POSITION

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The European Commission proposal to include road transport in the Emission Trading System

IRU Position on the European Commission proposal to include road transport in the Emission Trading System

I. IRU POSITION

IRU supports the green transition. Commercial road transport operators are key contributors ready to provide solutions to transport decarbonisation. Commercial road goods and passenger transport will require a wide range of alternative fuels and sufficiently available vehicles for different types of operations. An adequate transition and flexibility in the choice of fuels is essential for the sector, given the very large operational scope in which these two industries are active. There is no one-fits-all solution. Therefore, IRU calls for:

- A transparent EU legal framework that encourages the switch to alternative fuel technologies in commercial road transport
- The joint consideration of the Fit for 55 taxation and charging proposals as inextricably linked and combined with an absolute prioritisation of the alternative fuel infrastructure regulation and with aligned and synchronised implementation across the EU
- Guarantees for the availability and accessibility of alternative fuel vehicles and infrastructure as pre-conditions for revised taxation and new charges and as an incentivising framework to enable the transition

IRU is concerned that, in its current format, the Emission Trading Scheme (ETS) proposal for road transport may not effectively contribute to achieving decarbonisation objectives. If road transport were to be included in the ETS, it should be based on the following pillars in order to ensure that its declared objectives are met:

- Encourage by providing an adequate transition period and do not penalise without solution
- Avoid multiple and overlapping taxes, charges and duties for CO_2 emissions
- Allow all forms of collective passenger transport access to the Innovation Fund
- Collect from road, invest in road: Provide additional incentive measures to encourage investments in alternative fuel vehicles across the EU and driver training
- Establish guarantees to maintain the competitiveness of commercial road transport operators established in the EU.

II. ANALYSIS

1. Encourage and do not penalise without solution

Commercial road passenger and goods transport provide enormous added value to the prosperity of EU citizens. The European Commission estimates that commercial road transport accounts for about 6% of total CO_2 emissions in the EU, which is half of the carbon footprint of private road transport users.[1]

The ETS proposal lacks an in-depth scientific impact assessment of the effects of the proposed measures on commercial road transport operators compared with private users, in particular the increased cost burden that will be placed on small and medium-sized enterprises (SMEs) and the inflationary effect of the cost increases passed on to EU citizens and society.

Zero-emission technology is developing at a much slower pace for heavy-duty vehicles (HDVs) compared with other vehicle categories. There are several million HDVs on EU roads today. Even based on the most optimistic forecasts of HDV manufacturers, the production of zero-emission HDVs will not grow fast enough to justify the massive charges affecting an EU fleet of millions of vehicles on the roads. Given current progress, it is also doubtful whether light commercial alternative fuel vehicles will be readily available in sufficient numbers to enable the rapid replacement of several million commercial vehicles on the road.

By including road transport in the ETS, fuel distributors who pay for emission allowances will pass these costs on to road users, including the commercial road transport sector. Having fuel distributors meet the full CO_2 price, which would then be passed on to commercial road transport operators who do not have the possibility to change their fleets in the short term, would amount to a penalty without a solution. IRU calls for a solution to this issue, which is presented below.

IRU Call: ETS should provide an adequate transition period during which the CO_2 price, as set by ETS legislation, should be gradually met by fuel distributors and passed on gradually to commercial road goods and passenger transport operators over a 10-year transition period with re-evaluations every two to three years. The starting point and the evaluation process should depend on a number of conditions, including the availability of alternative fuel technology, the speed in deploying sufficient numbers of alternative fuel light- and heavy-duty vehicles, as well as alternative fuel infrastructure for the sector and its various niches. A simulation of a gradual approach to passing on the carbon price in full to the commercial road transport sector can be found in Annex 1.

2. Avoid multiple and overlapping taxes, charges and duties for CO_2 emissions

The proposal to include road transport in the ETS is unclear as to whether the price for CO_2 that will be passed on covers the emissions and externalities caused by them. The European Commission's impact assessment is vague about the overall cost effect on the commercial road transport sector and opens the door to further parallel and overlapping CO_2-related taxes, charges and duties at the EU or national level.

The ambiguity in terms of the definition and scope of the CO_2 charge, as well as the lack of transparent restrictions or prohibitions on additional ETS taxes, charges and duties, create a high risk of multiple and overlapping taxation of CO_2 emissions and externalities.

There are over one million commercial road transport companies running in the EU, 80% of which are SMEs. The fleets commonly have up to five HDVs. Zero-emission vehicles are expected to remain much more expensive than traditional ones in the foreseeable future; the initial investment efforts for commercial road transport companies will be higher. In addition, in its present state of development, the battery-electric technology has two crucial shortcomings for HDVs: the battery weight and

[1] European Commission, DG Climate Action website

vehicle autonomy. Once these vehicles become available, the industry will have to find business cases to make the switchover economically viable.

IRU Call: The ETS should act as a deterrent for multiple and overlapping taxation and charging, as well as on inconsistent national taxation of carbon emissions, which can distort competition in the commercial road passenger and goods transport markets. The ETS proposal for road transport should expressly exclude any other taxes, charges and duties for CO_2 emissions and/or their externalities at EU or national level.

3. Allow all forms of collective road passenger transport access to the Innovation Fund

Collective passenger transport by road, irrespective of the type of contracting (public or private collective transport), is an effective tool for decarbonisation in itself.

The ETS proposal for road passenger transport only mentions local public transport in connection with the deployment of resources from the Innovation and Modernisation Funds. IRU calls for a solution to this issue, which is presented below.

IRU Call: All companies providing collective road passenger transport services, be it regular services by bus and coach (publicly contracted or part of the private market), coach tourism or taxi services, should be able to benefit from the resources from the Innovation and Modernisation Funds.

4. Collect from road, invest in road: Provide additional incentive measures to encourage investments in alternative fuel vehicles across the EU

As mentioned above, the over one million road transport companies will not be able to switch to much more expensive technologies and bear all other related costs without support.

The ETS proposal foresees a number of funds (Social Fund, Modernisation and Innovation Funds) that will be available for use in the commercial road transport sector.

The current EU framework is not sufficient to support the switch to much more expensive technologies. The average age of large commercial vehicles in the EU is seven years, but ACEA figures indicate that this is considerably higher in several countries. This demonstrates that the industry is already struggling to invest in newer and cleaner vehicles powered by current technologies.

Member States are expected to place at least 85% of auctioning revenues in these funds. Member States may decide to substantially reduce their commitments. If support from all funds is not available in all Member States, this could lead to competitive distortions. Experience shows that it is notoriously difficult to apply for EU funding; requires an organisational set-up and extensive resources that most commercial road transport companies do not possess. This could make access to funding very difficult, especially for SMEs. The resources from the described funds could therefore end up in other sectors that provide energy, infrastructure or equipment, rather than directly going to commercial road passenger and goods transport sectors.

IRU Call: A package of incentives is needed to encourage the switch to alternative fuel technologies; these incentives should be created within the Fit for 55 package and in the relevant legislation. Incentives could include:

a) Binding rules for Member States to reinvest revenues from auctioning road transport emissions within the ETS in projects aimed at reducing the environmental footprint of commercial road transport. These could include projects that encourage collective passenger transport use, accelerate the market uptake of zero- and low-emission road transport vehicles, develop the alternative fuel infrastructure network, encourage driver training, accelerate digitalisation in commercial road transport and promote the use of commercial road transport in a multimodal or combined transport context

b) Including companies active in the commercial road transport sector in the scope of the Social Climate Fund and any other funds set out under the ETS framework so that they have access to funds for training and equipping drivers and other personnel with the necessary skills needed for the new technologies and eco-driving. The funds could also be used to compensate transport operators' employees should they be adversely affected by possible measures with a social impact required as a result of major new investments and the increased costs caused by the green transition. This is of particular significance for SMEs.

c) Parallel incentive measures should be deployed to encourage investments in alternative fuel vehicles across the EU in an aligned and synchronised manner, including with easy access to green loans and incentives under the block exemption. Restrictions imposed by the current de minimis rules should be lifted for investments in alternative fuel technologies. The sustainable finance framework and taxonomy rules should also be aligned to ensure that private investments complement public money and that all technologies that can contribute to decarbonisation are recognised accordingly within the sustainable finance framework.

d) Other parallel measures should be deployed to incentivise the use of alternative fuel vehicles, including in terms of vehicle taxation and road user charging. The weights and dimensions rules should provide commercial road transport operators with more flexibility in terms of carrying capacity in order to compensate for the additional weight of alternative fuel technology and to enable more goods and passengers to be transported with fewer vehicles.

5. Establish guarantees to maintain the competitiveness of commercial road transport operators established in the EU.

The European Commission's impact assessment is vague about the impact on the competitiveness of commercial road goods and passenger transport within the EU and about the competitive level playing field between the EU and third country-based companies. Third country-based companies have access to the EU market and can also compete with EU-based companies for intra-EU transports. Fuel-related costs account for around 35% of the total costs of commercial road transport companies in the EU.[2]

ETS charges do not apply to fuels purchased in third countries. The higher charges under ETS in the EU will increase the competitive advantage of non-EU operators and challenge the competitive position of EU-based transport companies. This might lead to an increase in both the flagging out of road transport operations and tank tourism.

IRU Call: The articles of the ETS for road transport proposal should explicitly state that Member States cannot discriminate against commercial road transport operators established in their territory in favour of operators established in third countries.

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[2] "Ex-post Evaluation of Regulation (EC) No 1071/2009 and Regulation (EC) No 1072/2009", Ricardo, 2015.

Annex 1

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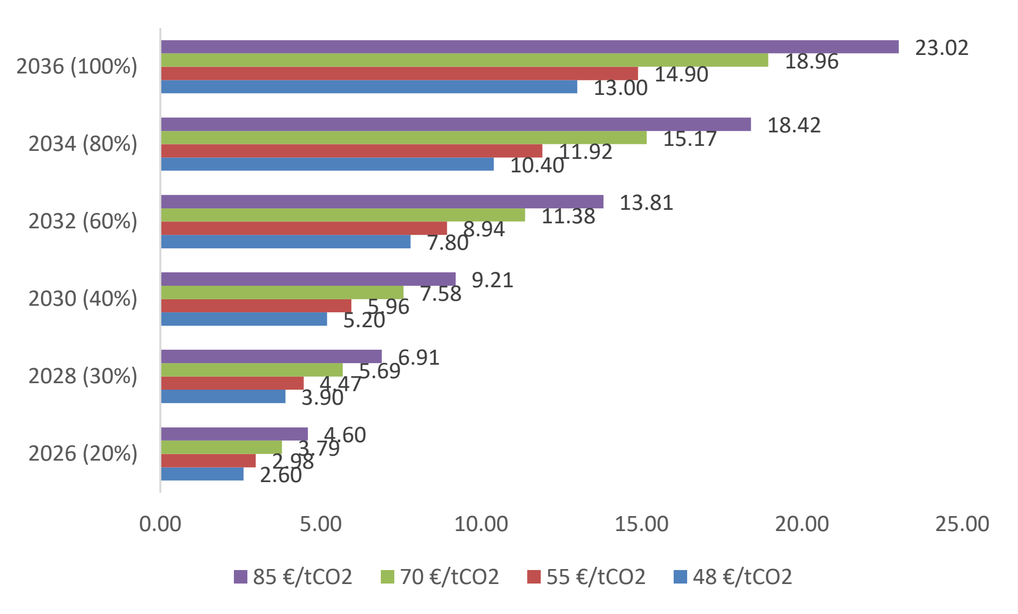
SIMULATION OF A GRADUAL APPROACH TO PASSING ON THE CARBON PRICE IN FULL TO THE COMMERCIAL ROAD TRANSPORT SECTOR

In the event that a carbon price of EUR 48 is passed on in full to the commercial road passenger and goods transport operators, 13 EUR cents would be added to the fuel price. This amount could double if the carbon price were to rise to EUR 85 in 2030, as estimated by the European Commission's impact assessment.

Commercial road passenger and goods transport operators interested in switching to low- and zero-carbon fuels other than electricity should be incentivised. A phase-in and phase-out period could be considered for certain fuels, during which the switch would be encouraged along with the market penetration of the low- and zero-carbon forms of various alternative fuels. This could be based on a more gradual process and should be considered when passing on the carbon price in full to the commercial road transport sector. The CO_2 price, as set by the ETS legislation, should be passed on gradually to commercial road goods and passenger transport operators over a 10-year transition period with re-evaluations every two to three years. The starting point and the evaluation process should depend on a number of conditions, including the availability of alternative fuel technology, the speed in deploying sufficient numbers of alternative fuel light- and heavy-duty vehicles, as well as an alternative fuel infrastructure for the sector and its various niches.

Simulation of a gradual passing on of the CO_2 price (in EUR cents)



Source: European Commission, SWD (2021) 601 final