AEF response to UK ETS: Impact of end of aviation free allocation on regional connectivity consultation

Introduction

Aviation Environment Federation (AEF) campaigns on aviation for people and the environment. Our focus is on aviation policy, relating primarily to climate change, noise and air pollution, and we participate in several Government engagement groups including having a seat on the Jet Zero Taskforce. Internationally, we are a lead member and representative of the NGO grouping ICSA (the International Coalition for Sustainable Aviation), which has observer status to the UN's International Civil Aviation Organisation (ICAO).

Consultation questions

1. Do you think there have been or will be any impacts on regional connectivity within the UK as a result of the removal of aviation free allocation? If so, what are they? Please expand on your response by providing relevant evidence

We do not think there will be any significant loss in regional connectivity with the removal of aviation free allocation. As noted in the consultation, ETS costs do not affect the direct margin of a route and we would not expect removal of free allocation to have any major effects on the market (*'a change in free allowances does not affect the direct margin of a given route and generally operators should continue to operate at the same capacity'*). In the event that this change does lead to an operator scaling back services or routes, the PSO system is already in place and well equipped to ensure that domestic connectivity is protected.

2. As a result of the removal of aviation free allocation, do you think that government intervention is required to mitigate any potential impacts on regional air connectivity providing access to key services for communities within the UK? Please expand on your response by providing relevant evidence.

Government intervention could be required via the PSO system, but it is not clear that any additional intervention would be beneficial according to the 5 policy principles outlined in the consultation:

1. Impact on connectivity and isolated communities

As above, risks to connectivity and island communities are already protected by the PSO system so there is no differentiation between intervention and non-intervention.

2. Maintaining ETS effectiveness

Exemptions, or other forms of mitigation, would reduce the effectiveness of the ETS by removing the decarbonisation incentive on these routes. This is especially important for island routes which are likely to be ideal candidates for the early adoption of zero emission aircraft (ZEA) due to short distances and low passenger numbers. Whilst aircraft with a MTOW below 5.7t are already excluded from the ETS (and these are the ones ZEA may initially replace), it is important to consider whether exemptions/funding for the routes in Table A3 could affect ZEA adoption above the weight threshold. In the future, some

consideration may also be needed over how the ETS could incentivise ZEA uptake on routes using planes below the 5.7t threshold. For example, airlines could be offered free allowances to cover emissions on their other routes that do use aircraft above the threshold.

3. Cost to taxpayer

The cost to the taxpayer of not intervening is unclear from the evidence provided in the consultation. There could be no costs if operators continue to maintain routes, but it is also possible that additional funding for PSO(s) may be needed to cover increased costs. But this needs to be balanced with the corresponding impact on ETS revenues. Implementation of the proposed policy mechanisms is guaranteed to forego ETS revenues, with this cost estimated at £2.99m from 2026-2030. Overall the impact to the taxpayer is likely to be low or neutral.

4. Alignment with other decarbonisation policies (UK and international)

Government intervention would create some misalignment with the EU ETS due to the different qualifying criteria implemented in the EU system. Whilst not intervening would also leave some misalignment, this would be simpler at a time when the UK is pursuing greater alignment with the EU ETS.

5. Operational and legal feasibility

Operational feasibility is likely to be fairly simple across all options, although non-intervention represents the easiest option.

Based on this, we would suggest that not intervening is the simplest and most beneficial option in relation to the policy principles. Additional government interventions would add unnecessarily complications, with potentially limited benefits, to the existing PSO system that already protects regional domestic connectivity.

3. Which of the proposed policy mechanisms (i.e. exemptions or direct funding) would better mitigate any impact of the removal of aviation free allocation on regional connectivity? Please provide examples and/or evidence where possible.

Both approaches have limitations. As we state in question 2, exemptions remove any incentive to increase efficiency, indicating a slight preference for direct funding. However, while there is a case for direct funding of routes subject to PSOs, we do not support funding of routes that are commercially viable. For this reason, if it is decided to offer direct funding on non-PSO routes, we would be strongly in favour of the suggestion in the consultation for a tapered phase out of support to maintain the decarbonisation incentive of the ETS. Additionally, as there is a risk that direct funding leads to a culture where airlines do not always prioritise efficiency measures (knowing that the taxpayer will foot the bill), we would favour any support being conditional on efficiency improvements, decarbonisation or ZEA uptake on each route. An approach using a tapered phase-out and conditions could also be applied to the exemption option.

4&5. Do you think that the qualifying criteria (i.e. maximum take-off weight and island communities) are suitable to identify how support is allocated? Please provide examples and/or evidence where possible. Are there any other viable qualifying criteria that you think would be suitable to identify how support is allocated? Please explain your reasoning and provide examples and/or evidence where possible.

If intervention is deemed to be required, the qualifying criteria provide a solid starting point but we would favour additional measures as it is not clear that all the routes included by the

criteria require direct financial support. If support is allocated, we would prefer a limit on ATMs or passengers to be applied in addition to the qualifying criteria (e.g. <1,000 ATMs/year or <20,000 passengers/year).

6. Which of the proposed policy options (A to C) do you prefer? Please explain your reasoning and provide examples and/or evidence where possible.

We would rank our preference of policy options as A first, then B, then C. Creating a new support mechanism seems unnecessarily complicated when the PSO system is adequate for ensuring connectivity is maintained. It is not clear that support is required and this could add taxpayer costs for no benefit.

7. What is your view on exempting all PSO routes from UK ETS obligations? Please explain your reasoning.

We understand the principle that exempting PSO routes saves costs being passed around by the Government but also note the importance of the decarbonisation incentive and push towards cleaner flight even on these routes. We do not necessarily have a preference for either option but think it is important to raise the question over whether exempting PSOs will affect the uptake of zero emission technology on these routes. A possible mitigation if exempting PSO routes would be to gradually remove this exemption out to a specific target year (e.g. 2040) for zero emission flight operation. Additional incentives e.g. extra allowances, could be offered to encourage the uptake of ZEA alongside the push for decarbonisation.

8. What is your view on combining exempting all PSO routes with another mitigation option, such as Option B or C? Please explain your reasoning and provide examples and/or evidence where possible.

The only comment to add beyond our previous answers is that providing Loganair the equivalent of 112% of its free allocation seems excessive. If implementing this combined option we would favour limiting this in some format, for example by using the additional qualifying criteria suggested above.

9. Do you think there are other viable options the Authority could consider that could effectively address mitigating any impact caused by the removal of aviation free allocation on regional connectivity? Please explain your reasoning and provide examples and/or evidence where possible.

N/A

Other

In considering the policy principles, it is important to note the exclusion of Jersey, Guernsey and the Isle of Man from the UK ETS. We would support including routes to and from these locations in the UK ETS for the following reasons:

- These routes often do not face the same pressures as the thin island routes described in the consultation and including these in the UK ETS would therefore be of low risk to connectivity and isolated communities.

- Reduced revenue from these routes adds a cost to taxpayers.
- There are also questions around fairness and alignment with other policies, with these routes exempt from CORSIA due to being considered domestic but not being included in the UK ETS which covers domestic flights. Inclusion would improve fairness of the application of the UK ETS across domestic aviation.
- 2,667,204 passengers flew to or from Jersey, Guernsey and the Isle of Man in 2024 (CAA airport data). Our modelling estimates this as 9% of UK domestic aviation emissions that is not being fully accounted for or incentivised to decarbonise.