EU/UK ETS: Which Airlines Face the Biggest Cost Risk from ETS Expansion?

The cost of complying with Europe's emissions trading systems (ETS) has increased significantly in recent years, becoming the third or fourth-largest operating cost for many airlines behind fuel and labour, according to industry estimates and airline disclosures. This is set to rise further from 2026, as free allocation of allowances (EUAs) is phased out completely, putting a price to virtually **every tonne of CO2 emitted by intra-EEA flights**.

On 17th July 2026, airlines will also learn whether the EU intends to **further expand the scope of the EU ETS** to cover all flights departing airports in EEA countries, which could significantly increase ETS compliance costs for long-haul airlines and, for the first time, cover non-EU airlines flying from Europe to non-EEA destinations.

This report highlights key insights from interactive dashboards available on Ishka SAVi's platform, and answers two pressing questions:

1. Under the **EU ETS**, which airlines had the highest net exposure through to 2025 and, based on average allowance auction prices, what is **the cost of their net exposure**?
2. And, how much are airlines operating in Europe **exposed to a potential scope expansion** by the EU, UK, and Swiss ETS to all flights?

EU ETS recap

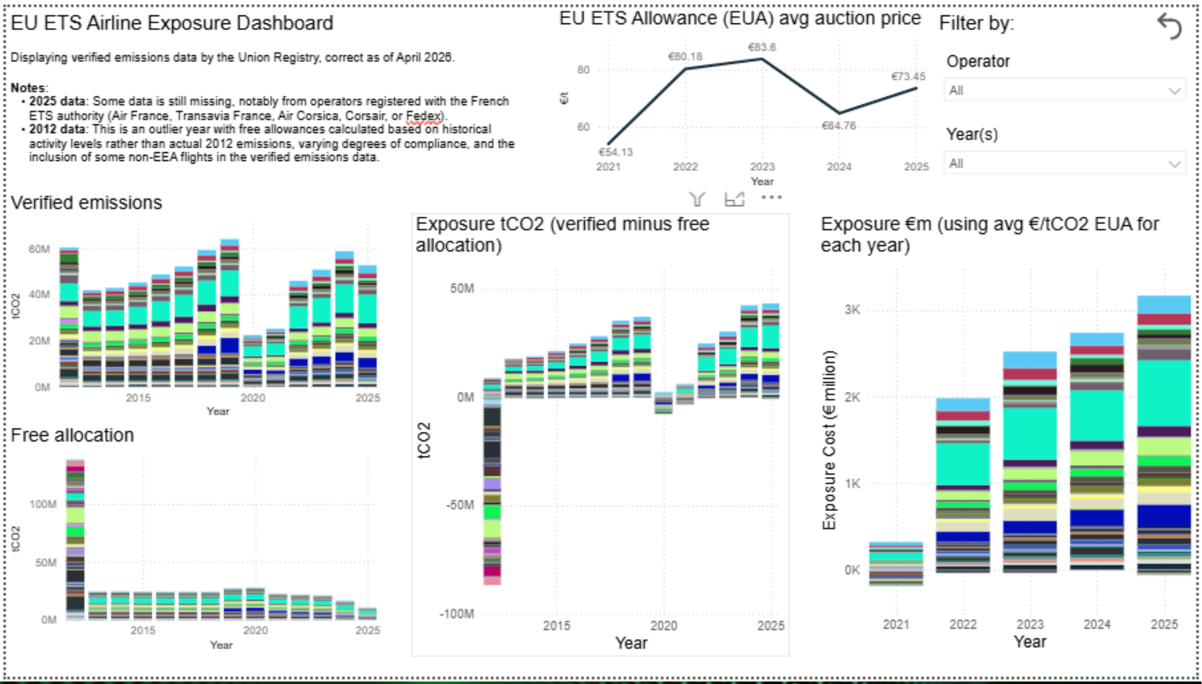
Since 2012, flights within the European Union have been covered by the **EU Emissions Trading Scheme (ETS)** under a cap-and-trade system to encourage airlines to improve their CO2 efficiency. At the end of each annual reporting period (by 30th April of the following year), an airline must surrender enough allowances (EU Allowances or **EUAs**) to cover the emissions from its flights in the preceding period.

One EUA is equivalent to one tonne of carbon dioxide equivalent. Until 2026, airlines had been granted free CO2 allowances based on historical revenue tonne kilometres and a CO2 efficiency benchmark. For emissions not covered by the free allowance allocations, **carriers must purchase allowances** at auction or acquire them from other holders of EUAs in the secondary market.

Following a 2023 reform of the EU ETS for aviation, airlines will no longer receive free allocations of EUAs starting in 2027 for the 2026 emissions year, forcing them to pay for all EUAs required to comply with their EU ETS obligations.

In the case of the **UK ETS** (created in 2021 following the UK's departure from the EU) aviation free allowance allocations will also be phased out. The **Swiss ETS**, the other ETS system in Europe, is linked with the EU ETS (meaning allowances are transferable) and it only applies to domestic flights and flights departing Switzerland to, for now, EEA countries.

EU ETS net exposure and associated costs



This is a screenshot of an interactive dashboard. To enquire about access, see contact details at the bottom of this report.

Source: EU Union Registry. For notes on the data, see section at the end of this report.

The first two charts above contain **verified emissions** and **free EUA allocation** for over 200 airlines with trading accounts in the EU ETS, the largest emissions trading scheme in Europe.

In the middle, the Exposure tCO2 chart calculates the **approximate net exposure** to the EU ETS by airlines in each given year (verified emissions minus free allocation). The Exposure €m chart, on the right, computes that net exposure by the average price of EU ETS allowances (EUAs) since 2021 to produce an estimated cost per airline.

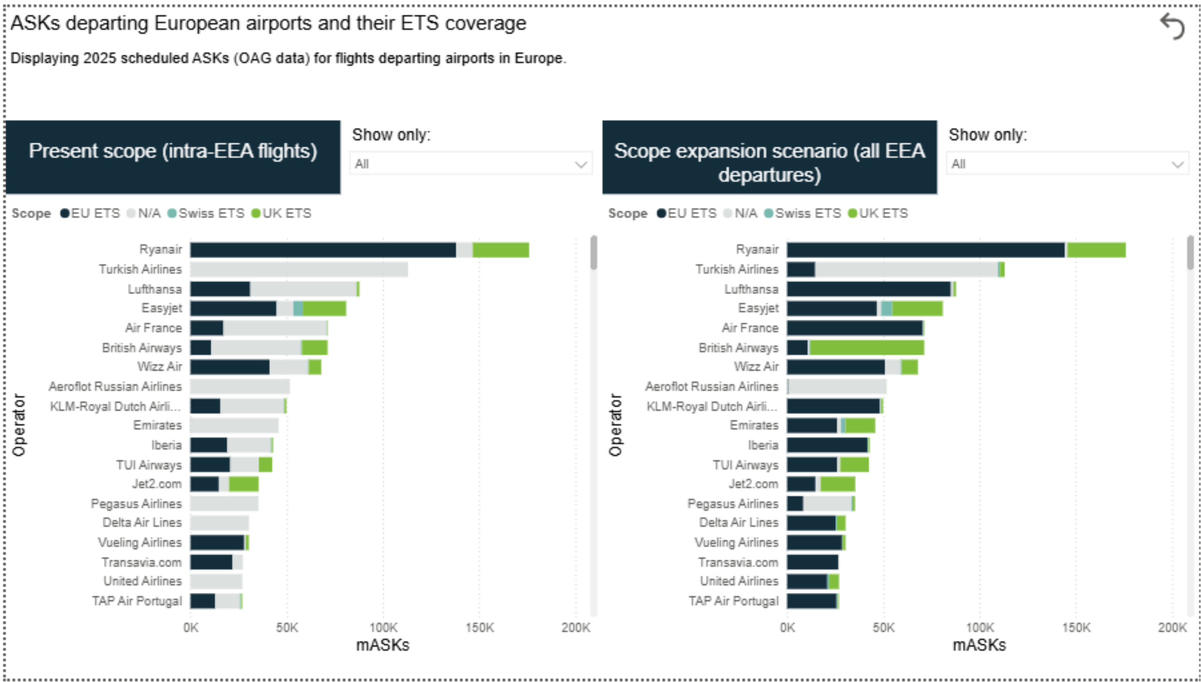
For 2025, based on provisional verified emissions reported, the total cost across all analysed airlines is **€3.1 billion** ($3.34 billion). However, it is important to note that this calculation is based on average allowance auction prices, and do not reflect actual prices paid by airlines. Airlines may seek to mitigate these cost impacts through strategic spot purchases or hedging. There are also regulated exemptions and other mitigants*.

For instance, in 2024, the calculated EU ETS cost estimate for **Icelandair** is €20.3 million ($23 million), but in Icelandair's own reporting the airline discloses $20.2 million in ETS exposures that year, including both UK ETS and Swiss ETS. This suggests Icelandair managed its cost exposure effectively either through the use of excess allowances from previous periods or other cost mitigation strategies.

Icelandair is one of the few airlines to disclose ETS costs as a single line item, which makes comparisons easier. However, for most airlines, ETS costs are usually buried within fuel, operating, or environmental compliance expenses. This makes Ishka SAVi's calculator a useful tool.

** Available regulatory mitigants, including route-based exemptions (e.g., certain flights involving EU outermost regions in France, Spain, and Portugal) and SAF-related support mechanisms under FEETS, which can reduce airlines' effective EU ETS compliance costs.*

Exposure to scope expansion



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Source: OAG & Ishka SAVi.

This dashboard shows what a **hypothetical scope expansion** to all European departures under the EU, UK, and Swiss ETS would look like based on 2025 ASK data.

[SAVi: ESG & Sustainable Aviation Finance Data | Ishka Airfinance]

In just a few weeks, on 17th July, the European Commission is due to propose a revision of the ETS, and a lot hinges on that proposal and its ensuing political deliberation. Should the EU decide to end the “stop-the-clock” mechanism introduced in 2012 limiting the EU ETS to intra-EEA flights, it would dramatically increase compliance costs for airlines operating routes beyond Europe, particularly emissions-intensive long-haul services. It would also require non-EU carriers to pay for emissions generated on flights departing from Europe, potentially escalating tensions with major international aviation markets.

The **EU ETS scope expansion** may also put pressure on the UK ETS and Swiss ETS to align with the EU ETS. At this stage, and although the UK has been moving towards closer market cooperation with the EU, there are no yet signs that it would lead to automatic rule convergence and there is currently no push from the UK government to unilaterally extend the UK ETS to all departing flights. Swizerland, however, due to its strong EU ETS linkage, is likely to follow.

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