A·W·G AVIATION WORKING GROUP

22 September 2021

Filip Cornelis
European Commission
Directorate-General for Mobility and Transport
1049 Brussels, Belgium
MOVE-E1-SUSTAINABLE-FINANCE@ec.europa.eu

Dear Mr. Cornelis,

Proposed Technical Screening Criteria for Passenger Air Transport

We write to you in connection with the draft proposal for the technical screening criteria for passenger air transport for the purposes of the EU taxonomy, as included within the 'preliminary recommendations for taxonomy technical screening criteria' published on 4 August 2021 (the **draft TSC**).

We set out below a high-level summary of our understanding of the various options in which a commercial aviation financing would be considered 'sustainable' for the purposes of the EU taxonomy pursuant to the draft TSC.

	Zero Emission Aircraft	Qualifying Aircraft	Decommissioning Requirement	SAF Requirement	Increased SAF Requirement
Option 1	X				
Option 2 (until 2030)		X	X		
Option 3 (from 2030)		X		X	
Option 4					X
Option 5 (Corporate Finance)		X	X		

We believe that there needs to be significant changes in order to make the framework in the draft TSC workable in a practical context. Working within that framework, we set out below core principles and their justification for your consideration.

Core principles:

1. **Qualifying Aircraft**: The aircraft threshold requirements should directly reference ICAO's CO2 emissions standard, rather than imposing a new standard modifying that ICAO, global standard.

> Justification:
>
> **Qualifying Aircraft**: ICAO's CO2 emissions standard is a globally agreed standard, developed over many years and reflecting an international consensus. The EU was centrally involved in the negotiations that led to that standard, and so any change should be addressed in an ICAO forum. Regional differences would create a patchwork of inconsistent standards. Our concerns on this were noted in the section entitled 'Principle 4 – ICAO certification standard' in our letter to you dated 25 February 2021.

2. **Decommissioning**: The draft TSC's approach to decommissioning[1], seeking a direct link between eligibility and removal from service, is not workable in practice. Therefore, it will not achieve its policy objective. Rather, we propose a market-based standard that utilizes the existing financial ecosystem in the aviation sector such that each airline or aircraft lessor is able to finance, by way of sustainable financing, a percentage of its qualifying aircraft equivalent to the proportion of (a) the number of aircraft decommissioned in the global market for commercial air transport over the preceding three years, divided by (b) the number of aircraft delivered in that market over the same period. Such proportion would be rounded or carried forward by standard methods, and referred to as the **Determined Decommissioned Proportion** (**DDP**). AWG would provide the Commission with the numbers contemplated by (a) and (b) above or such information can be directly obtained by the Commission from commercial databases. A sustainable financing would not lose that status based on a subsequent change in the DDP.

<u>Justification</u>:

Decommissioning Market-Based Standard:

(a) An aircraft's life-cycle means that it typically passes through a number of airlines and aircraft lessors before it is decommissioned, with some airlines and aircraft lessors operating newer equipment, others operating mid-life equipment, and others operating older equipment and then decommissioning. The draft TSC would mean that an airline or aircraft lessor with only new and fuel-efficient equipment within its fleet would not be able to avail of Option 2 without buying soon-to-be decommissioned aircraft. It would also prevent, on an absolute basis, the eligibility for sustainable finance for new airlines, which would be inconsistent with EU competition policy.

(b) The draft TSC could create a range of adverse economic effects, with the possibility of creating a new market in soon-to-be decommissioned aircraft with no real economic benefit.

(c) The draft TSC would not work in the context of aircraft lessors, noting that approximately 45% of aircraft are owned by aircraft lessors and so represent a vitally important part of the aviation market.

3. **SAF Requirement and Increased SAF Requirement[2]**: The draft TSC's approach to the use of drop-in sustainable aviation fuels (**SAF**) is not workable in practice. SAF requirements should be based on the availability of SAF on reasonable commercial terms. In addition, the obligation to use SAF should apply in respect of the airline's fleet or, where it relates to an aircraft lessor, the fleet of the airline such aircraft is leased to (and should not apply in respect of the relevant aircraft's SAF usage), including on a book and claim basis. Therefore, we propose that, to satisfy the sustainable financing eligibility requirement, an airline should be required, on a forward-looking basis, to use a proportion of SAF within its fleetwide fuel use equivalent to (a) the proportion of the airline's fleet financed (by the airline) by way of sustainable financings, multiplied by (b) the amount of SAF used in the preceding year as a proportion of global aviation fuel use, multiplied

[1] In particular, but without necessary limitation, in Option 2 of the draft TSC, with other references in that document to decommissioning remaining under AWG review.

[2] Without limiting this core principle 3, we encourage the Commission to continue its review of when the use of sufficient levels of SAF should be treated as 'substantially contributing' to sustainability objectives under the taxonomy, given the importance attached in the regulation to lifecycle emissions.

by (c) a factor indicating that such airline is using more than the then applicable average (for example, this might be 120% for the general SAF requirement and 150% for the increased SAF requirement). Furthermore, given the practicalities of calculation and reporting, SAF requirements should only be deemed non-compliant where an airline has failed to meet the factor set out in (c) above for two consecutive years. The Commission should establish, collect the data needed for, maintain, and make transparent, the yearly SAF amounts used globally and by each airline with sustainable financing.

> Justification:
>
> **SAF Requirement and Increased SAF Requirement:**
>
> (a) Analysis on an aircraft-basis is neither practical nor warranted, as airlines have, and should be encouraged to have, fleetwide systems and approaches to SAF usage.
>
> (b) The Commission is in the best position to compel disclosure of SAF usage on a uniform basis.
>
> (c) The proposed SAF requirements are unrealistically high, compared to forecast production, logistics, and availability. Given that exact SAF production, logistics, and availability are unknown, it is necessary to link the requirement to a market-based measure, rather than an absolute percentage.

4. **Corporate Finance**: We understand that Options 1-4 are in respect of asset financing, and that Option 5 provides a corporate financing solution. If that understanding is correct, Option 5 should be available where a proportion (for example, 20%) of the airline or aircraft lessor's fleet meets the requirements of any of Options 1-4.

> Justification:
>
> **Corporate Finance**: The exact proposal for corporate financing was unclear but, if Options 1-4 can be clearly defined, then it would make sense that a corporate financing was available to an airline or aircraft lessor where a proportion of its fleet met the requirement of any of Options 1-4.

We request further consultation with you to help refine the draft TSC, in line with the above principles, to enhance its workability and practicality. We would also be happy to provide further input or details as required. We look forward to hearing from you.

Sincerely yours,

Jeffrey Wool
secretary general
Aviation Working Group

CC: **Francois COLLET of Airbus** and **Daniel da SILVA of Boeing**, Co-Chairmen, AWG