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European Commission initiative on Greening Corporate Fleets

IRU Position Paper on the upcoming Greening Corporate Fleets initiative to be adopted by the European Commission (EC)

I. IRU POSITION

The EU road passenger and goods transport industry is fully committed to the European Union's (EU's) efforts to reduce greenhouse gas emissions and transition to a greener and more digital economy.

However, the imposition of a mandate on private companies for the purchase of zero-emission vehicles (ZEVs) would be disproportionate, unsuitable and in disregard of EU law.

Hence, the International Road Transport Union (IRU) opposes a binding mandate for private operators to purchase any specific type of vehicle, including ZEVs.

Instead of imposing unreasonable requirements on road transport operators, IRU calls on the European Commission to make a recommendation to Member States on the use of positive government incentives that would enable the adoption of carbon-neutral technology, including:

- in the case of cars and light-commercial vehicles (LDVs), providing financial incentives for the uptake of zero-emission vehicles (ZEVs) ahead of the 2035 deadline;
- in the case of heavy-duty vehicles (HDVs), supporting and incentivising the long-term use of the three technological pillars for HDVs: hydrogen fuel cell, battery-electric and combustion engine based on carbon-neutral fuels, including through the use of conversion systems to carbon-neutral fleets;
- encouraging the use of products and services that contribute to the decarbonisation of the existing fleet.

II. ANALYSIS

The European Commission's 2023 work programme, which was adopted by the Commission on 12 October 2022, outlined the Commission's agenda and work plan for the coming year. As part of the "European Green Deal" policy objective, with the aim of promoting sustainable transport, the Commission tabled a *Greening Corporate Fleets initiative* (legislative or non-legislative) to be adopted in Q3 2023. The following is the position of road transport operators on the expected proposal that could impose a mandatory purchasing mandate on private fleet owners.

1. Right to property and right to conduct business

Imposing an obligatory mandate for private operators to purchase ZEVs would be an infringement on the right to property, which is a basic human right guaranteed by the

EU Charter[1], and intrinsically related to the freedom to conduct business. The EU Clean Vehicles Directive (CVD) already imposes an obligation on road transport companies working for public authorities. Such an obligation should not be extended to all commercial road goods and passenger transport operations.

These two rights are essential economic liberties that safeguard the ability to own property and use resources to pursue economic possibilities. This includes the right to buy, sell, rent or utilise property for any legal purpose, such as conducting business. Such rights are followed by responsibilities – private operators are solely responsible for the efficiency of their operations.

The choice to use private capital for fulfilling goals should always remain with the private company and its subsidiaries. Currently, this is put into practice by road transport operators as they fully integrate environmental, social and governance (ESG) issues into investment practices and decision making, as it's their fiduciary duty.

The mandate to purchase ZEVs may not only violate the right to property and the right to conduct business, but it may also lead to:

– a limitation of the freedom of choice – commercial road transport operators should have the freedom of choice to purchase vehicles that suit their business models;

– price hikes – mandating purchases creates artificial demand, which can lead to supply shortages and price hikes for vehicles that are already scarcely available on the market;

– greater inequality between companies that can afford to purchase more expensive vehicles, and small and medium-sized enterprises for which this will be a barrier to conducting business; and

– reduced innovation in alternative solutions.

A requirement to purchase ZEVs for private capital is fundamentally different from an obligation for public capital, which is already imposed on Member State authorities under the CVD, mandating Member State authorities to purchase clean vehicles, particularly electric buses, with available public funds, including national and European recovery funds.[2]

As opposed to transport for hire and reward under public service obligations, transport on own account (private operators not covered by public service obligations) do not have easy access to public funds. This is because there are clear differences in the free-market economy between public and private funds, such as their source of funding, how they are managed, and the purpose for which they are used. Private operators manage their own budgets and bear the risks of their commercial operations.

In fact, transport companies are currently operating on razor-thin margins and must carefully analyse every expenditure, not only in terms of ESG goals, but also in terms of optimising their business operations. Already today, transport operators are having difficulty meeting the increased demand since the COVID-19 pandemic, owing to driver shortages, lack of government support, and other concerns.

As a result, the European Commission and other public organisations should carefully evaluate the effects of placing unreasonable demands on private transport operators. Indeed, such demands may deter private transport operators from offering services or cause them to leave the market all together as such interventionist policies are not compatible with private operators' economic interests.

Commercial road transport operators should have the freedom to purchase the vehicles that best suit their business models, and it is up to manufacturers to make such vehicles attractive and competitive.

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[1] The EU Charter recognises the right to property under Article 17.

[2] The gross domestic product of EU Member States ranges from tens of billions to several trillions of euros, whereas the Next Generation EU is approximately EUR 750 billion.

2. Transport operators need choice

Commercial road goods and passenger transport will require a wide range of cost-efficient alternative fuels, and adequate vehicles available to choose from depending on the type of transport operation.

The adoption of zero-emission vehicles is currently very low across the board – with petrol and diesel vehicles accounting for 91-97% of vehicles on the road, depending on the type of vehicle.[3] Therefore, every technological solution that has the potential to contribute to decarbonising road transport needs to be considered, particularly when it comes to HDVs. IRU is concerned that basing the standards on a tank-to-wheel approach with ambitious targets and short deadlines for ZEVs may encourage manufacturers to invest exclusively in one specific type of technology.

While an incentive to invest in ZEVs is necessary, this should not be the only solution since the share of ZEVs in the HDV category is not likely to increase rapidly, even under the most optimistic forecasts. Therefore, it is critical to support the long-term use of the three technological pillars for HDVs: hydrogen fuel cell, battery-electric and combustion engine based on carbon-neutral fuels.

3. The second-hand market is a steady source of reliable vehicles for transport operators

In Europe, the second-hand market for both LDVs and HDVs is a significant and well-established industry, with many buyers and sellers of used trucks, buses, coaches, cars, and other commercial vehicles. As in any market, it is also impacted by regulations, such as emission standards and roadworthiness requirements that may influence the demand and price of used vehicles.

The ability to buy internal combustion engine vehicles on the second-hand market should not be restricted by a mandate to purchase ZEVs, as this is a new technology which only represents a small fraction of the second-hand market. Additionally, many private transport operators need to purchase second-hand vehicles because they lack funds and government support for the renewal of their fleet. Imposing a purchasing obligation requiring all new vehicle purchases to be ZEVs effectively renders second-hand vehicle markets, an important source of vehicles for commercial transport operators, inoperable.

4. IRU proposals

IRU calls on the EC to make a recommendation to Member States on the use of positive government incentives for the adoption of carbon-neutral technologies by:

– proposing recommendations for Member States to provide financial incentives for the adoption of ZEVs in the LDVs segment (e.g. direct grants, tax advantages, guarantees on loans, or subsidised interest rates) ahead of the 2035 deadline. It is necessary to provide specific financial incentives for services with regulated prices, such as taxis, that cannot pass on the costs of higher ZEV prices to their customers, so all ZEV additional costs of purchase would be expected to be borne by the taxi driver/taxi dispatcher;

– supporting and incentivising the long-term use of the three technological pillars for heavy-duty vehicles (HDVs): hydrogen fuel cell, battery-electric and combustion engine based on carbon-neutral fuels, including the modification of the existing ICE engines through the use of conversion systems to carbon-neutral fleets; and

– supporting and incentivising the uptake of products and services that contribute to the decarbonisation of the existing fleet and to the fast reduction of its CO_2 emissions using existing technologies (e.g. low rolling resistance tyres).

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[3] https://www.acea.auto/files/ACEA-report-vehicles-in-use-europe-2023.pdf.