

Easy money: How free allowances drove airline profits, not progress for the EU

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Summary

- \$10.9bn in Emission Trading System (ETS) free allowances very likely contributed to European airline profits, and did not lower ticket prices or contribute to decarbonisation spending, from 2013-2025.
- Six major airline groups spent an estimated €1bn on decarbonisation over this period, while receiving €6bn in free allowances and making €21bn in profit. Meanwhile, these airlines caused an estimated €320bn in climate damages.
- These European airlines paid for just 4% of their climate damages during that time, due to low carbon prices, aviation free allowances, regulatory gaps on out-of-EU flights, and non-CO₂ climate effects.
- Pandering to industry demands on free allowances therefore bolstered airline profits and did little to deliver on the original concerns on competitiveness and carbon leakage. Our recommendations:
 - Free allowances are an ineffective tool to tackle competitiveness and carbon leakage. Future revisions of the EU ETS for aviation must not include free allowance allocations.
 - The ETS must be expanded to cover all flights departing from Europe.
 - Europe should take action on aviation's non-CO₂ climate impacts, by charging airlines a fee unless they take action to avoid contrails.
 - The EU Taxonomy should be abolished completely or reformed to adopt a stronger definition of sustainability, which must exclude investments in fossil-fuelled aircraft.

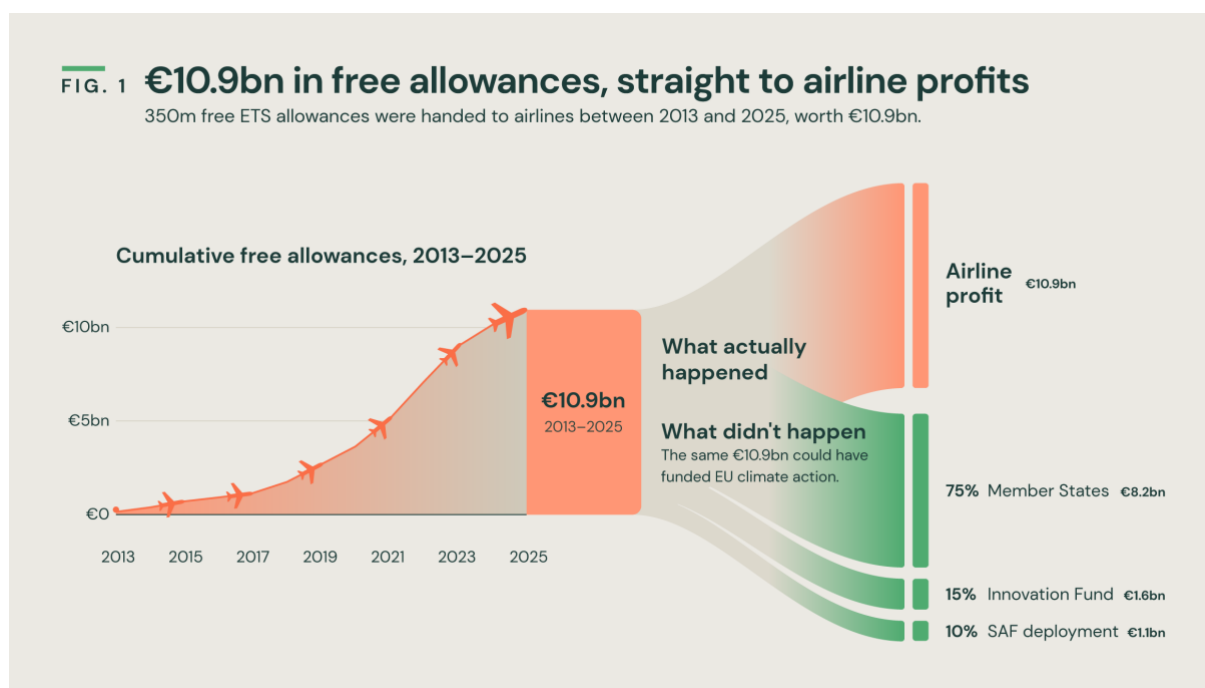
New analysis by independent research and consultancy CE Delft, commissioned by Opportunity Green, sheds light on how:

1. Free allocation of EU Aviation Allowances drove airline profits at the expense of public climate finance.
2. Those enhanced profits failed to materialise into airline sustainability investment.
3. Free allowances, alongside wider regulatory gaps, drove low internalisation rates on the climate costs of aviation.

1. From free allowances to ‘ free profits’

From 2013 to 2025, the European Union provided a total of \$10.9bn in free allowances to European airlines, covering about half of the sector’s emissions regulated by the EU ETS (i.e., intra-EU flights). Airlines paid for the remainder of their regulated emissions using auctioned allowances.

The intention of these free allowances was to address airline concerns about their competitiveness, and the risk of carbon leakage. However, CE Delft’s analysis finds that the impact of the free allocations was very likely to drive higher airline profits, rather than reducing ticket prices or preserving demand. This is because airlines can sell allowances they receive, meaning that free allowances therefore carry the same opportunity cost as auctioned allowances, equal to their market value. As such, economic theory indicates that airlines very likely passed on the opportunity cost of allowances to consumers by increasing ticket prices, regardless of the allocation method. This finding has been shown empirically where free allocations have been made in other sectors (see Box 1).



Box 1: Lessons from the power sector

Empirical evidence shows that the opportunity costs of freely allocated allowances have been passed through to consumers in other economic sectors. Most studies on the power sector estimate passthrough rates in the range of 70-100%. In Phase I of the EU ETS from 2007 to 2009, an estimated €19bn windfall profits per year were accrued to the European electricity sector via free allowances. Two potential exceptions to this rule of high passthrough of opportunity costs are identified, neither of which apply to the case of aviation free allowances over the studied time period.^{1,2}

\$10.9bn of free allowances therefore represent a missed opportunity for EU public finance. The profits they contributed to – approximately 17% of the profits of the five profitable major airlines analysed in the report – could instead have been ETS-auction revenue that supported public climate investments for member states and EU funds.

Crucially, this lost public climate investment was not compensated for by increased airline investment in sustainability and decarbonisation.

2. Enhanced profits, limited sustainable investment

CE Delft analysed the capital and operational expenditures of six major airline groups³ between 2013 and 2025, and found that just an estimated €1bn supported genuinely sustainable activities (e.g. sustainable aviation fuel purchasing and ground-equipment electrification).⁴ This number stands in astonishing contrast to the €13.7bn of total airline expenditure classified as aligned with the EU's Sustainable Finance Taxonomy in 2025

¹ Verde SF and others, 'Free Allocation Rules in the EU Emissions Trading System: What Does the Empirical Literature Show?' (2019). 19 Climate Policy 439 <https://doi.org/10.1080/14693062.2018.1549969>.

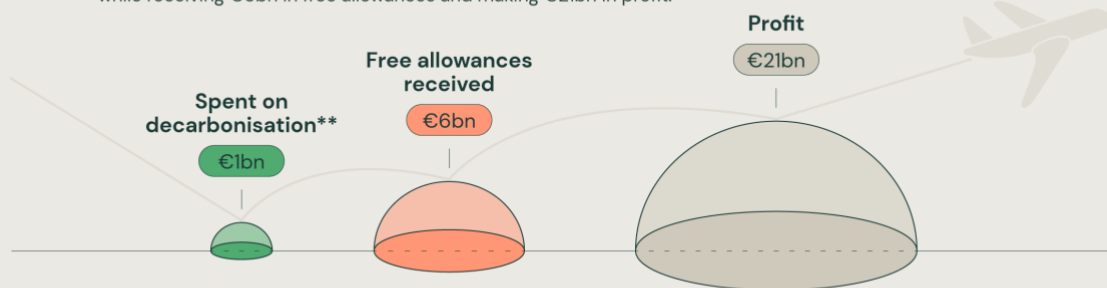
² Keppler JH and Cruciani M, 'Rents in the European Power Sector Due to Carbon Trading' (2010) 38 Energy Policy 4280 <https://doi.org/10.1016/j.enpol.2010.03.057>

³ The six airline groups analysed are easyJet, Air France-KLM, Lufthansa Group, IAG, Ryanair and Wizz Air. All six named airline groups were contacted for comment. We received responses from IAG, easyJet and Lufthansa Group, as indicated throughout.

⁴ Additional sustainable investments were identified for the six airlines but with undisclosed amounts. All six named airline groups were contacted for comment. Of these: **easyJet** stated they would "like to highlight that we've committed substantial capital in support of operational and industry decarbonisation within the stated reporting period. Specifically, easyJet has publicly invested in and utilised sustainable aviation fuel, including fuel supplied to meet applicable SAF mandates, and has invested in a range of initiatives to support the decarbonisation of aviation. These include operational efficiency measures to reduce fuel burn and emissions, support for the development of hydrogen-powered aviation and other future technologies, fleet modernisation, and a range of other decarbonisation initiatives referenced in our public disclosures... our investment into SAF, operational efficiencies and future technology development e.g. hydrogen are in the... millions [of GBP]." **IAG** responded by stating that "the limited scope of the EU Taxonomy Regulation does not enable the Group to outline all of our investment activity in our Flightpath Net Zero transition. The limitations of the Regulation... prevent the Group from fully disclosing our investment in sustainability." **Lufthansa** responded to state "we are unable to verify the figures and conclusions presented in your email, as they are based on external methodologies and assumptions that do not reflect Lufthansa Group's official reporting."

FIG. 2 The six major airline groups, billion by billion

From 2013 to 2025, six airline groups* are estimated to have spent just €1bn on decarbonisation, while receiving €6bn in free allowances and making €21bn in profit.



*The six airline groups analysed are easyJet, Air France-KLM, Lufthansa Group, IAG, Ryanair and Wizz Air.

**Includes disclosed capital and operational expenditure on genuinely sustainable activities.

alone.⁵ In 2025, just 0.1% of reported capital expenditure was classified by CE Delft as genuinely sustainable, while 53% was reported as Taxonomy-aligned.

The staggering discrepancy between these numbers is explained by the fact that the Taxonomy currently classifies activities like the acquisition of new conventional fossil-fuel powered aircraft as transitional sustainable investment. In 2024, a coalition of NGOs, including Opportunity Green, [took the European Commission to court](#) to challenge this classification, and the case is ongoing. Evidence of the business-as-usual capital and operational expenditure led the report authors to conclude that Taxonomy alignment is not a reliable indicator of truly sustainable investment in this sector.⁶

Between 2013 and 2025, the six major airline groups analysed disclosed just €1bn (€80m capital and approximately €1bn operational expenditure) on decarbonisation, while receiving €6bn in free allowances and making €21bn in profit. There is no reason to expect that this investment would have been lower if there had been no free allocation.

⁵ Note that EasyJet is headquartered in the United Kingdom and does not report against the Taxonomy. WizzAir chose not to report on the Taxonomy and RyanAir did not assess Taxonomy-alignment.

⁶ In response to our request for comment, IAG highlighted their concerns with the Taxonomy, stating that “while the Group is supportive of efforts to enhance and increase the comparability of climate disclosures more broadly, the limited scope of the EU Taxonomy Regulation does not enable the Group to outline all of our investment activity in our Flightpath Net Zero transition. The limitations of the Regulation in the following areas prevent the Group from fully disclosing our investment in sustainability: (i) any joint ventures to produce SAF or hydrogen-fuelled aircraft do not fall within the scope of our reporting; and (ii) our long-term purchase agreements for SAF and other renewable power products, which underpin investment and enable financing of large-scale renewable production, are excluded. The additional reporting restrictions on aviation, where the growth of the entire global aviation fleet is used to discount an individual company’s investment in best-in-class aircraft, as well as the ability to increase the quantification of aligned economic activities for each KPI by the use of SAF, limit the Group’s ability to fully express its financial commitment to the transition to a low-carbon environment. This approach, requiring company-specific performance to be adjusted based on global trends, is unique to the aviation sector and, we feel, dilutes the impact of the taxonomy in driving more investment at an individual company level”

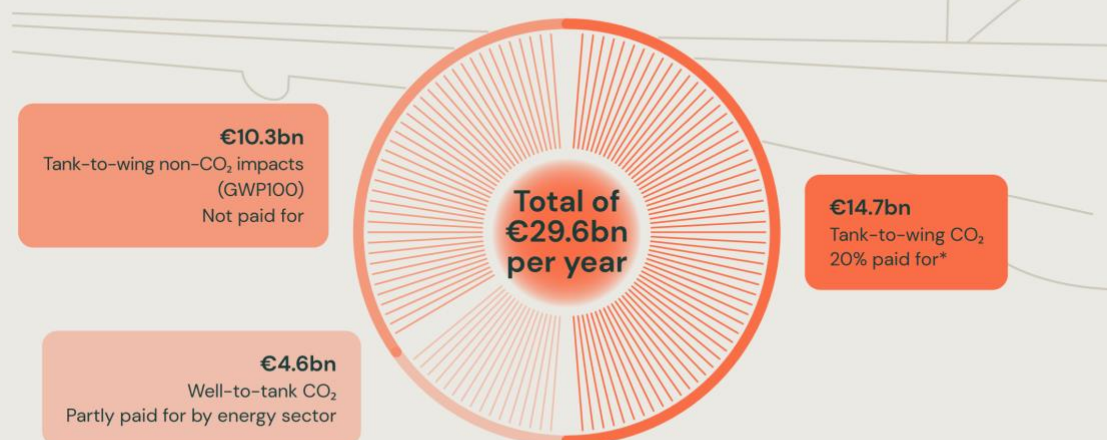
3. Climate costs trump all and aren't being paid for

Though profits over this time period are huge, even they are dwarfed by the estimated €320bn of climate costs caused by the six airline groups analysed, which include CO₂ emissions and non-CO₂ climate impacts from flight operations, as well as emissions throughout fuel supply chains.

Most of these damages – some €270bn – result from flight operations, and over the period 2013-2025, just €10.8bn (4%) were paid for by these six airlines via climate policies like the EU ETS. This internalisation rate was particularly low from 2013 to 2021, when less

FIG. 3 The cost of airline climate damages

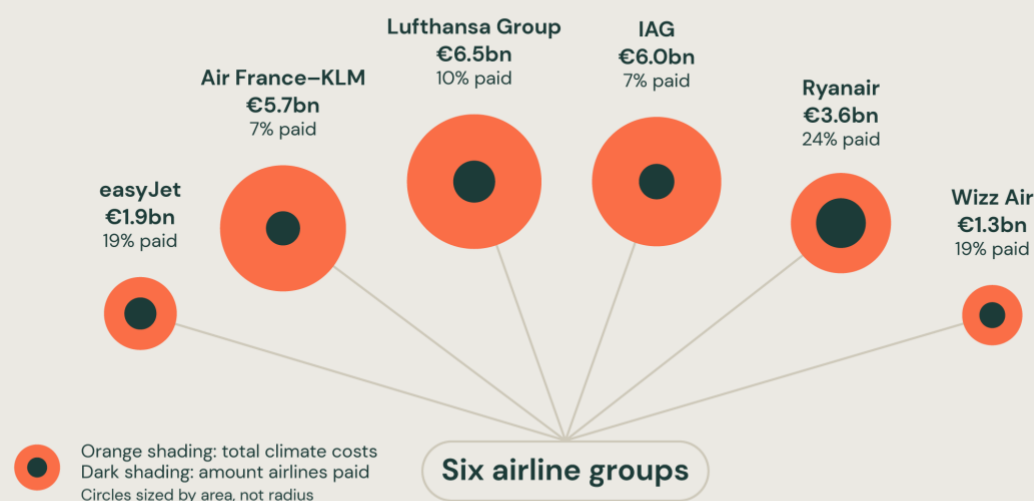
The estimated cost of climate damages caused by six airline groups in 2025.



*Based on airline payments to Emissions Trading Systems (EU, UK and CH) and CORSIA.

FIG. 4 How much do airlines actually pay for their climate damages?

The tank-to-wing climate damages caused by each airline group, compared to the fraction each actually paid for, in 2025.*



*Climate damages include CO₂ emissions and non-CO₂ climate impacts (GWP100) from flight operations. Airline payments include those to Emissions Trading Systems (EU, UK and CH) and CORSIA.

than 1% of climate damages were paid for by airlines. Even since 2022, when the price of EU ETS allowances—and therefore the internalisation rate – rose dramatically, airlines have still avoided paying for the majority of their climate damages:

- Free allowances substantially reduced the amount of the external climate costs of the aviation sector that were paid from 2022 and 2025.
- Of the climate damages caused by CO₂ emissions regulated by the EU ETS, airlines internalised roughly 51% of those costs in 2025, compared to an estimated 62% if free allowances had not been allocated. The reason is that even without free allowances, the ETS price is still too low to reflect the full costs created by the airlines as calculated on the basis of the EU Handbook on the external costs of transport.
- CO₂ emissions from intercontinental flights were not regulated by the ETS. When we take these into account, the internalisation rate of climate damages from aviation's 2025 tank-to-wing CO₂ emissions reduces from 51% to just 20%. The European Commission has recently proposed expanding the EU ETS to cover CO₂ emissions from all flights departing to airports within 5,000km of the EU from 2029. This would take total ETS coverage to just over 50% of CO₂ emissions from flights departing Europe.
- Finally, aviation's non-CO₂ climate impacts also remain unpriced. Non-CO₂ climate impacts are estimated to make up approximately 40% of EU aviation's 100-year climate footprint (using a GWP100 metric). When added to the total external climate cost, the internalisation rate in 2025 reduces further to roughly 12% averaged across the six airlines.

Accepting defeat?

The European Commission estimates that aviation will represent around 90% of the bloc's transport emissions by 2050.⁷ While aviation free allowances have rightly been stopped from 2026, a continued low internalisation rate, a flawed taxonomy, and a lack of public and private financial investment in genuinely sustainable activities look to only reinforce this unambitious outlook for the sector.

This report has shown that concerns over the competitiveness of EU airlines have been overblown and that acceptance of industry demands has driven airline profits not progress for the EU. For years the EU held back from tackling the growth in aviation's climate impact in the hope of protecting EU airlines. The allocation of free allowances did bolster the bottom line of EU aviation, but those profits did not result in any significant or serious investment in airlines' long-term decarbonisation pathways and therefore competitive position in an increasingly decarbonised market. It also came at the expense of missed revenues to tackle the industry's ever-increasing climate impacts.

⁷ Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC and Decision (EU) 2015/1814 as regards driving competitiveness and cost-effective decarbonization (Text with EEA relevance) [2026] COM(2026) 616 final.

The revision of the EU ETS is a key moment to ensure that aviation is effectively regulated in a climate accountable way:

1. Ensure that all international departing flights from the EU are included in the EU ETS.
2. If the ETS does not extend to all international departing flights, only the parts of international flights that are included in the ETS should be eligible for SAF allowances.
3. There should be no further allocation of free allowances to aviation. Any allowances must have strict conditionality attachments.
4. Only the most sustainable forms of aviation fuels, hydrogen (fuel cells), electricity, and e-SAF should be eligible for financial support.
5. Airlines should be held accountable for their non-CO₂ impacts unless they take meaningful action to reduce these. Our full proposal on this is [available here](#).
6. Abolish completely or reform the Taxonomy for aviation so that only truly sustainable aviation investments are entitled to receive a taxonomy-compliant label.

Opportunity Green

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The six airline groups named in this summary were contacted for comment. IAG responded, as indicated in full throughout this summary, to direct us to the section of their most recent Annual Report which discusses the limitations of the EU Taxonomy, and states in summary that *“the limited scope of the EU Taxonomy Regulation does not enable the Group to outline all of our investment activity in our Flightpath Net Zero transition.”* It should be noted that airlines are free to publicly report the details of their sustainable investment activity outside of Taxonomy requirements.

EasyJet stated that *“we have not verified the assumptions, methodologies or calculations underpinning your analysis so we are not in a position to validate the accuracy of the figures presented. We would, however, like to highlight that we’ve committed substantial capital in support of operational and industry decarbonisation within the stated reporting period... our investment into SAF, operational efficiencies and future technology development e.g. hydrogen are in the... millions [of GBP].”* The full details of EasyJet’s response are indicated throughout this summary. EasyJet also directed us to their most recent [Annual Report and Accounts](#), and [Net Zero Pathway](#), webpages. CE Delft’s analysis used the public information provided in the resources shared by EasyJet.

Lufthansa Group responded stating *“we are unable to verify the figures and conclusions presented in your email, as they are based on external methodologies and assumptions that do not reflect Lufthansa Group’s official reporting.”* Lufthansa also directed to their [official Non-Financial Declaration and Sustainability Fact Sheet](#). CE Delft’s analysis used the public information provided in the resources shared by Lufthansa Group.

We did not receive replies from the remaining three companies.

This paper was written by Dr Tom Grylls on behalf of Opportunity Green. Any omissions or errors are the fault of the authors alone.

Further information

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