

## Air France-KLM key messages on the European Green Deal

9 March 2021

### Introduction

#### Legislative initiatives

The European Commission (EC) has set out an objective of **EU climate neutrality by 2050**, translating into **reducing emissions from transport by 90% by 2050 compared to 1990**, and an **EU intermediate target of emissions reduction of 55% by 2030 compared to 1990**. To meet those objectives, the EC announced and confirmed in its December 2020 Sustainable and Smart Mobility Strategy the following **legislative initiatives**:

- **ReFuelEU Aviation**: a legislative proposal aiming to ramp up the production and deployment of sustainable aviation fuels (SAFs).<sup>1</sup> Timeline: EC proposal expected in **April 2021**.
- **Revision of the EU ETS for aviation**: a legislative proposal aiming to implement CORSIA<sup>2</sup> into EU legislation and to reduce free allowances for aviation. Timeline: EC proposal expected in **June 2021**.
- **Revision of the Energy Taxation Directive** (*not specific to transport*), in which existing fuel tax exemptions will be reconsidered, including for aviation. EC proposal expected in **June 2021**.
- **Carbon border adjustment mechanisms** (*not specific to transport*) to prevent distortion of competition to the detriment of EU companies due to climate policies being more stringent in the EU than in third countries, thus causing carbon leakage (shift of emissions).
- The existing regulation on the **EU Taxonomy for sustainable activities**, which is meant to guide private and public actors in the area of sustainable finance, is to be amended to possibly include as “green” activities certain investments by airlines, in particular related to fleet renewal. Timeline: Delegated Act amending the regulation to be issued by the EC in **early 2022**.

#### Interrelatedness

The different initiatives are closely interrelated. Notably, ReFuelEU, the revision of the EU ETS and the revision of Energy Taxation Directive all **have the potential to cause major cost increases** for European carriers, with two main potential consequences:

- **A reduced capacity to invest in SAFs and fleet renewal**. This could be mitigated to a certain extent by **incentives schemes** under RefuelEU or resulting from the EU Taxonomy.
- **Reduced competitiveness vis-à-vis third-country carriers** resulting in traffic being captured by extra-EU hubs, thus causing **carbon leakage**. This could be mitigated by a **carbon border adjustment mechanism** for aviation (although the feasibility of such a separate instrument is uncertain), or **other measures included in the legislative initiatives** (see “Key messages” below).

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<sup>1</sup> The EC is also conducting a **review of the Renewable Energy Directive** (not specific to transport), which may possibly lead to a revision, to better contribute to the development of renewable energy sources. Timeline: EC proposal expected June 2021.

<sup>2</sup> **CORSIA** (Carbon Offsetting and Reduction Scheme for International Aviation): a global market-based measure agreed in 2016 by ICAO countries to address emissions from international aviation and achieve carbon-neutral growth from 2020. To date, 80 countries (including the U.S., China and Gulf countries), representing 77% of international emissions, are to participate in the voluntary first phase of the agreement (2021-2026).

## Industry commitments

As early as 2009, air transport, through IATA, **committed itself proactively** to concrete climate objectives<sup>3</sup>: a yearly improvement in fuel efficiency of 1.5% from 2009 to 2020, carbon-neutral growth from 2020, and reducing CO<sub>2</sub> emissions by 50% by 2050 compared to 2005.

In November 2020, in the **Aviation Round Table Report on the Recovery of European Aviation**<sup>4</sup>, European associations representing the entire aviation sector, as well as environmental NGOs, called “for all stakeholders and all policy-makers to **work together to achieve net zero CO<sub>2</sub> emissions from all flights within and departing from the EU by 2050**”, while “achieving significant emission reductions by 2030”, and to “consider the feasibility of making 2019 the peak year for CO<sub>2</sub> emissions from European aviation”.

In February 2021, European airlines, airports, manufacturers and ANSPs published the **Destination 2050** roadmap<sup>5</sup>, which shows a **possible pathway to net-zero emissions in 2050 for all flights within and departing from the EU**, with a yearly passenger traffic growth of 1.4%, based on four main pillars:

- **Aircraft and engine technology**
- **Air Traffic Management and aircraft operations**
- **Sustainable Aviation Fuels**
- **Smart economic measures**

The industry’s commitments under Destination 2050 are **subject to securing the required supporting policy and financing framework at EU and national levels**.

## Key messages

### *Aircraft and engine technology*

- **Research and development on new propulsion technologies such as electric and hydrogen must be supported**, while keeping in mind that they are not a solution for short-term decarbonisation.
- **Fleet renewal is for the coming years airlines’ main lever to decarbonise and should therefore be supported**. Electric or hydrogen aircraft will not be available until the mid-2030s and for short-distance flights only. Existing new-generation aircraft<sup>6</sup> burn 25% less fuel on average than those they replace, but are difficult to finance in the current crisis. Support will be key in particular in the context of the EU Taxonomy and the EIB lending policy.

### *Air Traffic Management and aircraft operations*

- **The Single European Sky must be fully implemented**, resulting in more direct flight routes and reducing CO<sub>2</sub> emissions in Europe by up to 10%, as indicated by the Commission in its amended SES2+ proposal published in September 2020.

### *Sustainable Aviation Fuels*

- **Innovative incentive policies must be introduced to make sustainable aviation fuels economically viable**. In addition to fleet renewal, SAFs are the most promising option for decarbonising aviation in the short/medium term as they emit up to 80% less CO<sub>2</sub> than regular kerosene, but they are currently four to eight times more expensive.

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<sup>3</sup> <https://www.iata.org/en/programs/environment/climate-change/>

<sup>4</sup> <https://a4e.eu/wp-content/uploads/aviation-round-table-report-16-11-2020.pdf>

<sup>5</sup> <https://www.destination2050.eu/>

<sup>6</sup> e.g. A350, A330neo, A320neo family, A220, B787, B777-X, B737 MAX, E195-E2.

### *Smart economic measures*

- **Changes to the EU ETS must allow for a full and proper implementation of CORSIA**, as emissions are a global issue which must be tackled at global level. Additionally, they should take into account the ICAO principle<sup>7</sup> that “international aviation CO<sub>2</sub> emissions should be accounted for only once”, meaning that the future EU ETS should only address emissions that are not mitigated by CORSIA.
- **New taxation must be avoided**, as it would deprive airlines of the means to invest in fleet renewal and SAFs, and would fail to preserve the socio-economic benefits of air connectivity. Aviation, it should be noted, pays for most of its infrastructure, contrary to other modes of transport. If taxes were put in place nonetheless, their revenues should at least be earmarked to projects and measures that effectively contribute to decarbonising aviation.

### *Level playing field and carbon leakage*

- **The reinforcement of EU environmental standards must be conducted simultaneously to the establishment of a carbon border adjustment mechanism for aviation to avoid unfair competition and carbon leakage.** Reduced competitiveness of EU airlines would result in third-country carriers capturing traffic flows through their hubs at Europe’s doorstep, thus merely displacing emissions.
- **Absent a separate carbon border adjustment mechanism for aviation, other measures ensuring a level playing field would have to be adopted** to the same effect as part of the different legislative initiatives. For example, the reduction of free ETS allowances could be limited, the financial burden on intra-EU connecting traffic could be alleviated, and hubs close to the EU could be integrated into the EU ETS via air services or trade agreements.

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<sup>7</sup> ICAO Resolution A40-19: (18). “Determines that the CORSIA is the only global market-based measure applying to CO<sub>2</sub> emissions from international aviation so as to avoid a possible patchwork of duplicative State or regional MBMs, thus ensuring that international aviation CO<sub>2</sub> emissions should be accounted for only once.”