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NOTE

From: General Secretariat of the Council
To: Delegations

Subject: Implementation of full auctioning for the aviation sector under EU ETS
– Information from the Polish delegation

Delegations will find in the Annex an information note by the Polish delegation on the above subject, to be dealt with under 'Any other business' at the Council (Environment) meeting on 5 March 2020.

Implementation of full auctioning for the aviation sector under EU ETS**- Information from the Polish delegation -**

According to data from the European Environment Agency (EEA), the aviation sector is the only sector covered by the EU ETS system where emissions have been increasing year on year. The main reason for this is a steadily growing number of passengers and flights, but technical improvements, fleet replacement, and increased operational efficiency partly offset the effects of this increase (the increase in emissions is clearly lower than the increase in the number of passengers and flights).

At the same time, the aviation sector receives free emission allowances (worth about EUR 800 million in 2019). It should be noted that the key objective of the EU ETS system is to reduce greenhouse gas emissions in a cost-effective manner. In this context, the free allocation of emission allowances to aviation operators should be considered as a mechanism that weakens the effect of the EU ETS, a situation which is currently not reasonably justified.

The free allocation of emission allowances under the EU ETS system, as regards stationary installations, has had one main objective: to protect European industry from carbon leakage, which would entail the reallocation of carbon-intensive production outside the EU and to an increase in global emissions. At this point it should be noted that, as a rule, the power sector does not receive free emission allowances. This is because the legislation recognizes that energy production is not at risk of carbon leakage. The aviation sector is not directly exposed to the risk of carbon leakage as flights operated within the EU are accounted for by operators in the EU ETS system and cannot be replaced by the same service provided outside the territory of the Member States. At the same time, the risk of carbon leakage may result from operating flights outside the European market (e.g. from Asia to America via Istanbul). For these reasons, the aviation sector should not receive free emission allowances.

The elimination of free emission allowances would have a similar effect as the additional environmental charges and taxes under consideration, and the introduction of such a system would not require multi-annual legislative procedures.

Moreover, the very method of the free allocation of emission allowances (assuming the extrapolation of historical data for the purpose of determination of the number of emission allowances in the next accounting period) may result in interference with competition in the European market.

Fair allocation methods should aim at adjusting allowances where an operator reduces the number of aircraft operations; however, where an operator grows and carries out more aircraft operations, there should be mechanisms to ensure that more emission allowances can be obtained in the next accounting period. The methods used should take into account the saturation of the air transport market concerned and reflect its scale of activity, without imposing a linear burden on all carriers. **A method that assumes extrapolation of historical data to determine the number of emission allowances in the subsequent accounting period does not, however, provide for such symmetry and may thus generate unjustified windfall profits and deficits in emission allowances for some operators and consequently lead to unequal treatment.**

Also important is the fact that the elimination of free allowances for the aviation sector would increase revenue from the auctioning of emission allowances, which should be used in full to finance mitigation actions. The revenue from auctions could be used to develop innovative solutions and to finance the transformation of the transport sector, in particular air transport.

With the above in mind, we consider it useful for the above issues to be analysed in detail in view of the possibility of preparing appropriate legislative solutions to withdraw free emission allowances for the aviation sector, following a detailed assessment of the impact of the proposed solutions on the aviation sector, including on air traffic forecasts in individual countries.
