ERA position paper
Fit for 55 proposals

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About ERA

The European Regions Airline Association (ERA) is the trade association representing more than 55 regional airlines and over 130 associate members, including manufacturers, airports, suppliers and aviation service providers, across the entire spectrum of the aviation industry. ERA works on behalf of its members to represent their interests before Europe's major regulatory bodies, governments and legislators to encourage and develop long-term and sustainable growth for the sector and industry. A major part of ERA's role is to raise the profile and importance of its members, to champion green and sustainable air connectivity and European air transport.

Sustainable aviation

The aviation sector as whole is committed to the reduction of its carbon footprint, as outlined in the *Aviation Roundtable report* and *Destination 2050 – A route to net zero European aviation*. The latter, in particular, identifies four pillars through which the sector will be able to reduce its CO_2 impact. These are the development of sustainable aviation fuels (SAFs), clean technology, operational improvements, and market-based mechanisms (MBMs). The report aligns the European aviation sector to the European Union's goals to significantly reduce CO_2 emissions by 2030 and reaching carbon neutrality by 2050. We therefore call to ensure alignment of the new proposals with the *Destination 2050* findings.

ERA welcomes the 'Fit for 55' (Ff55) Package proposals by the European Commission (EC) and outlines the position of its membership on three main legislative files which will have an impact on the air transport sector: the EU ETS revision, the ReFuel EU Aviation initiative and the Energy Taxation Directive. **Ff55 will represent a significant financial and administrative burden for intra-EU flights, especially for regional carriers** as they will be the main players who will have to bear the cost of decarbonisation in the intra-EU market.

Revision of the EU ETS for aviation

MBMs, like the EU ETS and the Carbon Offsetting Scheme for International Aviation (CORSIA), play a crucial role in decarbonisation in the short and medium term, representing 27 per cent of the CO_2 reductions by 2030, while by 2050, as the sector can rely more on in-sector reductions offered by technology and SAFs, MBMs will be responsible for 10 per cent of the net CO_2 reductions, according to the *Destination 2050* report.

While ERA supports the underlying objective of the EU ETS, to gradually reduce CO_2 emissions within the European economy, it is important to make sure that its revision **does not undermine the competitiveness of the aviation sector and does not cause a shift of tourism and 'carbon leakage' due to increased ETS credit costs and overall costs of the Ff55 package.**

The proposal suggests a **complete phase out of allowances** by 2027 and an increase of the yearly linear reduction factor of 4.2 per cent from the original 2.2 per cent. An increase of the auctioning level of allowances will not mitigate CO_2 emissions from aviation as the environmental impact is determined by the 'cap' of the scheme rather than by the free and auctioned allowances. Steeply reducing the free allowances and proposing a complete phase out by 2027 will have a negative impact on European carriers' competitiveness at a global level, due to the higher costs they will encounter, thus hindering fair competition, especially in a period in which the sector is still recovering from the COVID-19 crisis and facing huge financial pressures. A solution to this could be to maintain some free allowances in proportion to the amount of passengers transferring from EU hubs to non-EU destinations.

It must be additionally **ensured that aviation-related EU ETS revenues gained from the auctioned allowances are used towards the decarbonisation of the sector** by, for example, supporting the uptake of SAF and into R&D of new sustainable aviation technologies. Currently the dedicated Innovation and Modernisation funds lack an aviation focus. This would be a more effective way of reducing the air transport's carbon footprint not only in the short term, but also in the mid to long term.

The ReFuel EU Aviation initiative

ERA fully supports the purpose of the ReFuel EU Aviation initiative: to reduce the environmental footprint of the aviation sector and to boost the supply and demand for sustainable aviation fuels.

The aviation sector has been relying on different solutions to reduce its emissions, such as MBMs, technology development and operational improvements. However, these represent solutions for the long term. SAFs play a

crucial role in the mitigation of aviation CO_2 emissions as they offer a short-term solution using existing aircraft. In the *Destination 2050* report, it is expected that SAFs would reduce CO_2 emissions by 46 per cent by 2050, representing 80 per cent of the total fuel consumption in the aviation sector.

ERA raises the following concerns:

- We support the **targets** of SAF supplied proposed by the EC of 2 per cent by 2025, 5 per cent by 2030, 20 per cent by 2035, 32 per cent by 2040 up to 63 per cent by 2050. We also support the sub-mandate on synthetic fuels. However, mandates need to have flexibility to ensure that they can be responsive to the developing technologies that may come in the 29 years between now and 2050. There are known difficulties with all technologies including SAFs, hydrogen and electricity, but there is also a lot of research and development, the results of which cannot currently be anticipated accurately. Innovative solutions should not be at risk of targets, mandates and regulation designed for earlier times and technologies.
- **Supply at airports**: given the scrutiny of the sector, particularly the concerns over short-haul flights, we believe that all airlines operating at any airport should be able to have access to SAF. However, the current proposal exempts supply at smaller airports with less than one million passengers per year. While we understand that given the current low production it will be difficult to supply all airports with SAFs, we need to ensure access to SAFs to all players, including regional airlines, which operate in secondary airports where there is no obligation to supply SAFs at the moment. Therefore, we propose to put in place a **Book and Claim (B&C) system** allowing all interested airlines to access SAFs to be claimed under other regulations, for example. These kinds of measures have been in place for years in other sectors with very positive results such as the 'financial' Power Purchase Agreements in the Renewable Energy markets (aka 'virtual' or 'synthetic' supply agreements). B&C could be also a simple and effective way to allow airlines that are not able to use SAFs (for example, because they use AVGAS) to also participate. B&C agreements would also decrease the relevance of the airport volume limit (one million), or even make it unnecessary, simplifying the whole system.
- As outlined in the industry's *Destination 2050* report, any SAFs should follow robust and **transparent sustainability criteria** whereby only advanced biofuels and synthetic fuels are to be considered. They should not compete with food crops nor land use. Additionally, a diversified and sustainable feedstock base should be established. Furthermore, the ReFuel initiative must be fully aligned with the RED II directive.
- **Carefully assess the anti-tankering** provision. We understand and fully support the need to avoid carbon leakage. However, the anti-tankering provision in Article 5 of the proposal might have operational and safety implications. In fact, several situations may require additional or 'round-trip' fuel to be uplifted, for example, due to limited infrastructure at regional airports or to mitigate sudden deteriorating weather conditions (very common at island or remote aerodromes). We therefore recommend that the implications of tankering restrictions are fully assessed against the procedures in place. An alternative would be to allow for potential exceptions ('tankering allowances') with a prior proper justification due to operational, regulatory or safety issues. Unique runway airports and/or geographical situation of closest alternates (could be too close with the same weather situation or across the sea thus requiring more fuel) are considerations that could also be taken into account for fuel uplifts.
- Ensure that only a **European approach** is taken. We are aware that some Member States might go ahead with their own national blending mandates despite having an EU obligation in place. This will create a significant administrative burden on airlines and lead to confusion as well as a perception of a lack of unity. An EU approach is, among other things, supposed to address these concerns and having different additional national obligations calls into question the purpose of an EU-wide mandate.
- **Address possible market distortion and impact on EU carriers' competitiveness**. Similar to the EU ETS, carriers operating at EU airports will face increased costs compared to carriers operating at non-EU airports, where such blending obligation is not present. This will also cause carbon leakage as passengers are likely to be redirected towards non-EU destinations at lower costs, leading to a negative environmental impact.

Revision of the Energy Taxation Directive

ERA is concerned by the European Commission's proposal to start taxing jet fuel. While curbing demand by imposing a fuel tax on aviation may look like a promising approach to some, it raises important questions.

One aspect to be emphasised is the **impact of aviation tax on European regions**. There is little doubt that regional communities across Europe have come to depend on air connectivity for their development, allowing them to be connected not only to their national capital, but also other European capitals, regions across Europe and increasingly, non-European markets (these regional routes also often represent the main input for other cross-continental routes). Taxing aviation involves risks as the economics of regional air connectivity are fragile and subject to volatile and changing market dynamics.

ERA is understandably concerned that **a fuel tax on aviation would hurt regional air connectivity in a disproportionate way**. Price/demand elasticity is much higher for regional air routes and these routes are typically less profitable than higher volume air routes. Imposing a tax and generally higher costs leads to a risk of further connectivity loss in the regions. This means that increasing aviation taxation raises serious issues of social and territorial inequality – the very themes that are driving public debates and politics across the EU right now.
ERA additionally believes that a tax on jet fuel is **unlikely to address the fundamental and crucial issue of the decarbonisation of aviation**. As related revenues would not be earmarked for that purpose, we fail to see how such an approach would effectively and meaningfully contribute to the objectives of the Green Deal.

The aviation sector is already focussing on solutions – also addressed by the Ff55 package – that are better placed to decarbonise the sector: improved ATM, improved technology, use of SAF and EU ETS/CORSIA. It is therefore important to improve ATM inefficiencies and invest in uptake of SAF and new technologies first before damaging regional air connectivity.

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