

EU Climate Policy

NEITHER EFFECTIVE NOR FAIR – YET

Almost one year ago, the EU Commission presented its Fit for 55 package. Until today, politics did not adequately address prevailing problems of carbon leakage and distortion of competition in aviation. With the legislative process reaching its crucial phase, it is high time to adjust the proposals and safeguard effective emission reduction, fair competition, and sustainable connectivity in Europe.

Significant carbon leakage effects already in 2035

A recent study by NLR-SEO Amsterdam Economics shows the impact on aviation of the Fit for 55 package. The analysis focusses on future ticket prices, the competitive position of EU aviation and carbon leakage.



Airfares via EU hubs

+ 23-29%



Carbon leakage effect

up to 46%

(e.g. Nizza-Seoul)



Passengers in Europe

- 119%



Jobs in EU aviation industry

- 260,000

Source: NLR & SEO Research Report, March 2022.

The warning is a strong one: The transformation towards a climate-neutral economy must neither harm the industry in Germany nor lead to job losses, says Yasmin Fahimi, President of the German Trade Union Confederation (DGB). Otherwise, committing „economic suicide“ would be the consequence. The union's concerns are justified. Fahimi's call for the necessary balance between economic prosperity and climate protection applies to almost all sectors.

At present, this is particularly true for aviation: the Fit for 55 plans threaten to create a considerable imbalance at the expense of European network airlines and hubs. Large non-EU hubs at the gates to the EU and their respective home airlines would benefit. Specifically, two dossiers urgently need to be improved in terms of competitive neutrality and carbon leakage avoidance: the blending mandate for sustainable aviation fuels (SAF) and the revision of the EU Emissions Trading Scheme (ETS).

SAF blending mandate unilaterally disadvantages European aviation

The planned SAF blending mandate will unilaterally increase fuel costs due to the significantly more expensive green kerosene. As a result, the price of airline tickets in Europe will rise. Passengers can easily avoid the major part of this price increase by travelling via a non-EU hub since the SAF mandate only applies to flights departing the EU. As a result, significant levels of carbon leakage and distortion of competition occur. In its current design, the proposal does not provide any mechanism, which could compensate for these unwanted effects. With regard to the SAF mandate, a competition-neutral solution that prevents carbon leakage must be found during the upcoming EU trilogue.

The EU council needs to adjust the EU ETS now

The current ETS is limited to EU flights and already disadvantages European network airlines and airports: Intercontinental transfer passengers travelling to or from the EU are subject to the ETS on feeder flights to European hubs. In contrast, a transfer at a non-EU hub implies that the feeder flight to this airport is not included. Instead of using the chance to correct this distortive element in competition, the European Parliament has tightened the proposal. An extension of the ETS scope to any flight departing the EU has been submitted. Further, European parliament has decided to reflect non-CO₂ emissions by proposing an arbitrary multiplier to the emissions under ETS, which lacks any scientific basis. Hence, the ETS is in danger of becoming even more unbalanced than it is already. It is now up to the European Council to take countermeasures.

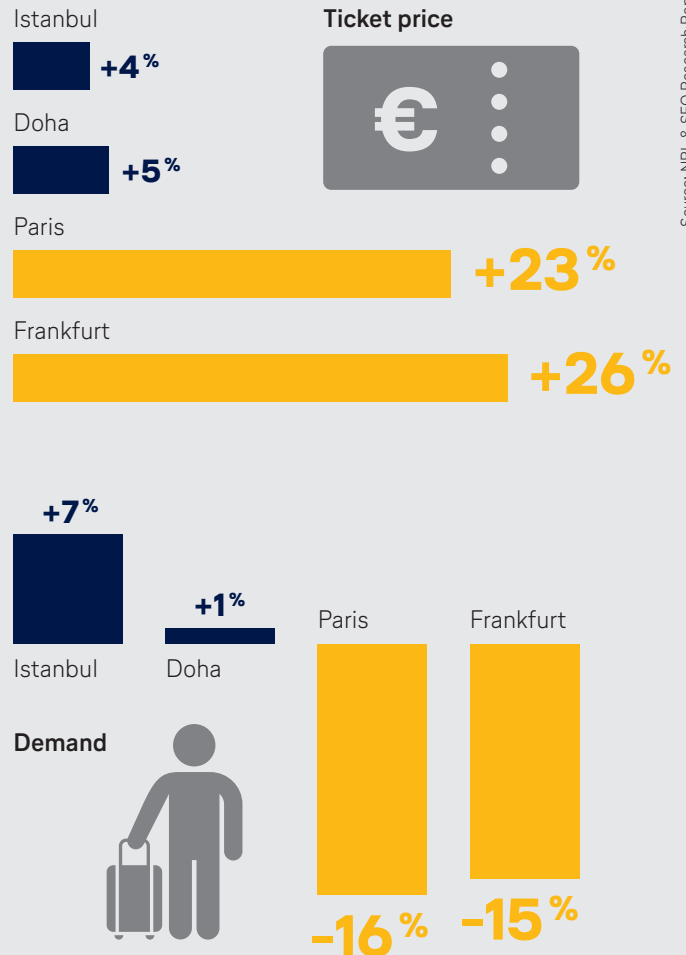
Ensuring fair competition and avoiding carbon leakage

As it stands, Fit for 55 is a stimulus package for autocratic regimes and Europe would become more dependent on third countries regarding transport policy. This cannot be in the interest of the EU. Without any counterbalancing measures, Fit for 55 will drastically increase ticket prices for EU airlines, but not for non-EU competitors. Equal treatment of EU and non-EU airlines is paramount.

During the past weeks, we have seen the European Parliament adding more restrictive amendments. In the Council, the governments of most EU Member States are hesitating to take a clear position. The German government committed itself in the coalition agreement to make Fit for 55 a success for climate and the economy. Yet, a clear and tangible position is still missing. In preparation for the upcoming trilogues, solutions for preventing Carbon Leakage and further distortion of competition need to be found to guarantee an effective climate policy.

Last week, the German Chancellor himself said what needs to be achieved: „Our industry should emerge stronger from the change that lies ahead of us. I want more jobs here, not fewer. And Germany should become climate-neutral and remain a competitive industrial country.“ That should be precisely the guideline for the German government’s positioning on Fit for 55.

Impact of Fit for 55 in 2035



Source: NRL & SEO Research Report, March 2022