

CAE/G8487/JHU

Geneva, 28 March 2008

## IRU POSITION ON EMISSION TRADING FOR THE ROAD TRANSPORT INDUSTRY

IRU Position on emission trading - unanimously adopted by the IRU Commission on Economic Affairs.

### I. ANALYSIS

Emission Trading Schemes (ETS) are increasingly seen as the policy instrument of choice wherever policy makers seek to achieve a reduction in greenhouse gas emissions.

The basic principle of these ETS is the following:

A central authority – usually a government – sets a limit on the amount of a pollutant that can be emitted. Companies are issued emission permits and they are required to hold an equivalent number of certificates (allowances) which represent the right to emit a specific amount. Companies that need to increase their emission must buy certificates from those who pollute less. This transfer of certificates is referred to as emission trading. In effect the buyer is paying a charge for polluting, while the seller is being rewarded for having certificates left over.

Major emission trading systems:

The oldest example of an emission trading system is the SO<sub>2</sub> trading system under the framework of the Acid Rain Program of 1990 in the United States. Building on the experience in the USA the European Union launched its ETS in 2005. This EU ETS is the largest, multinational CO<sub>2</sub> ETS in the world – currently including 10.000 large industrial plants – and was created with reference to the so-called “flexible implementation mechanism” of the Kyoto protocol. It is currently the world’s only mandatory carbon trading programme. Following the EU ETS, the Australian government decided to set up an ETS by 2012.

Currently the only transport sector which is included in an ETS is the Aviation industry in the EU ETS. However, government officials are looking into including other transport modes such as road transport in the ETS. The following three options as to who to regulate as part of an ETS for road transport are currently under investigation:

#### 1. Fuel producing companies

For the amount and the CO<sub>2</sub> content of fuel that a fuel-producing company wants to sell, the company needs to provide a CO<sub>2</sub> emission trading certificate. The cost for those certificates will be added to the original fuel costs and will be passed on to the customer at the filling station.

#### 2. Vehicle manufacturers

A vehicle manufacturer needs to have CO<sub>2</sub> emission trading certificates for the number of vehicles he wants to sell. These certificates are based on the CO<sub>2</sub> footprint of the vehicles of

the emissions per kilometre. The cost for those certificates will be added to the purchase price of the vehicles and will as such be passed on to the customer.

### 3. *Individual transport operators.*

CO<sub>2</sub> emission certificates are saved on a chip card, similar to a credit card. When the transport operator refuels at a filling station certificates will be deducted from his electronic card. If the certificates are used up the transport operator has to purchase new ones; if they are not used up he can sell them.

Internal governmental evaluations have come to the following conclusions: Option 3 has the greatest challenges in terms of feasibility and cost-benefit. Option 2 is not seen as achieving the emission reduction goal since the extra purchase price is only paid once but the logistic system as such will not be affected. Option 1 seems to be the most promising as it is easy to implement and has a direct effect on the behaviour of the transport user.

The EU, as well as various countries outside the EU, have already undertaken feasibility studies regarding option 3 and as it stands New Zealand will most likely be the first to implement it. From January 2009 road transport will be included in the ETS in New Zealand. The ETS will apply to fossil fuel, meaning that fuel suppliers who take fuel from the refinery (Shell, BP, Aral etc.) will be required to participate in the scheme. It is expected that the fuel suppliers will pass on the cost to their customer and assuming the current price of around 10€ (15\$) per tonnes carbon dioxide equivalent, the fuel price would likely to rise by around 3 Euro cents per litre.

#### Observations:

In the current globalisation of the economy, road transport is not only a transport mode, but above all a vital production tool to ensure competitiveness in the sustainable economic and trade development of each country. It is clear that continuous diesel supply for road transport with moderate taxation/price is a prerequisite to enable each country to meet the economic, social and environmental object of Agenda 21 and the UN Millennium goals. Taking into account the already existing massive taxation on diesel fuel, the inclusion of fossil fuel as foreseen in option 3 of the system of emission trading is just another easily implemented and profitable fiscal business for governments.

Due to the only possible set up of ETS the transport industry will be punished through double taxation.

The road transport industry justly gave priority to reducing toxic emissions such as NO<sub>x</sub> HC CO and PM up to 98%. However, the continuous focus on NO<sub>x</sub> emission as foreseen by the EURO Norms system will not help to reduce CO<sub>2</sub> emission but rather increase fuel consumption and thus CO<sub>2</sub> emissions due to the technical trade off between NO<sub>x</sub> and burning temperature in the engine.

At source technical measures are key to reduce fuel consumption and thus CO<sub>2</sub> emissions. In addition through better vehicle technology the fuel consumption of commercial vehicles has already been reduced by 36% since 1970.

Furthermore, the idea behind ETS is based on the "Polluter Pays Principle", which is from an economic point of view an outdated, overly simplistic and narrow approach which is not based on a sound cost benefit analysis.

In conclusion, this costly, and most of the time only unilaterally imposed, measure will not improve the competitiveness of the implementing country but will just make transport more expensive.

**II. IRU POSITION**

ETS is just another excuse for governments to collect taxes and will not reduce CO<sub>2</sub> emissions. As such it is just another penalty on road transport and therefore a penalty on the economy as a whole.

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