



## Briefing: surface transport and the EU Emissions Trading Scheme

Between 1990 and 2004 emissions from transport grew by 32% in the EU, with passenger cars and vans making up a significant proportion of these emissions<sup>1</sup>. It was therefore a welcome move when the European Commission announced their intention to introduce mandatory fuel efficiency targets for new cars to replace the current Voluntary Agreements which look set to fail to deliver on their goals<sup>2</sup>. Mandatory targets are indeed urgently needed to drive forward the long-term changes in technology required in this sector. However, we are very concerned that the proposed fuel efficiency target of 130g CO<sub>2</sub> per km by 2012 falls short of the long standing target of 120g/km which was set over 10 years ago.

WWF urges the Commission to reconsider this and announce binding legislation to achieve the 120g/km target for new passenger cars by 2012 through technological improvements which directly reduce fuel consumption, and to set a longer term target out to 2020 of 80g/km. Furthermore, mandatory fuel efficiency targets should be complemented by robust fiscal incentives and other measures to directly reduce the growth in road traffic. These additional measures should add to, rather than replace the necessary improvements to new cars.

WWF is also concerned that the potential inclusion of surface transport - possibly via the inclusion of vehicle manufacturers or fuel suppliers - in the EU Emissions Trading Scheme (EU ETS) may also still be considered as a way to tackle pollution from cars. Including surface transport in the EU ETS would be unlikely to lead to actual improvements in the fuel efficiency of vehicles. If manufacturers were included they would likely purchase pollution allowances and transfer the responsibility to cut emissions onto other sectors in the scheme rather than taking measures to improve the environmental performance of their cars. Further reasons why it would not be appropriate to include vehicle manufacturers in the EU ETS as it is currently structured are as follows:

- **Allocation problems and ownership of emissions** - The manufacturer has no control over fuel consumption and lifetime carbon emissions once the vehicle has been sold (e.g. how the vehicle is driven, what distances it covers etc.). A fundamental issue is that the emissions will arise in future years rather than in the calendar year in question, thus fundamentally challenging the existing architecture of the EU ETS. Although methods have been proposed for calculating manufacturers' greenhouse gas emissions, significant uncertainties would surround many of the figures used e.g. what would be the average emissions from a flex-fuelled car which could run on bio-fuel or petrol? The uncertainty over emissions levels and hence the accuracy of the cap that was set could therefore undermine the integrity of the EU ETS as a whole.
- **Market distortions and price impacts** - It is extremely likely, in the short term at least, that vehicle manufacturers would be a net buyer of emissions credits from other sectors and the EU ETS would not therefore drive them to reduce emissions from their products. There is a concern, therefore, that a weak cap would be set initially to ensure that there were sufficient allowances to cover emissions from this sector. Setting a tight cap on surface

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<sup>1</sup> 'How Clean is Your Car Brand?' T&E, October 2006.

<sup>2</sup> 'Commission plans legislative framework to ensure the EU meets its target for cutting CO<sub>2</sub> emissions from cars' European Commission press release, 7 February 2007.

transport would likely create an upward pressure on prices – raising concerns over a perverse feedback loop in which weaker caps would be set for other sectors, unable to bear very high carbon prices, in order to compensate for this. The result would be very little actual abatement taking place as a result of the scheme overall. The simple fact is that the EU ETS is likely to stay a lowest common denominator scheme as long as the concerns of the sectors most exposed to international competition have not been addressed.

- **In the short term, and as already mentioned, inclusion in the EU ETS is unlikely to lead to direct emissions reductions in the transport sector** - Including vehicle manufacturers in the scheme would simply transfer the responsibility to reduce emissions onto other sectors - or to the use of imported credits from countries outside the EU - and delay technological innovation in the road transport sector. It would also help to “lock in” decisions on high-carbon infrastructure and behavioural choices which will be difficult or costly to reverse at a later date.
- **Other measures** - WWF is extremely concerned that in practice, including the sector in the EU ETS will crowd out the policy space, and diminish the political appetite for more effective and targeted measures that would deliver real and lasting improvements in the road transport sector’s own emissions.
- **The focus of the review of the EU ETS Directive which is now underway should primarily be on refining and improving its effectiveness in dealing with large industrial point sources, rather than expansion to new sectors such as road transport.** It is crucial that the review of the scheme focuses on refining and harmonising the approach to cap setting and allocation for the existing sectors in the scheme. Looking to expand the scheme to include a large, new sector where the cost of reducing emissions from the sector itself is relatively high could destabilise the scheme at a crucial stage, and distract focus from other critical design aspects.

Another option would be to place the cap on the **fuel suppliers** rather than on car manufacturers. However, this is also unlikely to result in a reduction in emissions from the sector and would face most of the same downsides as have been identified above. In addition, fuel suppliers have less options to abate emissions than car manufacturers. They have no control over improvements in fuel efficiency of vehicles or the way in which vehicles are used, while the option of fuel switching is only partly available and already substantially addressed by policies to promote biofuels. In practice, placing a cap on fuel suppliers could look like little more than a very modest fuel tax (e.g. 3 Eurocents per litre when CO<sub>2</sub> prices are €20 per tonne) - simply raising this tax is easier and would be as effective. Placing the cap on car owners is the third option. However, there are currently approximately 200 million vehicles and as the Commission points out this “*would be likely to raise significant administrative challenges for which several years’ preparation would be needed*”<sup>3</sup>.

**In summary - WWF recommends that at least in the medium term road transport should be kept out of the EU ETS. Instead the focus should remain on the urgent implementation of targeted policies such as mandatory fuel efficiency targets (a maximum of 120g CO<sub>2</sub> per km by 2012), complemented by robust fiscal incentives and other measures to reduce the growth in road traffic.**

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<sup>3</sup> ‘Questions and answers on the EU strategy to reduce CO<sub>2</sub> emissions from cars’ European Commission memo, 7 February 2007.