Insight

U.S.-EU Aviation Carbon-price Battle Ahead?

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Executive Summary

- The European Commission recently proposed to expand the bloc's emissions trading scheme (ETS) to cover flights departing from European Union (EU) countries (as well as Lichtenstein, Iceland, and Norway) and landing within 5,000 kilometers of Frankfurt, Germany starting in 2029; while many direct flights would be affected, the United States and key destinations in Asia and elsewhere fall outside this perimeter.
- The EU may expand the ETS scope to include all flights departing these European countries starting in 2032, which would include all direct EU-U.S. commercial flights; this would likely lead to an annual compliance burden of at least €9 billion for U.S. airlines, and some EU-North American flights may see an average increased cost of $48 per passenger, assuming an ETS carbon price of €140/t CO_2 in 2032.
- More than a decade ago, Congress authorized the secretary of Transportation to ban U.S. carriers from complying with the EU ETS in response to the EU's full-scope aviation mandate; a potential return to full-scope coverage in 2032 would worsen U.S.-EU trade tensions and once again put U.S. airlines in a legal gridlock, highlighting the value of bilateral negotiations and a more pragmatic approach to resolve the transatlantic clash.

Introduction

The European Commission recently proposed to expand the bloc's emissions trading scheme (ETS) to cover flights departing from European Union (EU) countries (as well as Lichtenstein, Iceland, and Norway) and landing within 5,000 kilometers (km) of Frankfurt, Germany, the geographic center of Europe, starting in 2029. The United States and certain other key destinations in Asia and elsewhere fall outside this perimeter—an outcome that some see as intentionally chosen to avoid or delay conflict with key trade partners.

The EU may expand the ETS scope to cover all departing flights leaving Europe starting in 2032, if it determines that the United Nations' (UN) global aviation emissions mitigation framework is not a sufficient climate policy. This would cover all direct EU-U.S. commercial flights and likely lead to an annual compliance burden of at least €9 billion for U.S. airlines assuming an ETS carbon price of €140/t CO_2 in 2032. Note that this price is significantly higher than what is proposed in most U.S. carbon tax proposals, which typically start at about $50/ton.

When the EU first adopted the full-scope aviation mandate in 2012, with a proposed ETS to cover all flights departing from EU countries, Congress responded by passing the European Union Emissions Trading Scheme Prohibition Act of 2011. It authorized the secretary of Transportation to ban U.S. carriers from complying with the EU ETS. The EU's recent move to expand the ETS, along with a potential return to full-scope coverage in 2032, signals a return of this trade friction and could put U.S. airlines in legal gridlock. U.S. lawmakers must proactively monitor EU regulatory developments before the current enforcement exemption expires.

EU Proposes a 5,000 km-Radius Rule Starting in 2029

On July 17, 2026, the European Commission proposed a revision of the EU's Emissions Trading System —the bloc's carbon pricing mechanism, in effect since 2005, which is intended to encourage emissions reduction. The revision targets several aspects of the policy, including expanding the regulatory scope of the aviation sector, which aims to "strengthen Europe's industrial competitiveness and support the delivery of the EU's 2040 climate target."

Since 2012, the ETS carbon price system has applied to flights within and between countries in the European Economic Area (EEA)—27 EU member states plus Iceland, Liechtenstein, and Norway. Also included are flights departing from the EEA to Switzerland and the United Kingdom.

Expanded geographic coverage

The recently announced revision proposes that all international flights leaving the EU and landing within 5,000 km from the geographic center of Europe (Frankfurt, Germany) will be subject to the ETS starting from 2029. This would capture the emissions associated with flights from the EEA to major destinations such as Istanbul, Dubai, and Doha.

It would also expand the ETS coverage to all incoming and departing flights by business jets (private jets), which are not currently subject to any perimeter limit.

Potential expansion to all departing flights starting from 2032

The EU proposal states that it would continue to support the UN's international aviation emissions mitigation framework, and introduced "a deduction mechanism for costs incurred…avoiding double carbon pricing."

The International Civil Aviation Organization, a UN agency, has implemented a global framework, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), to reduce emissions in the global aviation sector. As of January 2026, 130 countries participated in CORSIA, including the United States. CORSIA's voluntary phase runs from 2021–2026, with its mandatory phase beginning in 2027. It works by setting baseline emissions benchmarks for airlines, with any excess emissions above the threshold offset by purchases of eligible carbon credits.

Notably, the EU proposal states that:

> *Today's decision to extend ETS aviation scope takes into account the findings on the environmental integrity of CORSIA as part of the Commission's impact assessment accompanying today's proposal. It shows that the scheme has not been sufficiently strengthened yet. In 2032, the Commission will conduct a new assessment on the implementation of CORSIA. By then, the results of the functioning of the scheme in terms of offsetting will be apparent. In the event that CORSIA is proving to be ambitious, efficient and successful, the scope of effective carbon pricing under the EU ETS will be reduced to flights within the EEA and departing to the UK, Switzerland, to and from Gibraltar and other countries taking advantage of ETS as a service. On the contrary, if CORSIA still does not deliver by then, the Commission may consider extending the scope to full departing flights.*

Here are two key interpretations of the provision: 1) The proposed 5,000 km radius rule is based on the finding that CORSIA has not effectively reduced global aviation emissions; 2) By 2032, if CORSIA is still found to be insufficient, the EU may broaden the ETS scope to cover all departing flights from the EEA.

Policy Implications: U.S.-EU Aviation Conflict Delayed Beyond 2032

Immediate impact on the United States

Direct and long-haul commercial flights from the EEA to the United States would be exempt from the 5,000 km-radius proposed rule, as the entire country is well beyond the perimeter from the center of the EU. The first leg of connecting flights from the EEA to the United States would generally be subject to the new rule. For example, on a Frankfurt-Istanbul-San Francisco itinerary, the initial Frankfurt-Istanbul leg would be covered under the new rule. Thus, travelers may have incentives to switch to direct flights from the EEA to the United States to avoid incurring increased costs associated with the ETS.

U.S. private jets arriving in and departing from the EEA, regardless of the travel distance and geographic location of the origin or destination, would be subject to the ETS carbon price.

The previous U.S.-EU dispute on ETS aviation coverage

The EU tried to expand the ETS coverage to include all commercial flights departing and arriving in the EEA starting in 2012, but the effort failed due to significant backlash from major economies such as the United States, China, and India. Specifically, China threatened to cancel orders of Airbus aircraft from EU manufacturers.

Notably, the U.S. Congress passed the "European Union Emissions Trading Scheme Prohibition Act of 2011" to respond to the EU proposal. The law grants the secretary of Transportation legal authority to "prohibit an operator of a civil aircraft of the United States from participating in the emissions trading scheme unilaterally established by the European Union in EU Directive 2003/87/EC of October 13, 2003" if the secretary determines that it is within the U.S. public interest to do so.

As a result, the EU paused the implementation of the proposal by "temporarily deferring enforcement of the obligations of aircraft operators in respect of incoming and outgoing flights."

Impact on the United States beyond 2032

If the EU determines that CORSIA is not sufficient in 2032 and therefore expands the ETS to all departing flights, it would have major implications on U.S. airlines and consumers.

According to the International Council on Clean Transportation's (ICCT) latest report, in an all-departing-flights coverage scenario under the EU ETS assuming a carbon price of €70/t CO_2, there are in total 185 EU-to-U.S. flight routes that would be subject to carbon leakage—emissions generated from alternative flights that travelers take by switching hubs to avoid the ETS coverage (Figure 1). Among these leakage-prone routes, flights from the EU to North America would see an average additional ETS cost of €21.4 (approximately $24) per passenger, which is about 6.4 percent of an air fare. Some examples of the leakage-prone flight routes are Frankfurt Airport-San Francisco International Airport, Paris Charles de Gaulle Airport-John F. Kennedy Airport, and Munich Airport-San Francisco International Airport.

Figure 1. Leakage-prone Flight Routes Under the EU ETS (€70/t CO_2, all departing-flights scope modeled by the ICCT)

Destination Region	Flight Routes	Average ETS Cost Increase (% of fare)	Average Evaded ETS Cost (€/passenger)	Leakage (kt CO_2)	Share of extra-EEA departing emissions (%)
North America	185	6.4	21.4	351	0.60
Total Leakage	357	–	–	686	1.18
All Extra-EEA Departing Routes	3,051	–	–	58,044	100

Source: International Council on Clean Transportation

The ICCT estimates that expanding the EU ETS to all departing flights would generate approximately €9 billion annually, assuming a baseline carbon price of €70/t CO_2 at 2023 traffic levels. As transatlantic routes account for roughly 52 percent of the global leakage-prone flight volume (Figure 1), it is reasonable to use this number as a proxy for market share. Applying this proportion suggests that direct EU-U.S. flights would account for approximately €4.5 billion in gross annual compliance costs. By 2032, as the EU ETS carbon price could more than double to at least €140/t CO_2, based on the EU emission reduction targets, which would increase the compliance costs for EU-U.S. flights to more than €9 billion. Accounting for the growth rate in air traffic would further increase compliance costs.

Given the substantial compliance costs this expansion would impose on U.S. airlines, the U.S. secretary of Transportation is very likely to invoke the European Union Emissions Trading Scheme Prohibition Act to prohibit them from complying with the EU ETS. Such a directive would trigger a severe jurisdictional clash, as U.S. airlines operating within the EU would be caught in legal gridlock: bound by EU law to comply with the expanded ETS yet legally prohibited from doing so by U.S. federal mandate. In view of this, bilateral negotiations would be a more pragmatic approach to resolve the conflict.

Another flashpoint is that the EU and the United States have signed an “Aviation Transport Services” agreement that aims at “opening access to markets and maximizing benefits for consumers, airlines, labor, and communities on both sides of the Atlantic.” The United States and the EU clashed over whether the treaty allows or prohibits the EU ETS to be applied to the aviation sector when the EU attempted a full scope expansion previously. This will certainly be another area of tension should the EU return to a full scope of enforcement in 2032.

Looking Forward

To take effect, the European Commission’s newly proposed 5,000 km radius rule for international aviation must navigate the EU’s ordinary legislative procedures to secure formal approval from the European Parliament and the Council of the EU. The targeted scope of expansion suggests that Brussels has actively accounted for its prior sovereignty clashes with Washington. By maintaining a long-haul exemption for flights, the proposal deliberately leaves transatlantic corridors out of scope, effectively avoiding a legal showdown with the United States. Yet the U.S.-EU clash has been further delayed rather than resolved. U.S. lawmakers should monitor the EU ETS regulatory developments proactively to prepare for a potential full scope coverage in 2032.