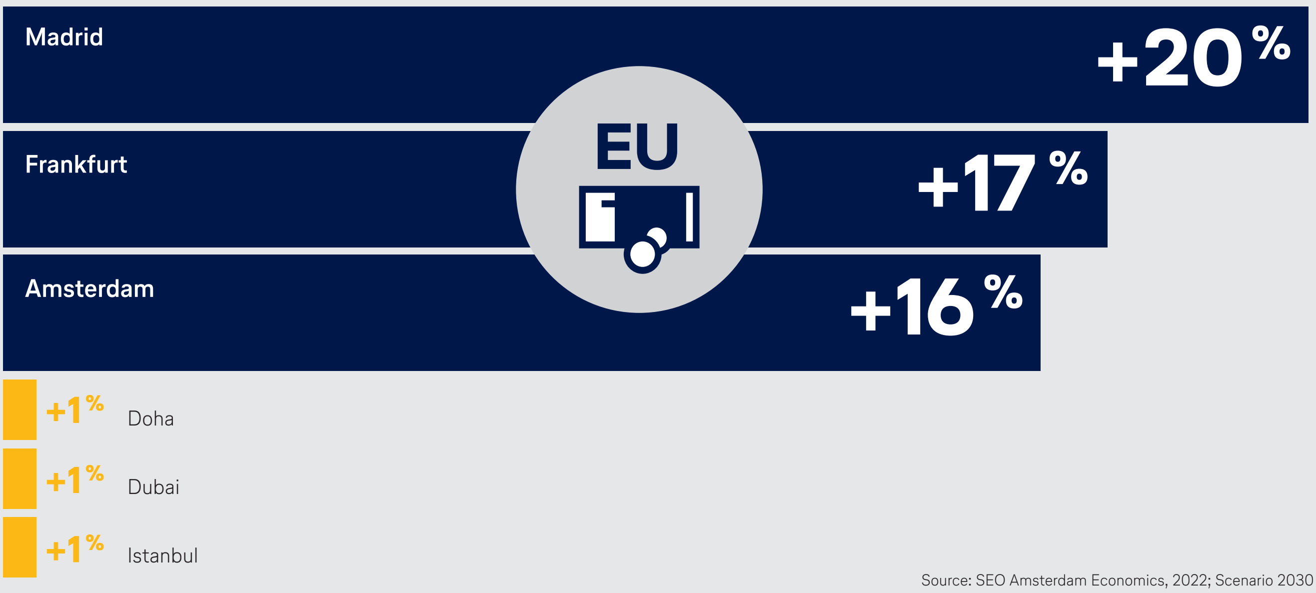
Two dossiers in particular need to be improved: "ReFuelEU Aviation" to introduce a blending mandate for sustainable aviation fuels (SAF) and the reform of the Emissions Trading Scheme (ETS).

SAF mandate unilaterally burdens European aviation

A SAF mandate can boost demand and thus the so far low production of green kerosene. However, fuel costs rise considerably due to the significantly more expensive SAF. For the greatest possible climate protection effect and balanced competition, the mandate must be redesigned: It should not unilaterally affect EU airlines, but also take adequate account of non-EU carriers. However, the planned SAF mandate

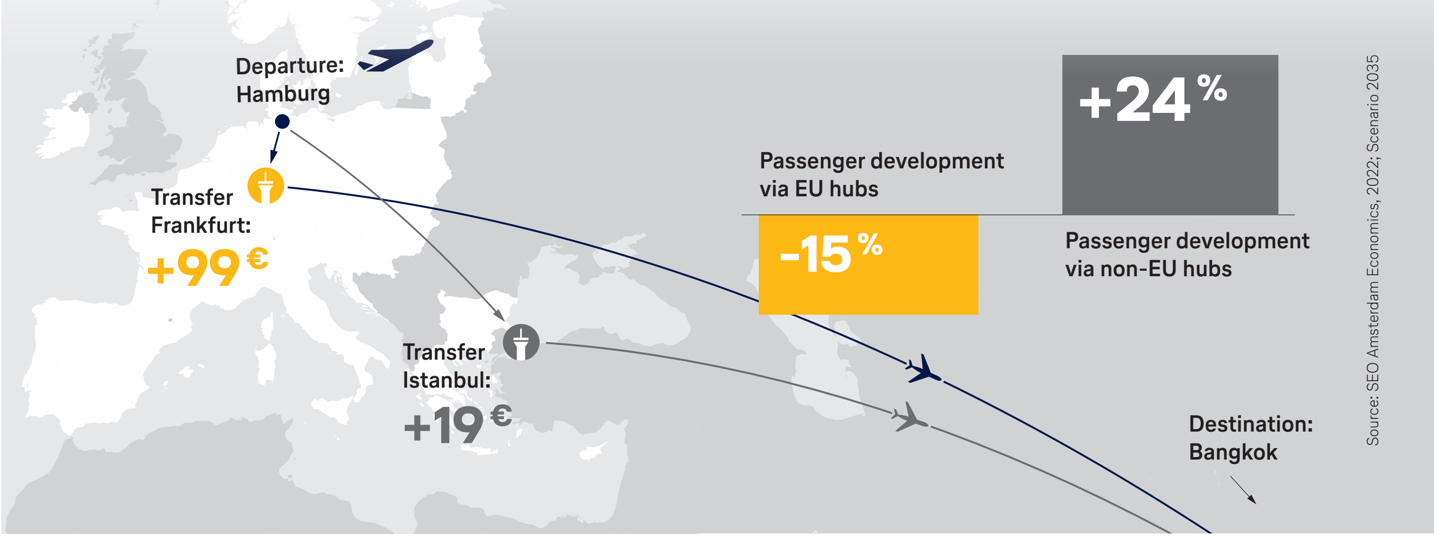
"Fit for 55" results in a significant burden on Europe's hubs

Development of air ticket prices via individual hubs



Source: SEO Amsterdam Economics, 2022; Scenario 2030

Development of passenger flows as a result of "Fit for 55".
Example Hamburg - Bangkok in 2035: The "Fit for 55" program increases ticket prices via Frankfurt by around 100 euros. Transferring in Istanbul, the "Fit for 55" additional costs amount to only one fifth. Overall, demand at EU hubs is expected to decline by 15 percent, while demand via non-EU hubs will grow by more than 24 percent.



should only apply to departures from the EU. This would make flight connections via European hubs significantly more expensive. The ticket price increase for journeys via Istanbul or Dubai, on the other hand, would be marginal because no SAF costs would be incurred when transferring at these hubs. This imbalance must be corrected.

Implement ETS reform in a competition-neutral way

In principle, the ETS is an effective climate protection instrument because it prices, limits, and reduces CO_2. However, as it only applies to flights within the EU, it is a disadvantage for European network airlines and airports in intercontinental transfer traffic. This is because feeder flights via EU hubs are subject to the ETS, whereas transfer connections via non-European hubs are not. Thus, the ETS reform should include an urgently needed correction of this distortion of competition. Instead, the European Parliament is even arguing for a tightening by extending the ETS scope to all departures in the EU. This would mean that EU airlines would buy ETS allowances for the entire journey, i.e. for the short feeder flight within the EU and the long-haul. In contrast, airlines with a transfer flight via a non-EU hub (e.g. Istanbul, Doha, Dubai) save themselves the purchase of allowances for the long and particularly expensive part of the route.

Already without the extension of the scope, transfer traffic will be heavily shifted to non-EU hubs. Consequently, 130,000 to 260,000 jobs would be at risk, as a recently presented study shows*. With an extension to all departures in the EU, the effects would be further exacerbated.

Extend SAF Allowances

To reduce the costs of SAF, the EU Parliament and Council have proposed the so-called "SAF Allowances". The idea implies that airlines would receive a certain amount of ETS certificates when refuelling with the expensive SAF. In this way, the cost disadvantage for EU airlines could be mitigated a bit. However, the necessary level playing field with airlines outside the EU is not fully achieved. Due to the sharply increasing SAF mandate after 2030 and the decreasing number of ETS allowances, this model can be a first step, but not a permanent solution. In the long term, another, adequate compensation mechanism must be found. In the trialogue, it is now important to design the SAF Allowances in such a way that they compensate for the additional SAF costs between EU and non-EU airlines until a fundamental new regulation is in place.

The success of the planned climate protection measures for air transport will be measured by whether it is still possible to catch this industrial policy boomerang. Currently, there is a danger that connectivity and value creation in Europe will be lost - in favour of companies in autocratically governed states. Europe must not become dependent on third countries for its transport policy.

* SEO Amsterdam Economics: Aviation "Fit for 55" – Ticket prices, demand and carbon leakage, March 2022