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Expanding the scope of ETS: focus on the transport sector

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DG CLIMA Consultation meeting on options for structural measures to strengthen the EU ETS

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We should be clear on the reasons to extend the scope of the EU ETS and how far to extend it

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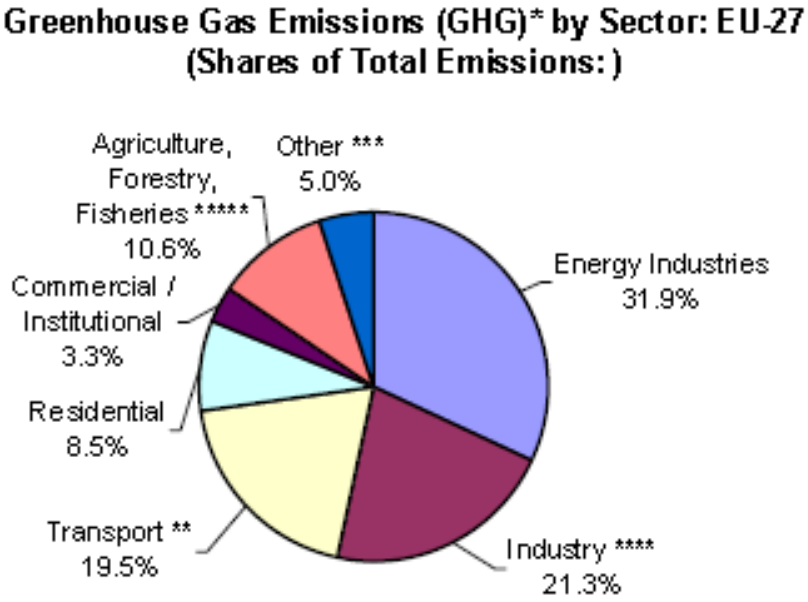
Why extend?

- Defensive: to "bulk up" the ETS – to create a bigger market and increased demand for allowances?
- Offensive, because:
  - Including other sectors is the most efficient way of reducing their emissions?
  - It is a means to extend a common CO2 price wider across the economy to provide incentives or change behaviours?

Extend ETS to which other sectors?

- Transport? this is not an homogenous sector, each part will respond to different incentives. Aviation already included.
- To "light" industry? (below current 25kte threshold)
- Heating? residential and commercial – very diverse.
- Agriculture? mixture of CO2 and other GHGs



Some sector selection criteria

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- Compliance should be on those who make source decisions to mitigate emissions or to buy allowance.
- Existing potentially overlapping instruments already in place would make for bureaucratic, confusing and inefficient policy. For example,
  - Existing excise duty and VAT equivalent to
    - » €200+ /Te CO2 for diesel
    - » €300+ /Te CO2 for gasoline
  - Direct regulation, including standards.
    - » *fleet average CO2 emission of new cars: 172 g/km in 2000 to 135.7 g/km 2011*
- Large number of individual sources gives big MRV costs for small GHG reductions:
  - E.g. EU ETS small emitters opt-out following Phase 2 experience.

Oil demand changes in Europe from now to 2040: Light duty vehicle demand reducing, but others increasing

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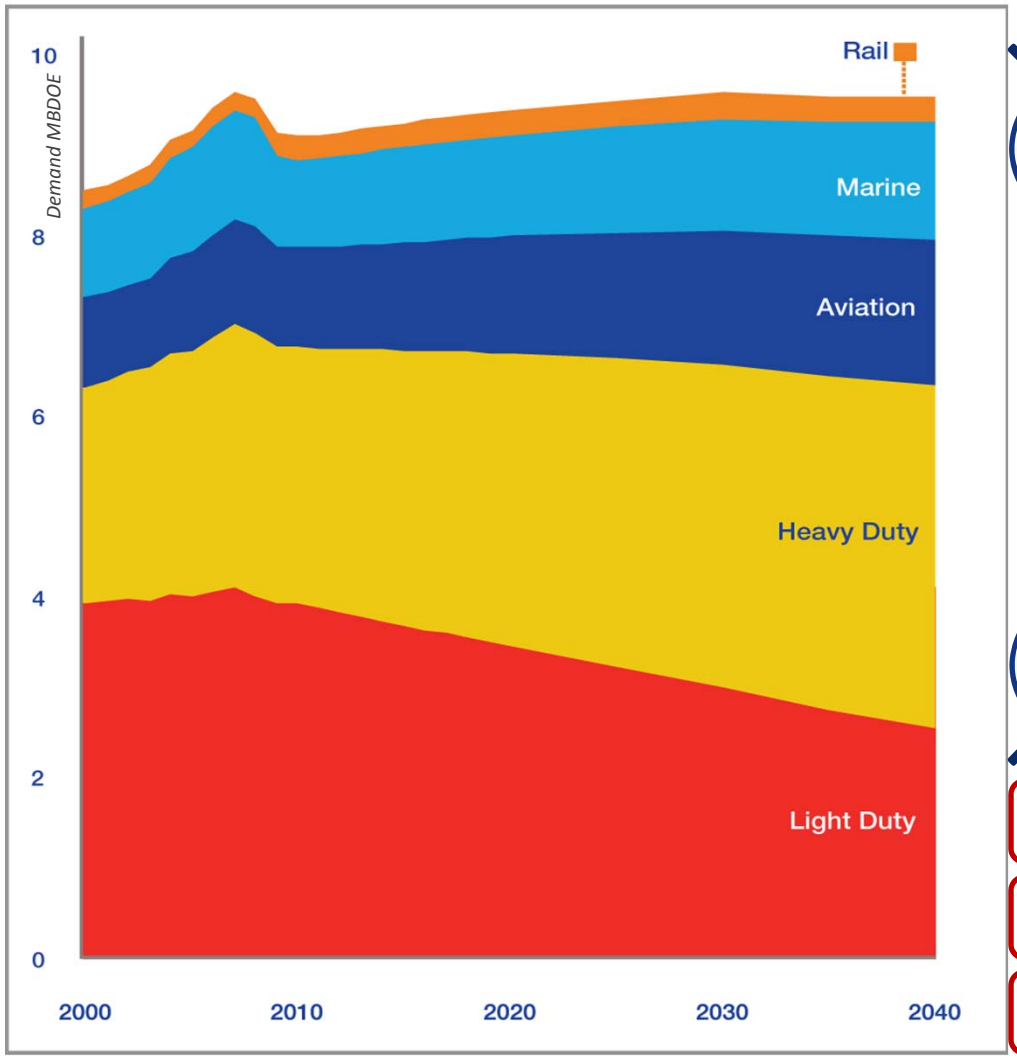

Marine: demand up by ≈ 15%

Aviation: demand up by ≈ 40%

Heavy duty vehicles: demand up by ≈ 20%

Light duty vehicles: demand down by ≈ 30%

Technology: vehicle weight and engine efficiency, matched by evolving liquid fuels

Economics and effects of high taxation: ≈ 2/3 of pump price

Fuel substitution when technology is sustainable

Source: *ExxonMobil 2012 Outlook for Energy*

What factors should be considered if transport is to be included?

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International aviation, marine linking to EU:

- Aviation/marine energy demand increasing, despite improving energy efficiency of fleets.
- International fuels not taxed – not possible without international agreement.
- Aviation already included in ETS, but as an international business there are border issues/ create competitive distortions.
- Marine being discussed, but similar issues of leakage/competitive distortion.

Heavy duty road transport:

- Truck population increasing: 8 to 10 M vehicles 2010-2030.
- Energy demand increasing despite improving energy efficiency.
- However, logistics issues and congestion are worsening in EU. Would ETS help?
- Fuel already taxed at rates well above the currently envisaged CO2 prices, but rates not consistent across EU with energy and CO2 content of fuels.
- In competition in EU with inland marine and rail.
- Energy major part of truck operators cost so already strong efficiency incentive.
- Performance standards as an alternative but trucks vary greatly.

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Light duty vehicles

- Energy demand already on strong downward trend.
- Energy efficiency and CO2 emissions both improving significantly driven by high cost of fuel and standards.
- More than 250M vehicles, mostly individual ownership so how would the effect of ETS be felt?
- Complex and increasingly fragmented supply chain to the final customer – many small wholesalers, retailers.
- Fuel already taxed at rates well above the currently envisaged CO2 prices but rates not consistent across EU with energy and CO2 content of fuels.
- At average EU taxation levels and 120 g/l CO2, fuels taxation equivalent to approx.:
  - €200+/Te CO2 for diesel
  - €300+ /Te CO2 for gasoline
- Bio fuels obligations – risk of policy overlap with ETS.

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