

Options and issues for emissions trading & road transport

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Outline

- The Government's transport 'package' on CO2
- Why road transport?
- Why emissions trading?
- What we've done so far
- Options and issues to consider
- Next steps

Stern and CO₂ policy measures

Carbon pricing
(tax, trading,
regulation)

RTFO



Emissions Trading



Technology
and
innovation

New Car CO₂ standards



LCTIS



Remove
barriers to
change

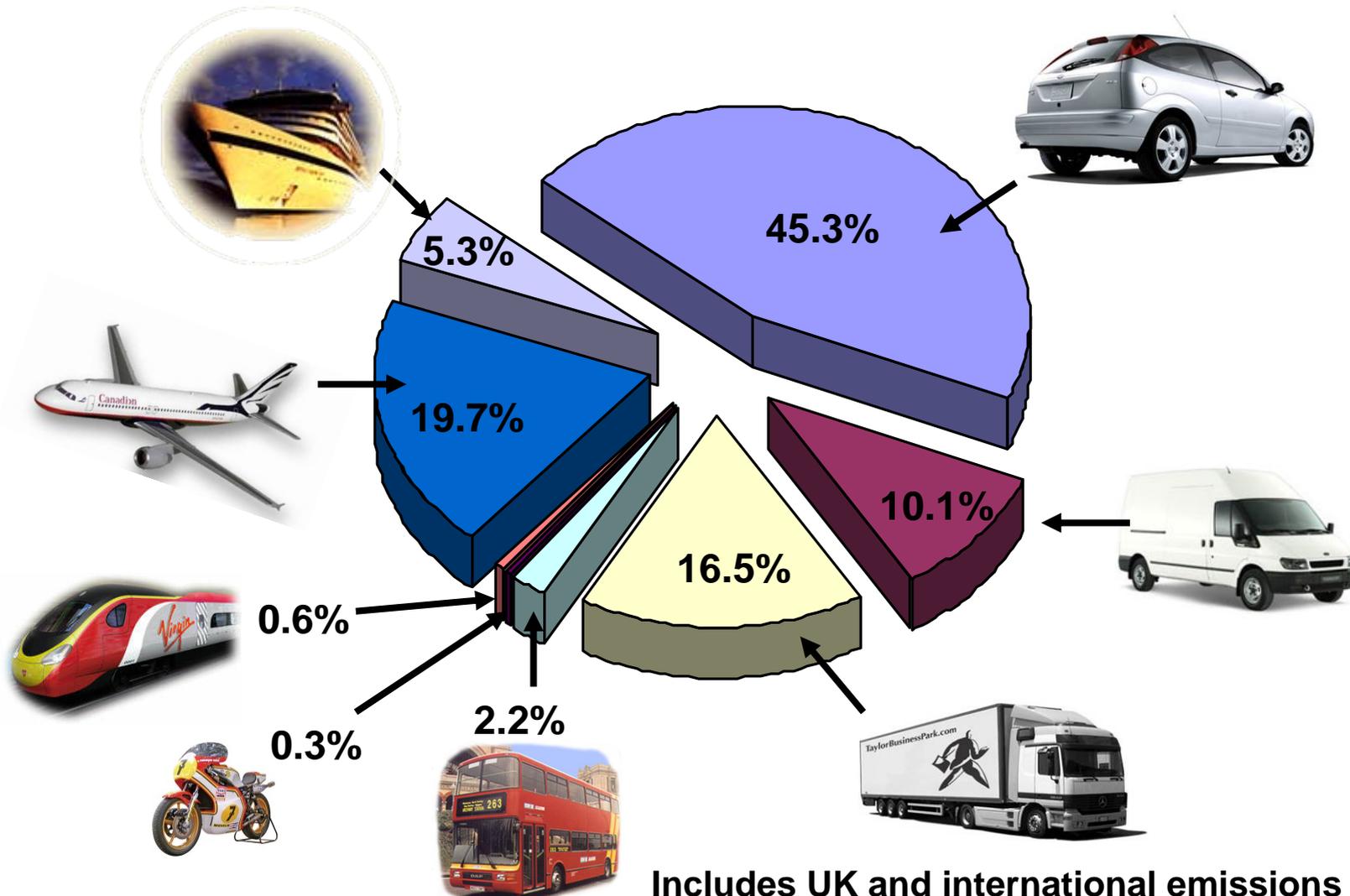
Smarter Choices



Consumer Awareness



Why road transport?



Includes UK and international emissions 2004

Why EU emissions trading?

- Strategic aim to introduce a price for carbon emissions
- Greater certainty that a specific target for CO₂ reductions will be achieved
- Focus CO₂ abatement on most cost-effective measures – starts the process (or at least awareness) of making trade-offs
- Encourages compliance strategy, encouraging more top management interest and looking at more creative options
- Aims to provide long-term price signals for investments with long-term pay back
- Aims to incentivise long-term behavioural change
- EU ETS would facilitate multi-lateral action mitigating impacts on international competitiveness

Work to date

- Setting structure for analysis
- Working through the Commission: presented to European WG on EU ETS review. Road transport now to be included as part of their RIA
- The DEFRA / OCC review of EU ETS (comments by 11 May please)
- Our paper covers a sub-set of this on road transport
- It sets out options for who to regulate and issues to consider:
 - Fuel producers
 - Car manufacturers
 - Hauliers and individual motorists

Option 1: fuel producers



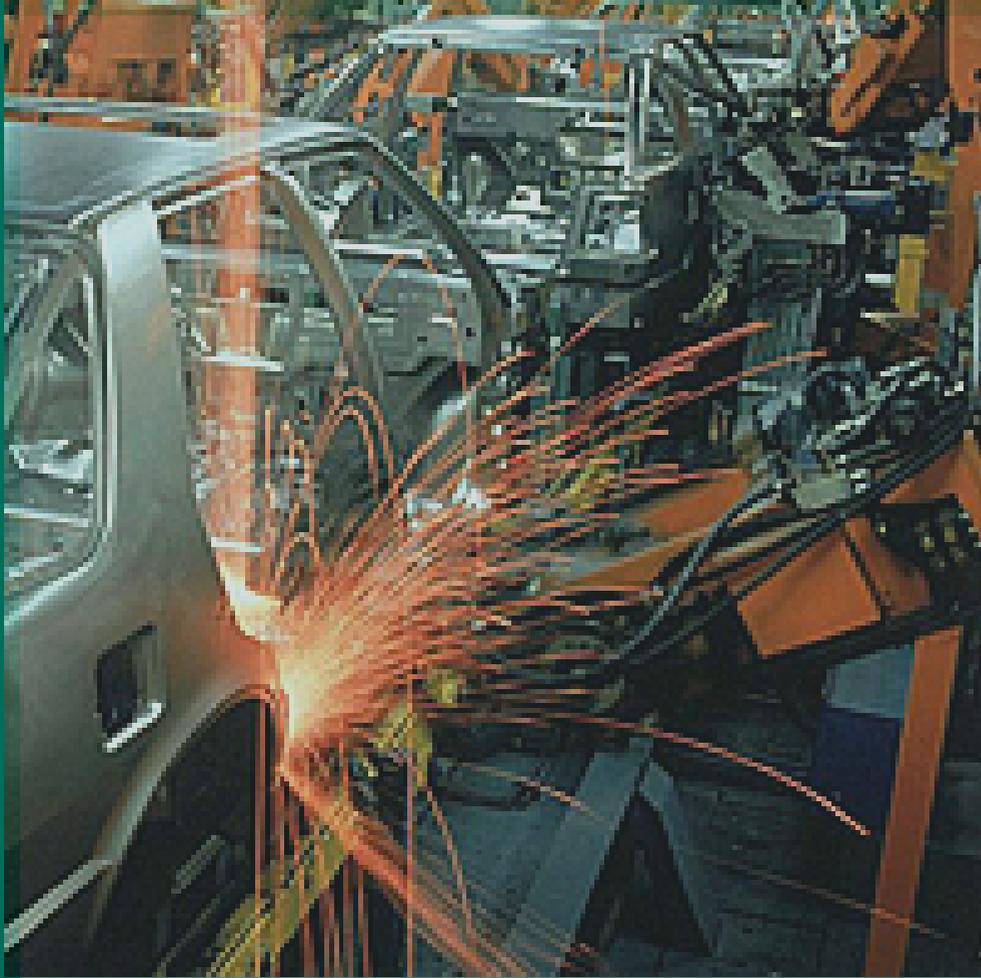
- Regulate at duty point (can't evade by importing from outside EU)
- Based on volume of fuel on which duty is paid, convert to CO₂ using standard conversion factors
- In UK would only need to regulate around 20 companies; 11 companies cover over 99% of fuel supplied
- Low administrative costs, many companies already in EUETS, can cope with price uncertainty

Option 1: issues



- Pricing impacts (fuel / electricity / EUAs)?
- Industrial competitiveness – impact on EUA price?
- Changes to EU ETS directive?
- Interaction with biofuels policy?

Option 2: Car manufacturers



- Could be cap & trade or baseline & credit
- Either fully included in EU ETS or separate regulation on fuel efficiency with link to EU ETS
- Would need method for calculating CO2 emissions

g/km

No. of
vehicles
sold

Av
annual
mileage

Alt
fuel?

Option 2: Issues



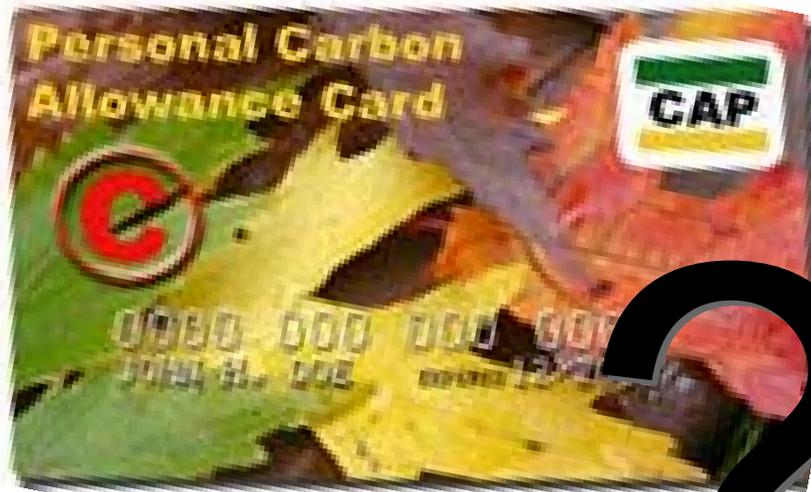
- Undermine integrity of EU ETS cap? – actual emissions uncertain
- Cap & trade – awkward allocation problem as linked to number of cars sold as well as CO₂ emissions of cars
- Benchmark & credit – no allocation problem
- How would manufacturers respond? May not result in fuel efficiency improvements (CO₂ allowance price low)

Option 3: Motorists & hauliers



- Allocate EUAs to private motorists and hauliers
- Surrender allowances when buy road fuel
- Likely that fuel retailers would enter market – similar to fuel producers option
- Large number of regulated entities

Option 3: Issues



- Very large number of entities to regulate, each with small emissions. Administrative costs and transaction costs high in proportion of costs of implementation?
- Market would probably respond to sell allowances to consumers – works like a tax anyway
- Depend on development of personal carbon allowance system that is cost effective and acceptable to the public

Considerations in summary

- Practical feasibility, costs of compliance and administration?
- Impact on CO₂ allowance prices, electricity & fuel prices?
- Impact on energy-intensive sectors & UK competitiveness?
- Interaction with other CO₂ policy instruments?
- What are the abatement costs relevant to EU ETS Phase III?
- For different levels of under allocation, what would be the expected CO₂ allowance prices?
- How would these be reflected in electricity prices and fuel prices?

Next steps

- Feeding into the OCC / DEFRA review of EU ETS (comments by 11 May please)
- Making sure the Commission's RIA considers all relevant options
- Continue to develop our understanding of the different options
- Looking for opportunities for further engagement with stakeholders to help us feed into the review process – industry, NGOs and other member states