



FEDERATION INTERNATIONALE DE L'AUTOMOBILE  
EUROPEAN BUREAU

The EU ETS is the best suited pricing instrument for road transport to contribute to the overall goal to achieve a 55% reduction of greenhouse gas emissions until 2030.

A cap-and-trade system like the EU ETS guarantees a reliable CO<sub>2</sub> reduction across all sectors, since the absolute emission level decreases with the cap, according to a predetermined annual rate.

THE FIA EUROPEAN BUREAU THEREFORE RECOMMENDS TO INCLUDE ROAD TRANSPORT INTO THE EU ETS UNDER THE FOLLOWING CONDITIONS

### 1 Reducing CO<sub>2</sub> emissions at lowest costs

- ✓ A wider scope of the EU ETS with full integration of road transport and the tradability of certificates guarantee that CO<sub>2</sub> reduction happens at lowest costs.

### 2 Making the reform financially neutral for consumers

- ✓ As road transport already pays higher implicit carbon taxes than any other sector, a tax reform is needed to progressively lower existing fuel taxes, so that carbon permit prices can really play their role.

### 3 Avoiding multiple pricing

- ✓ An extension of the EU ETS would give a uniform, transparent and reliable price signal to all sectors.
- ✓ Additional CO<sub>2</sub> pricing elements should not be included in any other policies, to avoid distorting this price signal.

### 4 Rebalancing distributional effects

- ✓ Flanking policies are necessary (at national level) to compensate those who are impacted disproportionately.

### 5 Boosting innovation with complementary policies

- ✓ Vehicle CO<sub>2</sub> emission standards and the Renewable Energy Directive with sustainability criteria for low carbon and alternative fuels help to boost innovation in road transport and contribute to reaching the climate goals.

© FIA European Bureau | May 2021

Learn more

[www.fiaregion1.com](http://www.fiaregion1.com)



FEDERATION INTERNATIONALE DE L'AUTOMOBILE  
EUROPEAN BUREAU

Rue de la Science 41  
1040 Brussels – Belgium  
[www.fiaregion1.com](http://www.fiaregion1.com)  
[twitter.com/FIARegion1](https://twitter.com/FIARegion1)



FEDERATION INTERNATIONALE DE L'AUTOMOBILE  
EUROPEAN BUREAU

# Inclusion of road transport into the EU Emissions Trading System

## How and with which impact?

Expert study on the conditions and impacts of an inclusion of road transport into the EU Emissions Trading System carried out by Transport & Mobility Leuven



## 1 Reducing CO<sub>2</sub> emissions at lowest costs

- ✓ It is not a good idea to set up an ETS system for transport (and buildings) alone. The larger the scope of the EU ETS, the more efficient the system, and thus the lower the overall abatement costs for a given CO<sub>2</sub> reduction. From an economic point of view, the inclusion of road transport in the existing EU ETS seems the best scoping option, by pricing each tonne of CO<sub>2</sub> equally.
- ✓ For climate change, the origin of greenhouse gases does not matter. By making use of the tradability of allowances and the differences in abatement costs, the EU ETS delivers CO<sub>2</sub> reduction in a cost-efficient way. Emission reduction occurs in the sectors with lowest abatement costs first.
- ✓ CO<sub>2</sub> abatement costs greatly vary across sectors and are amongst the highest in road transport, with abatement costs above 160 €/t CO<sub>2eq</sub>. In power generation, industry and agriculture large volumes can be abated at costs below 84 €/t CO<sub>2eq</sub>.

## 4 Rebalancing distributional effects

- ✓ Energy demand price elasticity in road transport is low and price increases have a disproportionate impact on low-income households.
- ✓ Flanking policies are necessary to compensate those who are impacted disproportionately.

### HOW DOES THE EU ETS WORK

The EU Emissions Trading System (ETS) is a cap-and-trade system

- ✓ It sets a total cap on emissions, allocates the emission rights over emitters and lets emitters receive or buy emission allowances.
- ✓ It covers the greenhouse gas emissions from heavy energy-using installations (power stations & industrial plants) and airlines operating between countries of the European Economic Area.
- ✓ The total amount of allowances is set by the cap. For the period 2013-2020, the total number of emission allowances decreased by 1.74% per year. From 2021 onwards, the annual rate is 2.2%.
- ✓ Companies can choose to reduce emissions or trade allowances with one another, in order to achieve reductions at least cost.

*“Emissions trading can achieve greenhouse gas emission reductions cost-efficiently. Its resulting carbon price internalises climate externalities and gives consumers incentives to reduce their emissions.”*

## 2 Making the reform financially neutral for consumers

- ✓ Road transport currently pays higher implicit carbon taxes than any other sector. As long as that is the case, a tax reform is needed to progressively lower existing fuel taxes so that carbon permit prices can really play their role.
- ✓ The EU27 unweighted average of implicit carbon prices of current nominal energy and carbon tax rates amounts to around 240 €/t CO<sub>2</sub> for petrol and around 160 €/t CO<sub>2</sub> for diesel. This can be compared with abatement costs in the EU ETS sector of 30-40 €/t CO<sub>2</sub> and sometimes even less in the building sector.
- ✓ A carbon price on top of the existing taxation is not able to correct the relative prices and to remove the distortions caused by these differences in implicit carbon prices: transport will still abate more and the other sectors less, compared to a full optimum where the carbon prices would be perfectly equalised.
- ✓ To reach the total CO<sub>2</sub> reduction objective for all sectors in the cheapest way, we need more, relatively cheap, reductions in the other EU ETS sectors. This could be reached by lowering the existing fuel prices at the moment that road transport is included in the EU ETS.

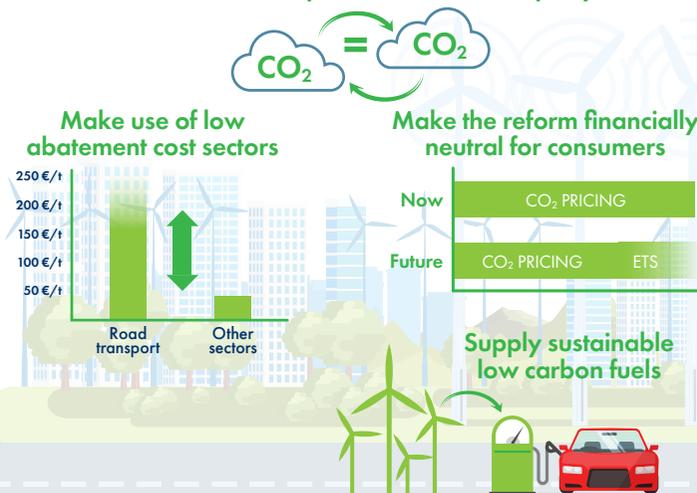
## 3 Avoiding multiple pricing instruments

- ✓ Pricing instruments such as energy taxation or plans to introduce a CO<sub>2</sub> element into the Eurovignette Directive are to be revised, as the EU ETS carbon price would be taking over the climate policy function in a more efficient way.
- ✓ Road transport should be removed from the Effort Sharing Regulation and the Energy Efficiency Directive if included in an ETS, because the European wide ETS takes over this function
- ✓ In road transport, emissions trading has the advantage of capturing CO<sub>2</sub> emissions under the cap and simultaneously incentivising behavioural change with lasting effects on mobility solutions through the price signal.

## 5 Boosting innovation with complementary policies

- ✓ The presence of other policy instruments can also strongly incentivise innovation in the vehicle and fuel sectors.
- ✓ Vehicle CO<sub>2</sub> emission standards, the targets for low carbon fuels with sustainability criteria, and investments in alternative charging and fuelling infrastructure as well as subsidies for R&D and demonstration projects are complementary to the EU ETS.
- ✓ They help to boost innovation in road transport and contribute to reaching the objective of dynamic efficiency, spurring innovative, alternative technologies in road transport.

### Most efficient to price all emissions equally



### RECOMMENDATIONS FOR INCLUDING ROAD TRANSPORT INTO THE EU ETS

- ✓ One system for all sectors with one price.
- ✓ The allocation of allowances via auctioning is preferable over free allocation, also to avoid the possibility of windfall profits for fuel suppliers. Auctioning of CO<sub>2</sub> allowances is also a significant source of public funding.
- ✓ An EU-wide, upstream system (fuel suppliers pass on the carbon price to consumers via fuel prices), including all transport fuels and both for passenger and freight transport is most appropriate.