Why increasing ambition under the ESR is unavoidable

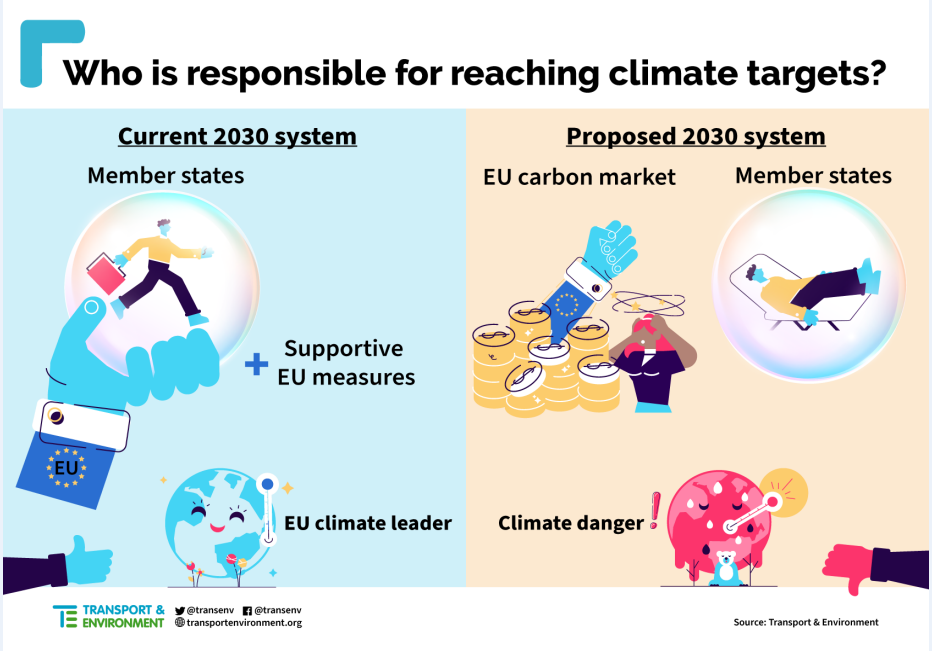
And how to design carbon pricing so it helps Member States reach their increased 2030 targets

March 2021

Summary

In December 2020, **all Member States agreed to an increased climate target of at least -55%** net emissions reduction by 2030. The logical consequence is that all Member States now contribute to this new EU-wide target by increasing the ambition of their own national policies. This should be formalised through an **increase of the legally binding national targets under the Effort Sharing Regulation** (ESR). The ESR has delivered in the past and is the best way to ensure that the EU reaches ambition in the future. It holds Member States to account, ensures that all countries and all sectors are on a path towards climate neutrality and provides a framework that is immediately operational.

The European Commission has however indicated that it is **looking into an extension of emissions trading to road transport and buildings**. Likely this would not be done through an integration of these two sectors into the existing Emissions Trading System (EU ETS), but rather by setting up a new, separate ETS for road transport and buildings. T&E thinks that this is a **high risk, low reward strategy.** Once included, **Member States would no longer have domestic responsibility for these emissions.** They would be deducted from their Effort Sharing targets or national targets would disappear altogether. The responsibility for delivering on the new 2030 target would lie solely with the EU's carbon pricing instrument. Therefore, the instrument will need to have an emissions cap. As you cannot have both an emissions cap and a 'price cap', **the price within the system will need to go as high as needed** to deliver on the EU-wide -55% target. Due to the inelastic demand in the road transport and buildings sectors, that price level will be extremely high. It is hard to imagine that EU leaders will not be tempted to introduce a price ceiling after all. But, by doing so, they would put the target at risk.



A more sensible way to introduce a carbon pricing instrument in the road transport and buildings sectors would be to **design it as a supportive policy that helps Member States** to comply with their Effort Sharing targets. The new ETS for road transport and buildings would then drive additional emissions reductions in parallel to national measures, but it would not serve as the main instrument responsible for compliance with the 2030 target. That means that a **price control mechanism** can be introduced to prevent prices from spiralling out of control. An incentive to adopt additional EU measures (such as more ambitious vehicle CO_2 standards) remains in place, as these could further alleviate the work that needs to be done through national policies.

So **carbon pricing can play a role in the policy mix accompanying increased national targets, but it cannot become the ultimate compliance instrument** for delivering emissions reductions in the road transport and buildings sector. Taking into account that income levels and existing taxation levels vary widely across the EU, **national-level carbon pricing instruments for fuels might currently be a more sensible way forward** than an EU-wide ETS. If the EU does stick to a carbon pricing system at the EU-level, it should be wary of this divergent landscape. Either way, carbon prices **should start at very low levels** as long as alternatives are not available and affordable across income levels. More ambitious EU-level sectoral policies such as the car CO_2 standards can help to achieve this, as can high-impact policies at the national level driven by increased ESR targets. A second precondition is that a substantial part of the **revenues are used to support lower-income households** who will be impacted heavily. This can be done through a lump-sum 'climate dividend' for each EU citizen, tax cuts or investments in low-carbon alternatives and public services. The EU and Member States should also remember that there are many alternative revenue streams that can

be employed for the transition. For example, EU Member States currently subsidise fossil fuels to the tune of €50 billion per year and spend €32 billion per year on subsidies for company cars.

Finally, the EU and Member States should take heed of the fact that carbon pricing in the road transport and buildings sectors faces important shortcomings. Most importantly, carbon pricing **does not address non-market barriers** such as split incentives in the rental market, high upfront investment costs of low-carbon alternatives, low elasticity of demand, infrastructure development needs, etc. As CO_2 emissions are to a large degree locked in with the investment decision, **standards impacting investment decisions** (e.g. more ambitious CO_2 standards for cars, vans and trucks, an ICE phase-out, building codes) will continue to be essential to tackle these non-market barriers and to truly set the EU, including each individual Member State, on a path towards net zero.

1. Legislative context

In December 2020, the **European Council agreed on an increased climate target of at least 55%** net emission reduction by 2030 (compared to 1990). To implement this new climate target, the European Commission will propose an update of the EU's key climate and energy legislation in June. In the past, EU leaders gave clear guidance on which economic sectors should deliver most efforts. This guidance is now lacking, leaving room for several policy options to be further considered by the European Commission in preparation for its so-called 'Fit for 55' package.

The previous 2030 target of -40% emissions reduction (compared to 1990) was set to be delivered through two key instruments:

- The **Emission Trading System** (EU ETS) sets an **EU-wide cap** on emissions from large industries and the power sector which is declining over time. Within the cap, companies receive or buy emission allowances. Covering about 38% of the total EU-27 GHG emissions, the ETS is set to deliver emission reductions of **-43%** by 2030 (compared to 2005).[1]
- The **Effort Sharing Regulation** (ESR)[2] sets **national targets** for the emissions from transport, buildings, agriculture, waste and small industries in each Member State. These targets are different for each country and range from 0% to 40% below 2005 levels. Covering about 57% of the total EU-27 GHG emissions, the ESR is set to reduce emissions by **-30%** by 2030 (compared to 2005).[3]

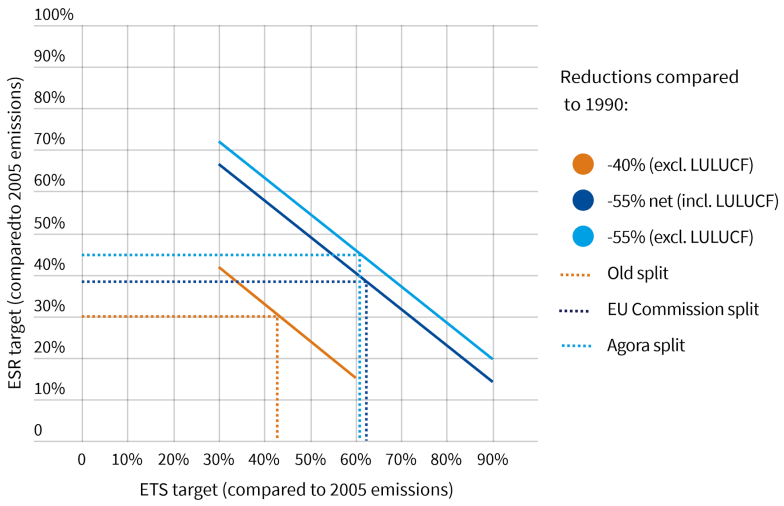
[1] European Environment Agency. (2020) Trends and Projections. Excluding LULUCF.
[2] The Effort Sharing Regulation was renamed Climate Action Regulation (CAR), but is referred to in this briefing as ESR.
[3] European Environment Agency. (2020) Trends and Projections.

In its Communication on stepping up the EU's 2030 climate ambition, the Commission has indicated that it is looking into an **extension of emissions trading to road transport and buildings** and the consequent **weakening or even phasing out of the ESR.** Transport & Environment thinks this is a **high risk, low reward strategy**. This briefing explains what these risks are for each of the policy options on the table and proposes an alternative approach to the 2030 climate architecture.

2. Why increasing national targets is unavoidable

All Member States agreed to increase ambition last December. When saying yes to organising a party, you cannot then not show up for the feast. The logical consequence is that all Member States now contribute to our new 2030 target by increasing ambition of their own national policies. However, there are different ways to divide the efforts between sectors and between Member States. Theoretically, all additional efforts for the increased 2030 target could be required from ETS sectors, with no additional reductions envisaged in the transport or buildings sectors.[4] But putting all of the burden on the current ETS sectors would put our long-term climate goals out of reach. For 10 years, we would lose all incentives to develop and deploy technological breakthroughs in sectors as important as road transport and buildings. The consequential burden to reach climate neutrality in the next two decades would become challenging. The European Commission assesses that in order to reach -55% in a cost-effective way, the ETS sectors should contribute around -63% and the ESR sectors -39% (compared to 2005) if the current scope of both policies is retained.[5] Other actors have put forward different splits between these two instruments, with the share for the ESR ranging from -39% to -49%.[6]

[4] The ETS target would then need to be increased from -43% to -75% (compared to 2005 levels). See European Commission. (2020) Impact Assessment on stepping up Europe's 2030 climate ambition
[5] European Commission. (2020) Impact Assessment on stepping up Europe's 2030 climate ambition
[6] Agora Energiewende. (2020) How to Raise Europe's Climate Ambitions for 2030



Sources: UNFCCC greenhouse gas inventories, EAA (EU27 ETS stationary emissions before 2012 are estimated to reflect current ETS scope).
Note: The Agora split (source: How to raise Europe's climate ambitions for 2030) is adjusted to reflect the scope used by the EU Commission (source: Impact Assessment on stepping up Europe's 2030 climate ambition, REG scenario), which excludes extra-EU aviation.

Figure 1: Potential ESR/ETS splits to reach -55% emissions reduction by 2030

Wherever we land on the exact split between the ETS and ESR sectors, it is clear that additional emissions reductions cannot only come from the ETS sectors. There is a need for additional efforts - on top of what Member States have already planned to implement their current national targets - in the transport, buildings, agriculture, small industry and waste sectors. The question on the table is how we drive those efforts. Do we increase each Member State's national target? And if so, do we then reopen the debate on the distribution key? Or do we set up an emissions trading system for road transport and buildings and avoid these difficult negotiations altogether? Tempting as this last approach may be, **national targets should continue to be the main compliance instrument** for road transport and buildings. Here is why:

National targets have proven their strengths:

- They have been a **key driver for national policies** in the past and are set to do so again. The EU-27 is on track to exceed its -10% 2020 target for the Effort Sharing sectors. By 2030, an assessment of Member States' National Energy and Climate Plans (NECPs) shows that existing and planned national policies would deliver an aggregated reduction of -32%, thereby surpassing the current ESR target for 2030.[7] As illustrated by figure 2, most of these planned reductions are expected in the transport, buildings and industry sectors.[8] In order to protect these planned reductions, national targets need to remain in place as an incentive.

[7] Note that this target needs to be updated to be in line with the overall -55% target. European Commission. (2020) An EU-wide assessment of National Energy and Climate Plans
[8] EEA. (2020) National action across all sectors needed to reach greenhouse gas Effort Sharing targets

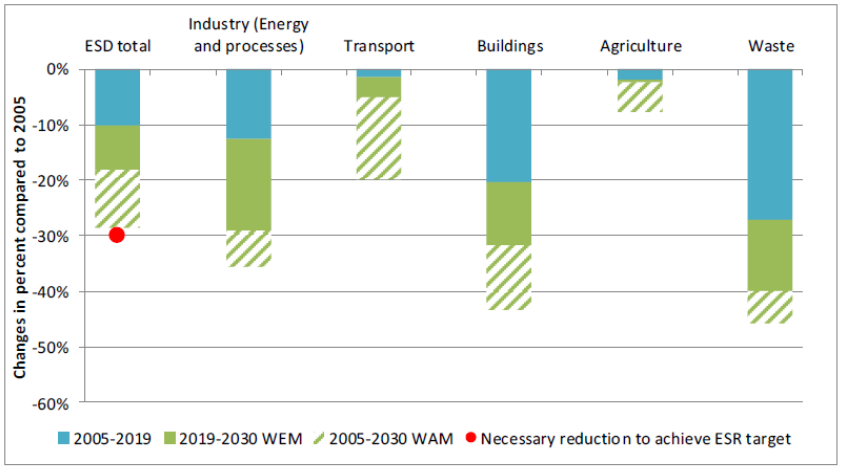


Figure 2: Historic and projected emissions reductions in the ESR sectors for the EU-27 [9]

- They **hold Member States to account.** National targets create public scrutiny, make headlines and feature in election manifestos.[10] If we shift the majority of the efforts from national policies towards a carbon pricing market, this would disappear. In a system where everyone is responsible, ultimately no one can be held responsible.
- They **ensure that all sectors and all Member States contribute** to the 2030 target and to the trajectory towards climate neutrality. The time where some Member States or sectors could overachieve while others freeride.
- They **create incentives for ambitious sectoral policies at EU-level.** Several EU instruments already exist today to help deliver emission reductions in the sectors covered under the ESR (e.g. CO_2 standards for cars, vans and trucks, Alternative Fuels Infrastructure Directive, Energy Performance of Buildings etc.).[11] As national targets are increased, so can the ambition level of these EU-level sectoral policies. The EU could also adopt new sectoral measures. One such new measure could be a carbon pricing instrument for road transport and buildings (see section 3).
- The system is already in place and thus **immediately operational**. This is not the case for emission trading for road transport and buildings, which could take until 2025 to set up.

Carbon pricing has its merits, but also faces considerable shortcomings:

- **Consumers are not rational.** Unlike industries covered under the existing ETS, consumers do not perceive future price signals when making investment decisions. Upfront investment costs and the image of what they buy plays a much bigger role than the total cost of ownership.

[9] ETC/CME. (2021) Trends and projections under the Effort Sharing Legislation.
[10] Ecologic. (2021) Implementing new EU climate targets – Why Member State responsibility must continue. Legally binding national targets are subject to infringement procedures. In contrast, collective EU targets cannot be enforced by infringement procedures.
[11] Sectors under the Emission Trading Scheme are also subject to parallel instruments, such as the Renewable Energy Directive or the Energy Efficiency Directive.

- **Does not tackle non-market barriers.** There are not always easy alternatives available to driving a car or heating a house. Often these require infrastructure developments (e.g. public transport, charging stations) that have significant lead times and are beyond the control of the consumer. Other important market barriers include split incentives in rented properties.
- **Low elasticity.** Demand in the road transport and buildings sector is not very responsive to price changes. As consumers are often 'locked-in' to a high-carbon technology, they will to a large extent just bear the higher fuel bills. Prices would need to go very high to trigger the technological and behavioural changes that are needed to reduce emissions. As low-income households have very little fuel consumption that is not essential, a reduction in demand could entail a serious loss of welfare for these families.
- **High existing energy taxation** in most Member States, though the level of taxation differs greatly between countries, sectors and fuels.[12] As long as these major tax differences remain in place, a uniform ETS price is an illusion and the EU's carbon price will just come on top of existing taxation. It is not unlikely that some Member States would potentially reduce their energy taxes as a consequence of an EU-wide CO_2 price, which would have consequences for these governments' budgets.
- By tying increased climate ambition to the prices of basic human needs potentially spiraling out of control, the risks not only **undermining support for the EU Green Deal**, but for the EU as an institution and climate policies in general.
- **Compete with strong sectoral policies.** Designing a new emissions trading system would require a lot of political capital that would inevitably divert from new or more ambitious sectoral policies. As CO_2 emissions are to a large degree locked in with the investment decision and consumers don't perceive future price signals, standards impacting these investment decisions on the supply side (e.g. EU CO_2 emission standards for new vehicles) could be much more impactful.

3. How carbon pricing for road transport and buildings would interact with national targets

There are different ways in which carbon pricing schemes for road transport and buildings can support the EU to reach its increased 2030 targets. Carbon pricing **could come in as a supportive policy**, helping each individual Member State to reach their own national target (see *'increased national targets + more EU measures'* in figure 3). **Or it could be the main compliance mechanism that ensures the delivery of the target** at the EU-level (see *'New ETS'* in figure 3). Any ETS for road transport and buildings will **need to make a choice between an emissions cap and a 'price cap'**. Price control mechanisms would likely not consist of a hard price cap or corridor (as then the ETS might look too much like a carbon tax), but would rather consist of some sort of volume control mechanism that pushes down the price. If one opts for an emissions cap, there will be certainty that

[12] Agora Energiewende. (2020) How to Raise Europe's Climate Ambitions for 2030.

the planned emissions reductions are achieved, but one would be unable to control the price in the system. If one instead opts for some form of price control mechanism, the total amount of emissions under the scheme is uncertain, as anyone willing to pay the price within the system will be allowed to emit. That means that there can only be a price control mechanism when there is another compliance instrument in place that ensures the emissions target is met. This would be the case under the first set-up (explained in detail in section 3.1.), where you increase national targets and use the carbon pricing scheme only as a supportive policy. The price control mechanism can then prevent prices at the pump and heating bills from spiralling out of control. Under the second set-up however (explained in detail in section 3.2.), the carbon pricing scheme serves as the main mechanism responsible for delivering on the emissions target. That means it would need to entail an emissions cap and that fuel prices could spiral out of control. As this would likely cause public uprising, it is hard to imagine that EU leaders will not be tempted to introduce a price ceiling after all. By doing so, they would however put the 2030 emissions target at risk as there would no longer be an instrument in place that ensures the -55% target is met. A last option, would be to set up a double compliance mechanism. While tempting in theory, section 3.3. explains how in practice also this option would put the EU-wide 2030 target at risk.

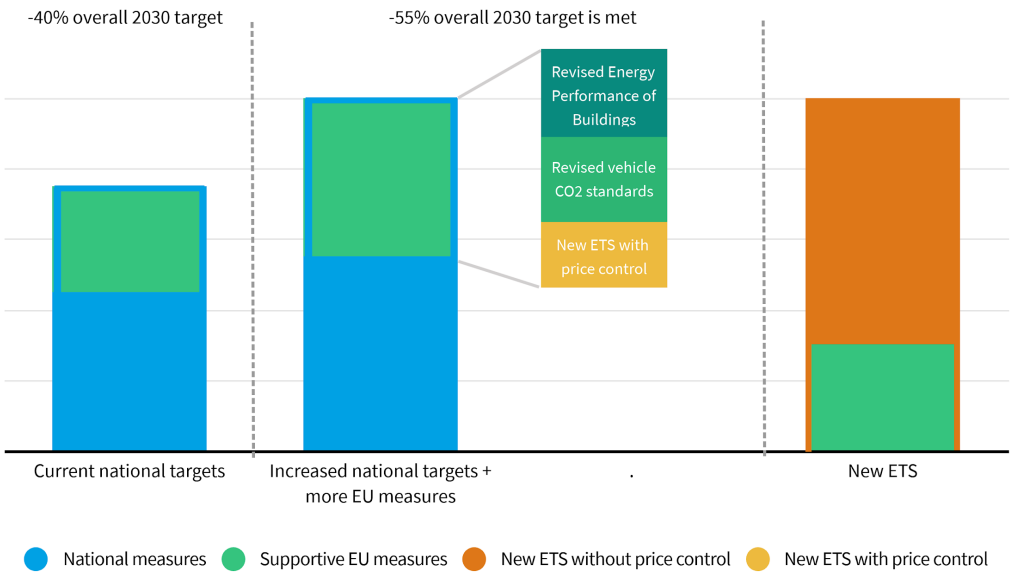


Figure 3: How carbon pricing would interact with national targets

Info box: who would pay for the emission allowances?

Under the existing ETS, the obligation to surrender emission allowances falls on the installations emitting CO_2 (factories, power plants, etc.). For road transport and buildings, such a system would be unmanageable. You cannot require each person driving a car or owning a gas boiler to engage in

emissions trading and it would be extremely difficult to measure CO_2 emissions from millions of exhausts pipes. Instead fuel sales would be monitored and the obligation to purchase and surrender allowances would be put upstream on the fuel suppliers. They will then pass-through the costs to fuel consumers.

3.1. Option 1: a supportive policy that helps Member States to more easily achieve their increased national targets (a separate ETS with a price control mechanism)

The EU could design a new, separate emissions trading scheme for road transport and buildings. A uniform allowance price would then apply across the EU. Both sectors would however also remain covered under the ESR. As such, the responsibility for delivering on the EU-wide 2030 target remains with the Member States' aggregated national targets. The EU's carbon pricing scheme would just assist them to more easily reach their increased national targets. As e.g. CO_2 standards for vehicles already do today, the scheme would drive additional reductions in the transport and buildings sector, in parallel to national measures. Since the carbon pricing scheme is just a supportive policy and not the ultimate instrument to deliver on the EU-wide emissions target, a price control mechanism can be introduced at a level deemed politically acceptable across the EU. An incentive to adopt additional EU measures (such as more ambitious vehicle CO_2 standards) remains in place, as these could further alleviate the work that needs to be done through national policies. Additionally, an incentive to overachieve the national target remains in place, as selling AEA (annual emissions allocations) would remain possible.

Alternatively, Member States could set up such a separate ETS for road transport and buildings domestically. An example of this is the German ETS that was introduced in January 2021. Germany still has full responsibility for the transport and buildings emissions in its jurisdiction but uses a domestic ETS as a means of complying with their effort-sharing targets.[13] The system currently works with a price ceiling of €25/tonne of CO_2, which will rise to €55/tonne by 2025. From 2026, allowances will be auctioned within a price corridor (€55-€65).[14] That means there is no 'hard' cap on emissions. If prices reach the price ceiling, the foreseen emissions cap will be loosened. Then more emissions take place and the target will be missed. The German framework does foresee an 'emergency exit' for such a scenario: Germany would then buy emission reductions (AEAs) from another Member State. It is important to be aware of these design features of the German ETS. Introducing a price ceiling protects the system against price spikes that would undermine the public acceptance of the system. But, by doing so, it cannot guarantee that the target will be met. Hence the 'emergency exit' of buying

[13] Agora Energiewende. (2020) How to Raise Europe's Climate Ambitions for 2030.
[14] Bruegel. (2021) A whole-economy carbon price for Europe and how to get there. Whether the price corridor will be sustained beyond 2026 will be decided in 2024 after an evaluation of the first phase of the system, and also depends on policy development at EU level.

emissions reductions abroad. This 'emergency exit' would not be available to an EU-wide system, as the EU target is a domestic target and international offsets are not considered.

3.2. Option 2: replacing or weakening national targets with a separate or extended ETS (without a price control mechanism)

In this scenario emissions from road transport and buildings would either be transferred to a newly established separate ETS, or included in the existing ETS. Once included, Member States would no longer have domestic responsibility for these emissions. They would either be deducted from their Effort Sharing targets or national targets would disappear altogether.[15] The responsibility for delivering on the new 2030 target would lie solely with the EU carbon pricing instrument. Hence, accountability for progress in these sectors is transferred to the EU-level. The price within the system would therefore need to go as high as needed to deliver on the EU-wide -55% target (i.e. a 'hard' cap). As a result, there can be no political interference with the price, neither at the start of the scheme nor along the way. The resulting price levels will likely undermine public acceptance of the system. It is hard to imagine that EU leaders will not be tempted to introduce a price ceiling after all. This would lead to missing the emissions target.

If the EU were to opt for an extension of the existing ETS, the sectors currently covered under this ETS (power sector, industry) will have to abate more to compensate for the transport and buildings sectors' relative unresponsiveness to a carbon price. This would not only lead to emission reductions in road transport and buildings being delayed, but also to a loss of competitiveness and small reductions in output and employment in the existing ETS sectors.[16] A separate ETS on the other hand would not suffer from this problem directly, but the prices would reach considerably higher levels. Indirectly such a system would also impact the existing ETS sectors, as the Commission is looking into flexibilities between these two systems.[17]

3.3. The non-option: double compliance through the ESR and the ETS

Another option that is being contemplated is to make both Member States and the EU's carbon pricing scheme responsible for delivering on the increased 2030 target. In such a scenario, Member States

[15] The European Commission is also looking into removing the agriculture sector from the ESR scope and instead creating a new policy framework covering emissions and removals from agriculture, forestry and land use (a so-called AFULO pillar).
[16] Cambridge Econometrics. (2020) Decarbonising European transport and heating fuels - Is the EU ETS the right tool?
[17] European Commission. (2020) Impact Assessment on stepping up Europe's 2030 climate ambition: *"A separate ETS could be introduced in a similar way as was the case for the setting up of the ETS for aviation, with specific allowances differentiated from the general ETS allowances and possible flexibilities to be foreseen between the existing and the new ETS."*

would remain responsible for delivering on their existing target in line with the EU-wide -40% 2030 target. The additional efforts to reach the new EU-wide target of -55% would lie solely with the extended ETS or with the new, separate ETS for road transport and buildings. While setting up such a double compliance mechanism sounds good in theory, in practice it would likely put the -55% target at risk.

As illustrated by figure 4, in practice Member States would be incentivised to underachieve their national targets. When designing national measures, they would likely overestimate the amount of emissions reductions that can be accomplished through the new EU-level carbon pricing scheme. As there is no way to determine which measure (a national one or an EU one) delivered which tonne of CO_2 reduction, they could then claim the additional measures delivered through the EU ETS as if these were achieved through national measures. This would allow them to state that their national targets are met. The EU would be to blame for not delivering on the emissions reductions that would have come 'on top' of these national targets and for the consequential missing of the EU-wide target. As such, the EU's carbon pricing scheme would not lead to significant or even any emissions reductions 'on top' of the existing ESR target. On the contrary, it would just relax the stringency of current ESR targets. If national targets are not increased, the only way to ensure that the EU-wide target is met is through an ETS without a price control mechanism.

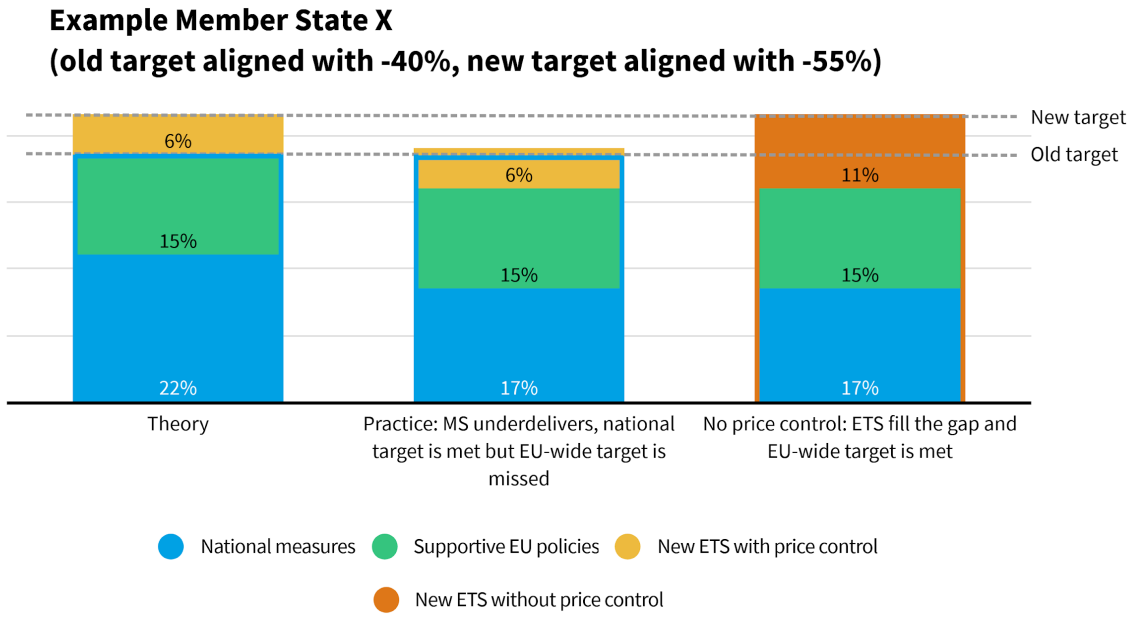


Figure 4 How a double compliance mechanism would fail in practice

3.4. Summary of the options

Compliance instrument	Option 1: Increased national targets	Option 2: EU ETS for road transport and buildings	Non-option: Double compliance
Policy mix	- More ambitious national measures. - More ambitious EU norms and regulations. - Supportive carbon pricing instrument, either at the national or EU-level.	- No direct incentive for more ambitious national measures, but indirect incentive (to drive down the price). - Ditto for more ambitious EU norms and regulations. - Carbon pricing instrument as main driver for emissions reductions.	- Current national targets, but risk of watering down. - No direct incentive for more ambitious EU norms and regulations, but indirect incentive (to drive down the price). - Carbon pricing instrument as main driver for emissions reductions.
ETS emissions cap necessary?	No	Yes	Yes
ETS price control possible?	Yes	No	No
-55% overall target met?	Yes	Uncertain, as likely political interference with CO_2 price	Uncertain, as likely political interference with CO_2 price

4. Policy recommendations

The Commission's June package should contain the following elements:

- **Increased national targets.** National governments are and should remain the cornerstone of climate policies impacting our everyday life's activities such as road transport and buildings. They can tailor policies to investment needs and socio-economic realities on the ground, allowing for a much more impactful and a much more just transition.
- **Improved robustness of the ESR.** While the ESR is a proven system, its robustness can be improved (see T&E's 2016 briefing about this). Most notably:
    - A monetary penalty should be introduced on top of the 1.08 multiplier for excess emissions, as is already the case under the EU ETS and the car CO_2 legislation. This provides a more direct incentive to stick to the annual linear trajectories. Fines should be set at least at the level of the average marginal cost of reducing emissions within the ESR. This would stimulate Member States to always prefer taking domestic action or exploring intra-EU flexibilities.
    - The Commission's role in supervising non-compliant Member States should be enhanced. The current infringement procedure is too slow. The Commission should be

authorised to take action against a Member State in question, if its corrective action plan is inadequate. Procedures could be similar to those adopted under the European Semester and should complement the final outcome of the ongoing EU Climate Law negotiations.
    - Access to flexibilities that have the potential to weaken the target (loopholes) should be made even more conditional. Exceptions should be phased out, so that only Member States that fulfil their obligations year by year should have access to flexibilities the following year. Otherwise, Member States that are clearly not on track to achieve their targets would start using all possible options, and only at the end of the period would the impossibility to achieve the EU targets be obvious. The possibility to trade emission permits between EU Member States should however be excluded from the conditionality principle, as this does not undermine overall EU delivery but rather increases cost-effectiveness.
    - There should be an automatic adjustment mechanism every five years. This would allow streamlining the ESR with potential new EU or global climate targets. A pre-established formula to divide efforts between Member States would allow for an automatic increase of national targets.
- **Strong sectoral policies at the EU level.** An ambitious policy mix at the EU-level supports member States to more easily reach their targets. For example, CO_2 vehicle standards should be revised (see T&E's 2021 briefing about this).

Carbon pricing can play a role in such a policy mix, but it **cannot become the ultimate compliance instrument** for delivering emissions reductions in the road transport and buildings sector. A precondition for the public acceptance of any carbon pricing instrument will be to **start at low price levels** as long as alternatives are not available and affordable across income levels. In an initial phase carbon prices could for example be designed to interact with the fluctuations of oil prices. Mimicking the Belgian 'cliquet system', taxation levels would then increase as gasoline and diesel prices decrease. Consumers would feel no difference at the pump, as any decrease in oil prices is just absorbed by the treasury through the carbon levy. **When alternatives become more available and affordable, carbon prices could increase.** More ambitious EU-level sectoral policies such as the car CO_2 standards can help to achieve this, as can high-impact policies at the national level driven by increased ESR targets. A second precondition for carbon pricing in the road transport and heating sectors is that **a substantial part of the revenues is used to support lower-income households** who would be impacted heavily. This can be done through tax cuts or through investments in public services and low-carbon alternatives. Or why not opt for lump-sum payments to each EU citizen. Such a **'climate dividend'** would be relatively more beneficial for lower income households, while also building broader public support for climate measures.

Taking into account that income levels and existing taxation levels vary widely across the EU, **national-level carbon pricing instruments for fuels might currently be a more sensible way forward** than an EU-wide ETS. Handling the same carbon price for a commuter in rural Bulgaria and

an SUV driver in Luxembourg hardly seems fair. National systems could be more tailormade in function of the existing situation in each Member State.[18] Over time, the EU could work towards harmonisation of energy taxation levels across Member States and substitute these domestic systems for an EU-level system. If the EU does stick to a carbon pricing system at the EU-level, it should be wary of this divergent landscape. As should Member States such as Germany and Denmark currently advocating for the EU to take over, as this would inevitably mean a redistribution of fuel tax revenues across the EU. Either way, the EU and Member States should also remember that there are many alternative revenue streams that can be employed for the transition. On the expenditure side, there has never been more money available through the Multiannual Financial Framework (MFF) and the Next Generation EU package. But we can also become more creative on the income side. For example, EU Member States currently subsidise fossil fuels to the tune of €50 billion per year and spend €32 billion per year on subsidies for company cars.[19] Surely these potential revenue streams should not be left untouched while EU citizens are asked to chip in.

Further information

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[18] European Commission. (2020) Impact Assessment on stepping up Europe's 2030 climate ambition
[19] European Commission. (2020) Annex to the State of the Energy Union Report and Transport & Environment. (2020) Company cars: how European governments are subsidising pollution and climate change