



EUROPEAN PARLIAMENT

YOUTH DIALOGUE

EU EMISSIONS TRADING SYSTEM: ARE WE MOVING FAST ENOUGH?

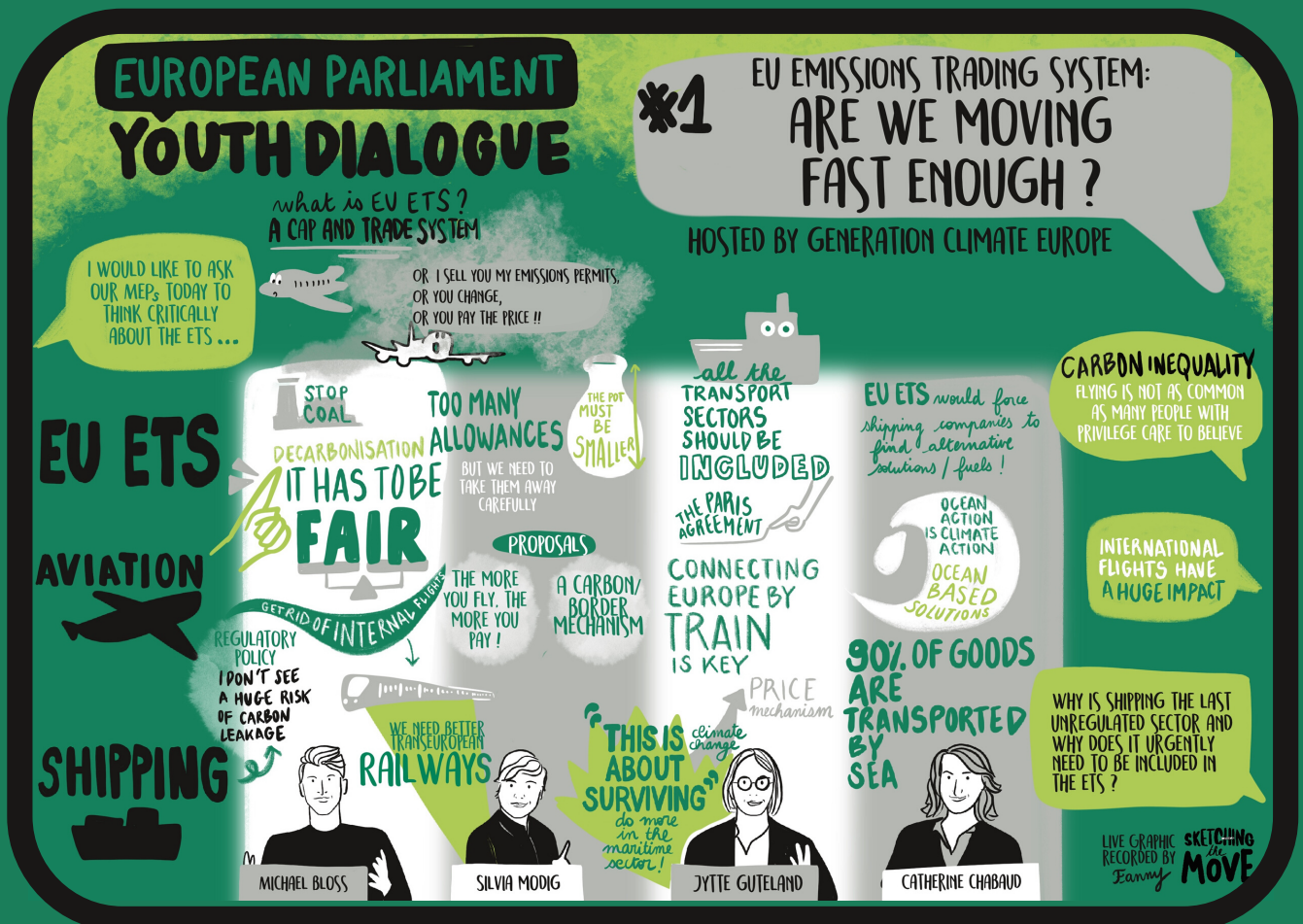


Published: August 2021

Introduction

On 27 May 2021, Generation Climate Europe held the first *European Parliament Youth Dialogue* (EPYD) with four Members of the European Parliament (MEPs) from major European political groups to discuss the revision of the Emissions Trading System (ETS). The ETS is an economic tool for decreasing emissions as fast as possible by making companies pay for every kilogram of CO₂ they release into the atmosphere. Currently, it covers around 45% of EU greenhouse gas (GHG) emissions across Europe

Founded in October 2019, GCE is the largest coalition of youth-led networks at the European level pushing for stronger climate and environmental action by the EU. We bring together some of the largest European youth networks, representing over 460 national organisations, across 47 countries, gathering the voices of over 20 million young Europeans. Uniting students, young workers unions, high-school and university organisations, and environmental movements, GCE is an inclusive forum enabling youth to get involved in today's environmental debates.



Visual Harvesting from the session - Fanny Dldou Sketching the Move

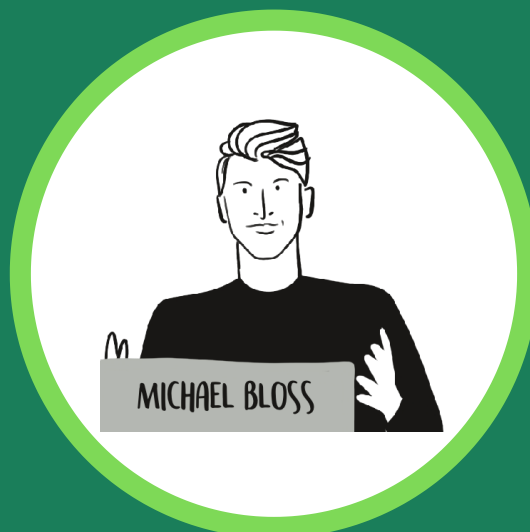
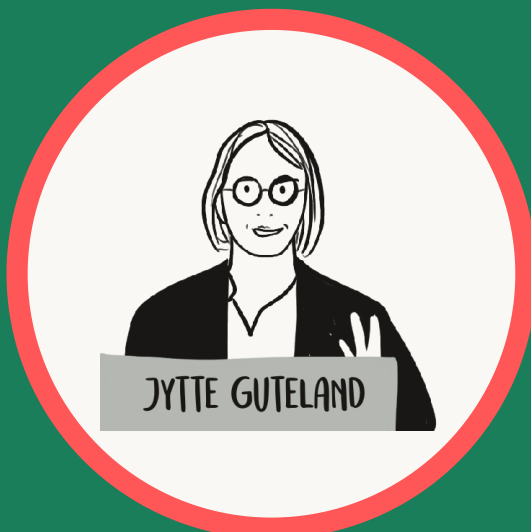
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Who was involved

Four members of the European Parliament joined GCE for the discussions: Michael Bloss (The Greens); Jytte Guteland (Socialist & Democrats - S&D); Silvia Modig (The Left - GUE/NGL); and Catherine Chabaud (Renew Europe). No MEP from the EPP was able to join us for this Dialogue.

GCE Board Member Charlie Brocard moderated the Dialogue, with other GCE representatives – Dario Pagnia, Flora Marchioro, Nadine Mingers, and Ruben Sansom – taking a central part in the discussions.

Fanny from *Sketching the Move* visually recorded the discussion. Whilst hosted by GCE, the event was live-streamed and publicly accessible for youth all over Europe via several platforms, and participants could send in questions for the panel. Over 100 people from 28 nationalities registered to watch the event and, as of 10 June, the recording on YouTube and Facebook has been viewed over 600 times.



The Dialogue

Overview of Emissions from Aviation and Shipping

GCE's Project Co-Lead on Rail Transport, Dario Pagnia, started the dialogue by giving a broad overview of the state of the aviation and shipping sectors and why it is important to reduce their GHG emissions.



Currently, flights between the EU and the rest of the world are not part of the ETS, largely due to industry demands and because many EU economies rely on income from tourism. In a global context, the Paris Agreement excludes non-CO2 effects from aviation; therefore, the aviation sector's contribution to climate change is often downplayed. Additionally, there is a race to the bottom: countries are not willing to enforce higher prices on local airlines, as passengers could start flying from neighbouring airports. However, if all EU countries agreed to include all flights in the ETS, this would be an effective way to both reduce the number of flights and main-stream investments in carbon-neutral aviation.

When discussing the aviation sector, it is important to consider carbon inequality. Despite the passenger cost per km having dropped significantly since the introduction of commercial airlines, emissions from flying are still predominantly produced by the global economic elite.

11%

In 2018, only 11% of the world's population travelled by air, and only 4% flew internationally. (1)

Individuals who use private planes are responsible for very high levels of emissions, with each private flight roughly equivalent to what 1000 average Europeans emit in the same time span in all areas of life (including food, housing, land transport). (2)

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Despite relatively few users of air travel, flights contribute significantly to GHG emissions. Price increases for tickets will need to be extremely high to encourage top emitters (and earners) to reduce flying. However, the same price per tonne of carbon might have significant economic impacts for the price of essential services such as heating, and caution must be taken in terms of the social implications these market-driven policies have on less economically privileged citizens.



The shipping sector carries around 80% of global trade and is responsible for more than 2% of global emissions – more than all of Germany (3). Primary causes for the growth in trade volumes are:

- the rise of export-focused economies;
- the expansion of intra-trade (trade of products from the same industry);
- the increased fragmentation of supply chains (parts of products are made and sold in different countries).

Motivated by rising sea levels' threat to the future of their countries, the Pacific nations of the Marshall Islands and Solomon Islands recently called on the United Nations International Maritime Organisation (IMO) to introduce a 100 dollar per tonne levy on GHG emissions. The current IMO target is a 70% reduction in CO₂ and a 50% reduction in total GHG emissions, by 2050.

Innovation-oriented industrial giants have often called for tougher shipping emissions rules compared to many governments. The executive director and head of fuel decarbonisation of Trafigura – the world's largest private metal trader and second-largest oil trader – suggested a carbon price of \$250-\$300 per tonne of CO₂. The CEO of Maersk, the world's largest container shipping line and vessel operator, suggests tackling climate change within the industry would only cost around 6 cents per pair of shoes (4). Low carbon technology in the sector is severely underdeveloped. However, a harmonised carbon price across all sectors will allow shipping builders, operators and owners to fully decarbonise while simultaneously motivating them to implement quick solutions (e.g. lower speeds) as carbon prices progressively increase.

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Overview of the ETS

To begin the discussions GCE's Project Co-Lead on Clean Road Transport, Flora Marchioro, gave an overview of the ETS: a market-based system, which creates economic incentives for cutting emissions, introduced in 2005. It targeted certain industries that were responsible for 43% of the EU's total greenhouse gas emissions such as manufacturing, power generation and transport. Until now, the ETS has addressed the transport sector in a limited capacity, only covering commercial flights within the European Economic Area (5).



In each trading phase of the ETS revision, the EU Commission sets a total cap on the emissions that companies can produce in that specific phase. We are now in the Fourth phase (2021-2030). This cap is used to calculate the fixed number of allowances issued each year. These allowances are either allocated for free to certain industries or auctioned.

The primary way the ETS aims to reduce emissions is by gradually reducing the fixed number of annual allowances, so emissions decrease every year. Companies must hold enough allowances to cover their emissions.

If a company does not have enough allowances compared to its actual level of emissions, it has three options:

Cut emissions by developing more sustainable ways of production.

Buy more allowances from other companies or through direct auctioning.

Pay a fine of €100 per excess ton of CO₂.

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This ensures that the system is cost-effective: a company that has extra allowances can either sell them or save them for the following year. Subsequently, companies that are effective in reducing their emissions are awarded (by selling their permits to "hungry companies" and receiving back the price of the permit). The trading then allows emissions to be cut where it costs the least to do so.

While the idea behind the system makes sense, it has not been effective: it is only this year that we have seen a serious increase in the price for the allowances. Both Jytte Guteland and Silvia Modig acknowledged this, stating that the ETS currently provides too many allowances, stalling decarbonisation and supporting the most-polluting industries. They also agreed that the ETS should include shipping, as it is mostly commercial and is unlikely to directly disadvantage private users (who primarily use road transport). On aviation, Silvia Modig pointed out that frequent flyers were responsible for most of the emissions and should be targeted more than those who fly infrequently. She suggested that, combined with taxing kerosene, introducing a system where the more one flies the more one pays would aid decarbonisation efforts. Since aviation is an industry mostly used by high-income consumers, including it in the ETS is less likely to disadvantage those with the least wealth.



All MEPs emphasised this desire to ensure the ETS is fair. However, Michael Bloss questioned whether this was possible. If prices are raised due to the ETS, those with the least wealth are likely to suffer more unless they receive some compensation. Jytte Guteland argued that the ETS must be reflective of the needs of the different member states and offer an economic support system that is fair to member states and across income groups.

Michael Bloss was also uncertain whether the ETS is the best way to lower emissions: as it is a market-focused tool, it is more difficult to implement. Historically, raising prices on CO₂ emissions has not significantly reduced emissions. While the other MEPs expressed similar concerns, they asserted that a reformed ETS could be a useful tool to limit emissions.

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The ETS and Aviation

GCE's Clean Mobility Coordinator, Nadine Mingers, introduced the section on aviation, focusing on the ETS's limited scope, which only covers intra-EEA (domestic) flights. CO2 emissions from the airline industry have doubled since 1990 – propelled by long-haul flights – which dwarf emissions from sectors that often receive more political attention, such as heating (6). Subsequently, Nadine Mingers suggested that the main problem is that, whilst the ETS puts a cap on intra-EEA travel, there is no limit on the largest culprits: flights in and out of Europe.



"There is less risk of carbon leakage than industries make us believe"

However, even the constraints on intra-EEA travel have been hampered by a historical surplus of allowances. Such surpluses were implemented primarily as a response to the industry's argument that stricter rules would cause carbon leakage: companies would move their operations abroad to countries with less ambitious climate measures in order to lower their production costs, leading to a rise in emissions overall. However, Nadine Mingers explained that this argument does not apply to airlines as only intra-EEA flights are covered, which obviously cannot be moved abroad. Michael Bloss and Silvia Modig echoed the view that carbon leakage is not as large of a risk as the aviation industry claims. Silvia Modig made the important point that it is not only the cost of production that is considered for these companies, but also the presence of a qualified workforce and a politically stable society, both of which the EU offers.



"Flights must be more expensive"
"We must channel more money and investment into making alternatives (transport) achievable"

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This year, the Carbon Offsetting and Reduction Scheme (CORSIA) is set to be introduced by the United Nation's body for aviation (7). It aims to coordinate international efforts to limit emissions and create a level playing field globally. Countries, not companies, can voluntarily opt in until 2027. Unfortunately, many issues plague this new scheme. Crucially, the scheme provides an extreme oversupply of cheap carbon offset credits (equivalent to €1). It will also account for emission reductions that are already calculated within other member states' climate measures, causing double-counting of emission reductions, limiting the scheme's effectiveness (8). Thus, Nadine Mingers concluded that opting in would weaken EU climate targets overall. Instead of waiting for the UN or other states to lead, the EU should implement effective measures and push others to follow.

The speakers agreed that more investments should be made into alternative sustainable transport methods, particularly rail. Currently, aviation is relatively inexpensive for consumers compared to train travel, but this needs to be reversed. If train travel becomes more accessible and better developed, Michael Bloss believes that it will be a large step in dramatically reducing the number of internal flights. Michael Bloss and Silvia Modig highlighted historical successes of such measures: new railway lines between Cologne and Frankfurt stopped internal flights between the cities; and a new railway system linking Malaga and Madrid reduced flights between them by 70%. Additionally, trains can offer a more pleasant form of fast travel with less waiting time due to security restrictions for customers.

However, Charlie Brocard urged caution, stating that focussing so heavily on fast railway transport could lead to further biodiversity loss, as railway lines will likely need to be constructed through natural habitats. Furthermore, Nadine Mingers outlined that while this would be an important step, long-haul flights will not be accounted for by increasing investments into intra-EU rail.



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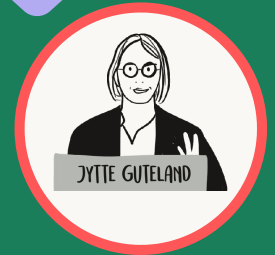
The ETS and Shipping

Finally, GCE's Project Co-Lead on Rail Transport, Ruben Sansom, introduced the section on shipping, outlining the need for more stringent regulations on the shipping industry. The shipping sector will account for a fifth of all global emissions in 2050, if the current system remains the same. In the EU (ships arriving at EEA ports), by 2050 maritime emissions will increase by 86% compared to 1990 levels (9). So far, shipping is the only sector which has not faced any emissions-reducing regulatory measures within the EU. Jytte Guteland stressed that the EU cannot wait any longer on this issue: climate change is already bringing extreme weather, and causing massive human, economic and wildlife costs; it is not a future problem.

Both Ruben Sansom and Jytte Guteland highlighted the ineffectiveness of the IMO's regulatory regime. They agreed that rather than leaving regulation to the UN body, the EU must take regulation of the sector into its own hands. Ruben Sansom stated that to ensure that the companies who pollute pay for their emissions, shipping must be included in the ETS, which the EU parliament voted to do last year by a large majority. Jytte Guteland said that currently, companies are not paying enough for their emissions.

The price of goods should be reflective of their environmental cost as well as their economic cost. Not all MEPs agreed with this: Michael Bloss prefers the use of regulatory policies rather than subsidies to incentivise companies. For example, limits should be placed on the type of ships that can dock at EU ports to force companies to make changes rather than incentivising them with taxpayers money to make changes.

"We are not paying enough for the transport part of imports"



"The EU has the capacity to become a sustainable mobility Champion"

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One of the promising points raised during the discussion was the newly proposed Ocean Fund, put forward by Catherine Chabaud and Jytte Guteland. This fund aims to use half of the maritime ETS revenues to finance research & development into solutions for the decarbonisation of the sector. These measures will include protection, restoration and better management of marine ecosystems impacted by global warming, as well as tackling climate change more broadly within the EU.

Catherine Chabaud stated that it is crucial to do this by promoting more decarbonisation technology and to use alternative technologies to improve energy efficiency of the sector. Ruben Sansom offered further support, pointing out that as ships are in operation for many years, it is essential that current technologies used in their construction reflect the need to reduce their emissions.

Recommendations

EU ETS

- End excess and free allowances effective immediately.
- Spend 100% of generated revenues on the EU's climate transition (including, the just transition and research and innovation funds).
- Avoid extending the ETS to sectors already covered by the Effort Sharing Regulation and/or national climate targets.

Maritime

- Cover shipping emissions under the EU Monitoring-Report-Verification (MRV) scheme (include all ships calling at European ports, not just intra-EEA).
- Bulletproof the ETS against evasive port calls (ships docking at less regulated ports in neighbouring countries to the EU for lower costs) and subsequent carbon leakage.
- Link the inclusion of shipping into EU ETS to other policy developments, such as the FuelEU Maritime initiative to efficiently coordinate the sector's decarbonisation

Aviation

- Include international aviation in the current ETS scheme rather than as a part of the CORSIA scheme.
- Remove free allowances to airlines (carriers currently receive half of their emission allowances permits for free).
- Make the EU ETS cover all aviation emissions (not only intra-EEA, which is only 5% of global aviation).

The process for developing these recommendations

Primarily, we formulated our recommendations by consulting young people, studying scientific reports from other environmentally-conscious NGOs and through meetings we held with specialists in the aviation and maritime sectors from Transport and Environment (T&E), a think tank campaigning for cleaner transport in Europe. The opportunity to deliberate with the MEPs about the issues at stake during the public and the private sessions was also crucial in refining our position.

In conclusion, our recommendations aim to help make this upcoming revision of the Emissions Trading System a success, and thus help the EU achieve its climate targets for 2030 (and 2050 respectively). Our aim is to ensure that the voice of young people is present in the discussions on the EU Emissions Trading System and our transition to climate neutrality.

Endnotes

- (1) Carrington, D. (2020) '1% of people cause half of global aviation emissions – study', *The Guardian*, 17 Nov.
- (2) Gössling, S. & Humpe, A. (2020) 'The global scale, distribution and growth of aviation: Implications for climate change'. *Global Environmental Change*, 65, pp. 102-194.
- (3) European Community Shipowner's Association (ECSA) (2017) Shipping and Global Trade Towards an EU external shipping policy. Brussels: ECSA.
- (4) Larocca, J. M. (2020) 'These industry leaders are calling for a carbon levy on shipping fuel - here's why'. World Economic Forum.
- (5) EU (2021) 'EU Emissions Trading System (EU ETS)'.
- (6) European Union Aviation Safety Agency (EASA) (2021) 'Emissions'.
- (7) The International Civil Aviation Organization
- (8) Transport & Environment (2021). Corsia: worst option for the climate. Briefing.
- (9) Transport and Environment (2020) 'Q&A: Revision of the Shipping MRV Regulation'

Acknowledgments

The European Parliament Youth Dialogue is a series of three events between the youth and the European Parliament in 2021. It is organized and coordinated by Generation Climate Europe, with operating support from Youth and Environment Europe. It is equally supported by the five main political groups in the European Parliament: the Greens / European Free Alliance; the Left (GUE/NGL); the Socialist and Democrats (S&D); the European People's Party (EPP); and Renew Europe.

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Published: August 2021

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Drawings by Fanny Didou (Sketching the Move)

Visual Identity designed by Isabel Ruiz Abascal

Suggested citation: Generation Climate Europe (2021). *European Parliament Youth Dialogue on the EU Emissions Trading System: Are we moving fast enough?* Brussels: GCE.

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