

Briefing Including transport in the Emissions Trading Scheme: Counterproductive and legally questionable

Summary

The EU will conclude discussions on its climate and energy policy for 2030 at a European Council meeting on 23-24 October, 2014. The EU is committed¹ to reducing carbon dioxide (CO₂) emissions by 80-95% by 2050 to prevent dangerous climate change. However, this goal is undermined by proposals contained in a leaked draft² which allow EU member states to include road transport emissions in the Emissions Trading Scheme (ETS).

This briefing summarises a legal analysis highlighting how the proposals are contrary to the requirements of the current ETS Directive. It also covers new research illustrating why including transport in the ETS would be counterproductive; compared with a scenario of ambitious post-2020 vehicle CO₂ standards there would be 160,000 fewer jobs, and €22/77 billion higher oil imports in 2030/2050. Climate policy, as well as transport emissions reductions, would stall.

What is being proposed?

The ETS seeks to lower around half of EU CO₂ emissions by setting a cap on emissions. Companies receive or buy tradable emission allowances; but an overly generous allocation of allowances and the economic recession have caused a huge surplus of allowances³ and an inadequate price of €6 per tonne. An effectively functioning ETS is essential, but introducing road transport to the ETS (as a leaked draft of the Council conclusions² proposes) will fail to both address structural weaknesses in the ETS and reduce emissions in road transport.

The leaked draft states:

- 2.10 *the availability and use of existing flexibility instruments within the non-ETS sectors will be significantly enhanced in order to ensure cost-effectiveness of the collective EU effort and convergence of emissions per capita by 2030. The Commission is invited to put forward concrete proposals that will ensure new flexibility in achieving targets for the most ambitious Member States **through limited use of the ETS allowances**, while preserving predictability;*
- 2.11 *it is important to reduce greenhouse gas emissions and risks related to fossil fuel dependency in the transport sector. The European Council therefore calls on the Commission to further develop instruments and measures for a comprehensive and technology neutral approach for the promotion of emissions reduction and energy efficiency in transport, for electric transportation and for renewable energy sources in transport also after 2020 It also recalls that under existing legislation a Member State can opt to include the transport sector within the framework of the ETS*

Some EU Member States, including Denmark and Luxembourg, want these flexibilities. They claim that an effort-sharing target based on a GDP/capita criterion would be tough for them and that including non-ETS emissions in the ETS would be much easier. Vehicle

¹ In 2009 and reaffirmed in 2011 by the European Council.
http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/envir/110634.pdf
² European Council Draft Conclusions 16th October 2014 para 2.10 & 2.11
³ http://ec.europa.eu/clima/policies/ets/reform/index_en.htm

manufacturers such as BMW and Daimler have also proposed this solution too, in their case to shift the burden to other sectors and avoid fuel efficiency standards for cars.

Why including road transport in the ETS violates key principles

The draft agreement would allow member states to unilaterally include transport in the ETS by interpreting article 24 of the ETS Directive as permitting this. An informal document by Denmark⁴ suggests this should be done by issuing allowances for the sale of fuels. Each litre of fuel sold emits around 2.5kg of CO₂ when burned.⁵ Fuel suppliers would be required to surrender permits with the cost of permits passed onto motorists in the form of a carbon tax on road transport fuels. At the current price of €6/tCO₂ the cost of fuel would rise around €0.015 per litre, around 1% of today's fuel price. An aspirational mid-term ETS price of €25/tCO₂ would increase fuel prices by about €0.06/litre, around 4%.

Legal analysis⁶ suggests regulating fuel suppliers is contrary to the requirements of the Directive. Firstly, by making fuel suppliers responsible for transport emissions, it violates the principle that the regulated entity must be directly responsible for and have the most control over the emissions.⁷ This is not the case for fuel suppliers as the only option to lower emissions they have would be to use more biofuels, with questionable environmental results.

Secondly, the inclusion of road transport in the ETS must result in a “*real reduction of emissions compared to business as usual...*”⁸ This will not be the case as the price signal is too weak to drive emission reductions in the transport sector. Thirdly, the ETS Directive is also intended to “*encourage the use of more energy-efficient technologies ...*”⁹ and to “*trigger the necessary investment by offering new abatement opportunities*” in the newly covered installations.¹⁰

The Future Elements study predict that “*it is likely that the inclusion of transport in the EU ETS would lead to transport buying EU ETS allowances*”¹¹ which suggests that emission cuts – if there are any – would take place elsewhere.

Why including road transport in the ETS leads to higher oil imports and vehicle emissions, and less jobs than standards

Transport was originally excluded from the ETS as it is a sheltered sector and taxes on road fuels already exist.

A new study by Cambridge Econometrics¹² has modelled four scenarios for reducing road transport emissions to examine how these compare. The results show a price of nearly €20/tCO₂ – three times today's price level in the ETS – is only able to deliver around a 3% reduction in transport emissions by 2030. The ETS has been designed for big emitters in exposed sectors, and is simply unable to deliver required emission cuts for small emitters in

⁴ <http://www.endseurope.com/docs/140903a.pdf>

⁵ Petrol around 2.34kg CO₂ per litre, diesel around 2.62kg per litre

⁶ Tim Gabriel, Peter Gabriel, Défense Terre

<http://transenv.eu/11XaFRo>

⁷ Directive 2008/101/EC, Recital 15

⁸ See p. 3 at ¶14, C(2008) 7867, *Commission Decision of 17 December 2008 concerning the unilateral inclusion of additional gases and activities by the Netherlands in the Community emissions trading scheme pursuant to Article 24 of Directive 2003/87/EC of the European Parliament and of the Council* (Only the Dutch text is authentic).

⁹ See Directive 2003/87/EC, Recital 20.

¹⁰ See Directive 2009/29/EC, Recital 8.

¹¹ See Future Elements Study, p. 49.

¹² <http://bit.ly/1rpyGWd>

sheltered sectors.

Passing on the cost of the ETS allowances to drivers does not overcome the barriers to transport decarbonisation. Fuel efficiency standards do address barriers and are widely supported by motorist and consumer groups.¹³ This is since the additional cost of buying a car to meet the 95g target will be met by lower fuel costs within two years¹⁴ and lowers the cost of driving.

A previous Cambridge Econometrics study¹⁵ showed that there are significant economic benefits from reducing fuel demand through vehicle standards that cannot be achieved at any realistic price for allowances in the ETS. At the macroeconomic level, improving vehicle efficiency post-2020 reduces EU oil imports by €22/77 billion by 2030/2050 and adds 160,000 jobs. Europe's strong automotive engineering capabilities grow with increased spending on low-carbon vehicle components creating supply-chain jobs. While additional vehicle technology is an added cost to a new car buyer it is an added source of revenues for auto component suppliers and companies in their downstream supply chains. These additional savings and jobs would be lost if transport were included in the ETS instead.

To achieve the EU's climate goals, new cars and vans will need to be almost entirely decarbonised by 2040. But the ETS price signal is too weak and indirect for carmakers and suppliers to make the required investments. Including transport in the ETS will delay accelerating the fuel efficiency improvements and shift towards e-mobility that are needed to decarbonise the light duty fleet. Any transition will be postponed and would have to be done much faster in a very short period of time, therefore imposing huge additional costs. Both the EU economy and climate policy would be damaged and the competitiveness of the EU automotive industry potentially irreparably damaged.

Including road transport in the ETS does not address energy security concerns and shifts costs from sheltered to exposed sectors

An economically optimal climate and energy policy must minimise the costs of CO₂ abatement, the EU's dependence on foreign oil, and the costs of carbon leakage. The EU imports 90% of its oil with Russia (33%) our biggest supplier. Around a third of the EU's total oil consumption – ca 200Mtoe – is used to fill up cars and vans, costing Europe €100 billion annually. The ETS option would hardly reduce fuel consumption or energy dependence.

Including transport in the ETS also shifts compliance costs from a sheltered sector – road transport – to sectors that are more exposed, exacerbating one of the main flaws of the EU ETS.

For more information

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¹³ <http://www.beuc.org/publications/2013-00542-01-e.pdf>

¹⁴ T&E Position Paper Cars CO2

http://www.transportenvironment.org/sites/te/files/publications/Cars%20CO2%20Position%20Paper%20301012%20Final_0.pdf

¹⁵ http://europeanclimate.org/wp-content/uploads/2014/03/FEF_Final.pdf