The aviation and maritime sectors and the EU Emission Trading System (EU ETS): challenges and impacts

FINAL STUDY

In July 2021 the European Commission 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 the International Carbon Action Partnership’s (ICAO) global Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) are proposed to be implemented.

Main observations

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 maritime shipping sector negatively.
- A shift of employment among shipping companies operating in the system scope is conceivable.

Aviation
- The proposed cap reduction and phase out of free allowances will result in cost increases mainly for intra-EEA (European Economic Area) 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.
Conclusions and policy recommendations

Maritime Shipping

The authors of the study are of the opinion that the potential impacts of the EU ETS revision should be assessed considering the aggregated effects of the different policy measures, and the different measures should be consistent and properly geared. Also, the impacts on remote areas like EEA Member States’ overseas territories require specific analysis, and an exemption or alternative compliance option for SMEs and small emitters should be considered.

The effectiveness of the Monitoring, reporting and verification (MRV) regulation should be carefully checked and the enforcement should be equally effective for all ships. Some portion of the revenues could be earmarked to facilitate the energy transition of the sector and become available for non-MSs. In terms of external costs of the different transport modes, they should all be internalized to the same extent. Ultimately, compensating measures for transshipment ports and a phase-in period could be considered.

Aviation Sector

It is suggested to specify, in the review proposal, the exact ETS and offsetting exemptions (e.g. for flights to States exempt from CORSIA from 2027 onwards) on rotorcraft services and on exemptions for SAF fuels.

As a possible solution for the competitive disadvantage of indirect routings via EEA hubs to non-EEA locations, a carbon leakage protection could be introduced which would reduce the ETS-related cost of intra-EEA feeder flights proportionally to the share of non-EEA transfer passengers.

Next steps

1. Include maritime shipping in the existing EU ETS. External costs of all transport modes should be internalized to avoid market distortions
2. A dedicated recycling of auctioning revenues to the development of emission reduction measures for aviation, such as SAF feedstock development, production and distribution.

Figure: Schematic overview of the current EU ETS for aviation

Source: Authors’ own illustration, adapted from Maertens et al. (2019); EEX logo published under public domain on https://commons.wikimedia.org/wiki/File:European_Energy_Exchange_logo.svg and taken from there.

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