

Research for TRAN Committee – The aviation and maritime sectors and the EU ETS: challenges and impacts

KEY FINDINGS

- Maritime shipping
- Including maritime shipping in the EU ETS leads to an increase in transportation costs on routes within the scope, especially for Ro-pax, passenger and Ro-ro ships. The additional costs may be borne by various actors in the value chain, depending on their ability to pass them on.
- To prevent that a potential reduction of extra-EU seaborne import trades is related to a market distortion, the external costs of all transport modes should be internalized to the same extent.
- Competitiveness of extra-EU seaborne exports may deteriorate for specific trades, not necessarily affecting the sector negatively.
- A shift of employment among shipping companies operating in the system scope is conceivable.
- Port evasion and shift of transshipment hubs cannot be ruled out entirely; especially the latter may have a large impact on specific ports and regional communities.

Aviation

- The proposed cap reduction and phase out of free allowances will result in cost increases mainly for intra-EEA air services and for routings via EEA hubs.
- Stakeholders support the co-existence of ETS and CORSIA, but have criticized 'double-taxation' caused by the proposed combination of kerosene taxes, blending quotas, CORSIA and the ETS.
- Competitive distortion between EEA and non-EEA carriers and hubs will increase on indirect routings between EEA and non-EEA airports. This may lead to carbon leakage and 10-35 thousand fewer jobs if passenger flows are further shifted to non-EEA routings.

The present document is the executive summary of the study on "The aviation and maritime sectors and the EU Emission Trading System: challenges and impacts". The full study, which is available in English can be downloaded at: <https://bit.ly/3B8Op7q>



In July 2021 the EC presented the Fit for 55 policy package, including a revision of the European Emissions Trading System (EU ETS). New sectors are proposed for inclusion: For buildings and road transport a separate ETS would be established, while maritime shipping would be included in the current system. For aviation, EU ETS is proposed to be tightened and the elements and rules of ICAO's global Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) are proposed to be implemented.

This report analyses the potential challenges for and socio-economic impacts on the maritime shipping and aviation sectors resulting from this proposal. It considers implementation challenges, consequences for the competitiveness of European stakeholders and impacts on sectoral employment, also based on stakeholder consultations. Recommendations on how to overcome implementation issues and adverse competitive and societal effects are provided (see Chapter 7). Together, this should support Members of the European Parliament in systematically assessing the EC proposal.

Maritime shipping

- Proposal in a nutshell

It is proposed to include maritime shipping in the existing EU ETS, with the Union-wide quantity of allowances being raised. The system would be open, allowing sectors to use all allowances for compliance. The sector would receive no free allowances, but would have to cover only some of its emissions with allowances in the first 3 years. The system would rely on the EU Monitoring, reporting and verification (MRV) Regulation. In line with this Regulation, companies would be the responsible entity and Tank-to-Propeller CO₂ emissions would be covered. The geographical scope would be narrower (50% of emissions on extra-EEA voyages) and companies would also have to report the aggregated in-scope emissions per ship and the associated aggregated emissions at company level. Companies are proposed to be assigned to administering authorities.

- Implementation issues

Including maritime shipping in the EU ETS may lead to certain implementation issues, solutions to which may be controversial, given the divergent interests at play. E.g., while working with the company as responsible entity minimizes administrative costs, some companies propose working with the 'ship commercial operator' instead, fearing they will be unable to fully pass on compliance costs. Some of the issues are not easy to resolve because of the specifics of the sector. E.g., issuing expulsion orders for ships of non-compliant companies might be complex, since vessels regularly change companies. This report specifies various potential issues and discusses the divergent interests.

- Socio-economic impacts

Including maritime shipping in the EU ETS will increase transportation costs, especially for Ro-pax, passenger and Ro-ro ships, which have high average per-vessel emissions within the scope. Irrespective of vessel type, the additional costs could be borne by different actors in the value chain, depending on their ability to pass them on.

To avoid market distortions, the external costs of all transport modes should be internalized to the same extent. This can also prevent that a potential reduction of extra-EU seaborne import trades would be related to a market distortion.

Since the EU ETS is a measure that corrects a market distortion on a regional level, beyond that region the playing field may become uneven. While the competitiveness of extra-EU seaborne exports may deteriorate for specific trades, the impact on the sector need not necessarily be negative, as vessels could also move into those trades, the sectors thus gaining a competitive advantage.

Port evasion and shift of transshipment hubs cannot be ruled out entirely, however, and especially the latter may have a major impact on specific ports and regional communities.

A shift of employment among shipping companies operating on routes to and from EEA ports is conceivable, despite the flag-neutral design of the system. There may be a shift from small to large companies and from companies with ships above the size threshold to those with ships below the threshold.

Aviation sector

The EEA aviation sector can be roughly divided into a liberalized intra-EEA market, where direct flights by 'pan-European' low cost carriers compete with hub services of network carriers like Air France or Lufthansa, and various extra-EEA markets served by both EEA and non-EEA carriers and hubs.

- Proposal in a nutshell

According to [COM\(2021\) 552 final](#), the EU ETS will remain in force on most intra-EEA routes and on routes to Switzerland. The system will be tightened, with no free allocation of allowances from 2027 onwards, and a reduction of European Aviation Allowances (EUAA) by 4.2 % annually. In addition, EU ETS will become effective on routes to the UK, on routes to and from countries that do participate in CORSIA for carriers from countries not participating in it, and on routes to countries not participating in CORSIA for all carriers from 2027. CORSIA will not be implemented on international routes within the EEA, only on routes between the EEA and CORSIA-participating extra-EEA countries.

- Socio-economic impacts

Despite rising operational costs due to the increased auctioning share and despite the lower cap and higher CO₂ prices expected, direct competitive effects of the revised EU ETS on intra-EEA routings are likely to remain limited, as virtually all intra-EEA routes fall under the scheme, whether flown by low cost or network carriers.

However

- for a limited number of intra-EEA origin-destination combinations (ODs), passengers may also select indirect services via non-EEA hubs, which would not be subject to EU ETS but to the softer CORSIA scheme only. Only if the Swiss and UK ETS were less strict than the EU ETS might this hold for the non-EEA hubs London and Zurich.
- Increased air fares due to intra-EEA ETS costs could induce shifts in holiday demand to non-EEA destinations. While this is not necessarily a competitive disadvantage for EEA carriers, it is an example of carbon leakage.

- Only domestic flights to outermost regions will remain exempt from ETS obligations, while flights between those regions and other EEA territories will become subject to the scheme. This may give a competitive advantage to network carriers based in Portugal and Spain.

EU ETS will also create no competitive distortions on non-stop extra-EEA routes, such as Barcelona-New York, where CORSIA will be in operation rather than the EU ETS. The same applies to indirect routings between non-EEA locations via the EEA.

Extra-EEA routings that include intra-EEA feeder segments are the main transport segments where the competitive position of EEA carriers and hub airports will be adversely affected by a tightened EU ETS. E.g., only the intra-EEA portion of the routing Gothenburg via Frankfurt to Bangkok will be subject to the EU ETS, while a direct flight or a routing via a non-EEA hub falls under the less stringent CORSIA scheme, if at all. As a result, competitive distortion and carbon leakage due to shifts to non-EEA carriers and routings are likely.

The above described effects are likely to reduce EEA-based carriers' market shares and employment and also affect EEA tourism destinations. For EU air transport services, tightening the EU ETS may potentially result in the loss of 10 to 35 thousand jobs out of a total of 633 thousand jobs in 2018.

Further information

This executive summary will be available in the following languages: English, French, German, Italian and Spanish. The study, which is available in English, and the summaries can be downloaded at: <https://bit.ly/3B8Op7g>

More information on Policy Department research for TRAN: <https://research4committees.blog/tran/>



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