

COLLEGE OF EUROPE  
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**Carbon leakage and distortion of competition  
between EU and non-EU airlines and hub airports**

The negative impact of the inclusion of aviation in the EU ETS

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## **Abstract**

The decision to include aviation in the EU Emissions Trading System was made in 2008 and the sector has been participating in the scheme since the beginning of 2012. However, some argue that it raises competition concerns between EU and non-EU carriers and might ultimately lead to carbon leakage. The investigation of this very matter is the aim of this thesis.

In the past few years there have been many regulatory impact assessments carried out in the field, which provide a good source of information and basis for the analysis. While most of them are more general, there are two that focus specifically on the questions of competition between EU and non-EU airlines and on carbon leakage. Thus –among others- the study by Ernst & Young and York Aviation (2008) and the one by CE Delft and MVA Consultancy (2007) have been used extensively for this work.

The body of this paper is made up of two main chapters. The first one presents and analyses the EU ETS and the inclusion of aviation from a legal and economic perspective. The second one focuses on competition between EU and non-EU carriers and attempts to answer the research questions that have been set out. First it follows a theoretical approach and then it moves on to three practical case studies, each modelling a type of market that has been suggested to be threatened by carbon leakage. The case analyses are conducted on countries in the Neighbourhood of the European Union.

It is found that the EU ETS leads to distortion of competition on certain indirect routes, which has the potential to result in carbon leakage.