

# LowCVP Conference 2005

10th February 2005

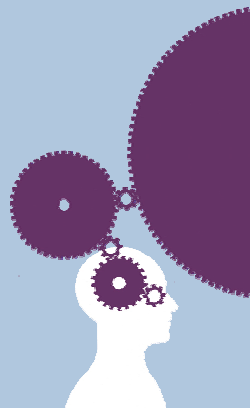
Workshop 1  
Road Transport and the EU ETS

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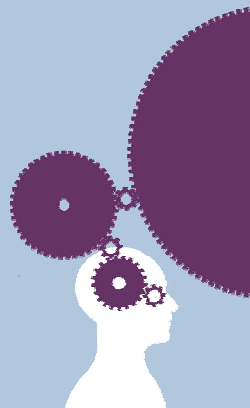
# The EU Emissions Trading Scheme (ETS)

- Puts a price on the use of carbon
  - encouraging economy/efficiency
  - incentivising technological innovation
- A tax or a permit?
  - limited number of permits guarantees achievement of target
  - grandfathering helps existing polluters to adjust slowly
  - an auction very similar to a tax
- Benefits of trading
  - Reductions can be made in the lowest cost places
    - sectoral choices
    - international choices (link to Joint Implementation and Clean Development Mechanism)



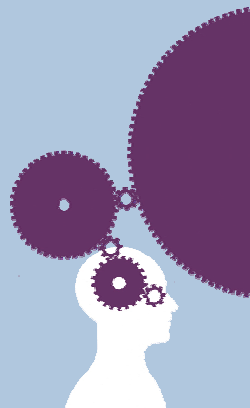
# History of EU ETS

- Pilot period 2005-2007
  - CO<sub>2</sub> only
  - power industry, oil refineries, coke ovens, ferrous metals, cement, glass, ceramics, bricks, paper and board
  - Phase 1 Allocation Plans lax throughout EU
  - low carbon price
- Next period 2008-12
  - wider coverage
  - tighter if Kyoto targets are to be met in EU
  - inclusion of transport (air, shipping, roads) already mooted
  - UK Government feasibility study for “surface transport”
  - other Greenhouse Gases? (eg, aviation and NO<sub>x</sub>)
  - up to 10% can be auctioned



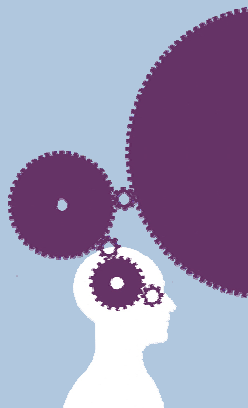
# Road Transport in the EU ETS

- Refinery emissions already covered
- Allocate permits to fuel providers (upstream)?
  - crude oil importers (permit to import)
  - sellers of petrol (permit to sell)
- Constraints
  - no windfall to oil companies
  - simplicity; low administrative cost
  - consider relationship to existing motoring taxes
  - competitiveness
  - impact on poor people
- Incentives
  - biofuels substitution
  - consumers respond to price increases
  - can individual supplying companies do anything else?



## Possible add-ons

- Could car manufacturers claim credits (with a market value) if they outdid voluntary agreements?
  - would introduce economic incentive in VAs
  - would put premium on setting tight agreements
  - difficult to get right exchange rate
- Bring car fleets directly into the scheme?
  - allocate permits to car hire companies (on basis of fleet performance)
  - allow large companies to include their car fleets in their carbon envelope



# Beyond the EU ETS

- Carbon permits allocated to households (carbon budgets)
  - advantage brings home carbon usage
  - directly encourages economy/efficiency
  - complicated and administratively burdensome
  - distributional impact potentially good

