

Road transport in the EU Emissions Trading Scheme

Why?

- Road transport is a major source of CO₂ emissions
 - Likely to represent an increasing proportion of emissions as emissions in other sectors come down
 - Need a package of measures to address problem

Package of measures

- Stern Report recommends that policy to reduce emissions should be based on 3 elements:
 - carbon pricing
 - regulation
 - behavioural change
- EU ETS could form part of such a policy package, e.g. combined with new car fuel efficiency targets, car labelling.

Carbon pricing

- EU ETS provides an effective form of carbon pricing
 - provides flexibility
 - promotes cost effective abatement
 - price automatically adjusts to wider market conditions

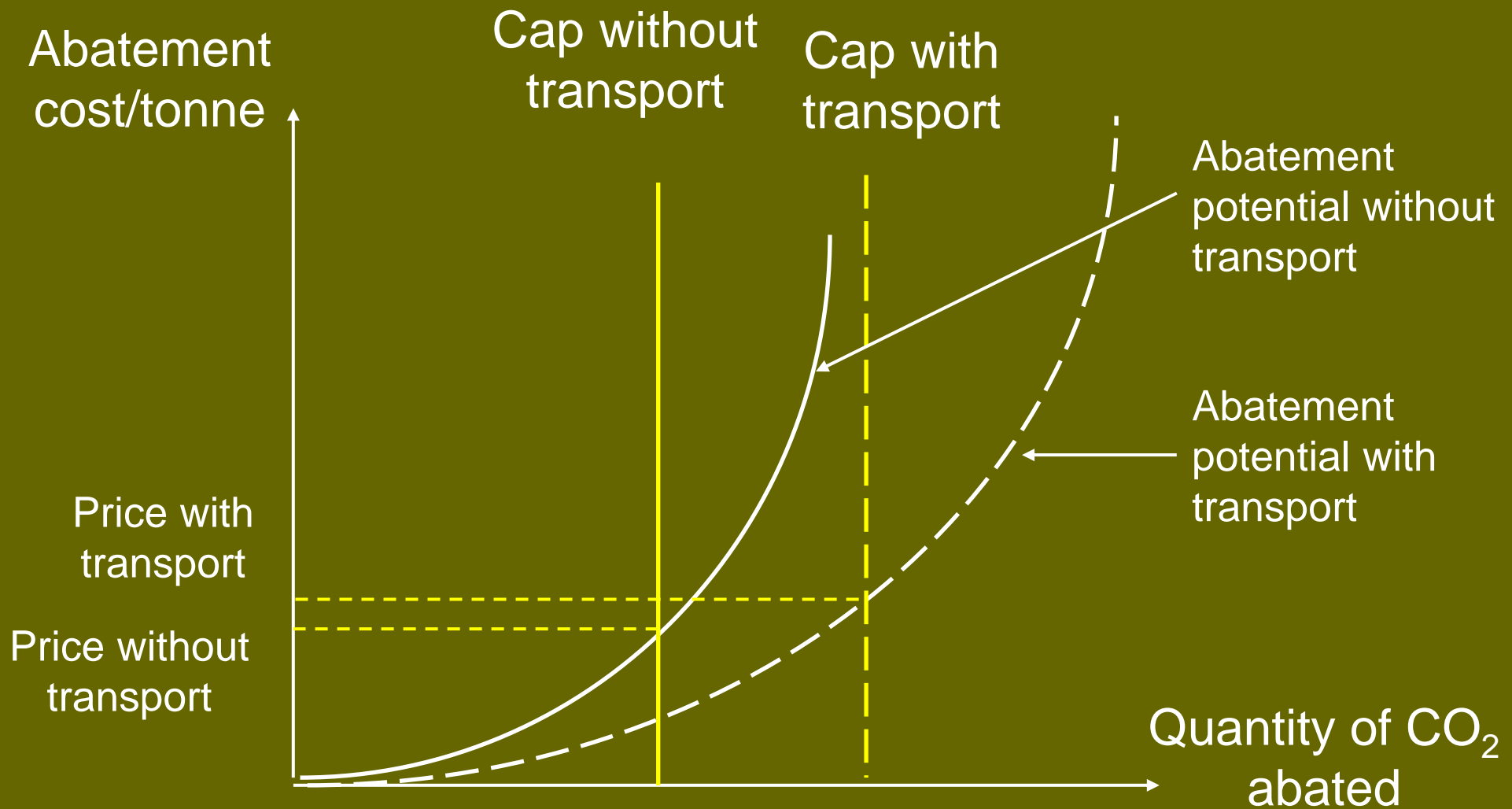
How?

- 3 main options:
 - motorists
 - car manufacturers
 - fuel producers
- Review so far has only looked at motorists and car manufacturers
- Fuel producer option looks feasible
- UK urge consideration as part of review process

Benefits/Risks

- Could offer
 - Significant carbon savings
 - Cost effective carbon savings
- Scale of carbon savings?
 - Depends on estimates of future road transport CO₂ emissions & level of under-allocation
- Impact on carbon price?
 - Depends on level of under-allocation, availability of CDM, costs of carbon abatement options in phase III
 - Higher level of under-allocation = bigger carbon savings, but potentially bigger impact on carbon price

Impact on EUA prices



Benefits/Risks contd

- Carbon savings would come from
 - Purchase of EUAs and CERs
 - Transport sector due to increase in fuel price (change in driving behaviour, purchase more fuel efficient vehicles)
- Overall cost likely to be lower than trying to achieve the same level of CO₂ savings solely within road transport
- Impact on businesses already in EU ETS depend partly on whether they are net buyers or sellers

Impacts

- Will need information on:
 - Road transport CO₂ projections
 - CDM availability
 - Phase III abatement opportunities
 - Interface with other instruments
- To understand:
 - Impact on carbon price
 - Impact on competitiveness
 - Distributional impacts

Conclusions

- This option has sufficient potential to justify further work
- Recognise the need for further work – UK looking forward to working with other interested parties
- EU ETS review offers important opportunity – should not waste it.
- If road transport included, could be several years before has an impact on investment decisions and behaviour change – therefore need to consider now.