

# FIT FOR 55: CLIMATE AND ROAD TRANSPORT

**Proposal COM(2021) 551** of 14 July 2021 amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union (EU-ETS), Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve (MSR) for the EU ETS and Regulation (EU) 2015/757

**Proposal COM(2021) 556** of 14 July 2021 amending Regulation (EU) 2019/631 as regards strengthening the CO<sub>2</sub> emission performance standards for new passenger cars (cars) and new light commercial vehicles (LCV)

**Proposal COM(2021) 559** of 14 July 2021 for a Regulation on the deployment of alternative fuels infrastructure (AFIR) and repealing Directive 2014/94/EU

and other proposals

cepPolicyBrief No. 6/2022

**SHORT VERSION** [[Go to Long Version](#)]

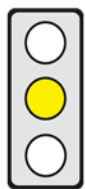
## Context | Objective | Interested Parties

**Context:** The EU wants to reduce its greenhouse gas emissions (GHG) to net zero by 2050 (“climate neutrality”) and by 55% by 2030 compared to 1990 (EU 2030 Climate Target). To this end, the Commission has proposed to tighten EU climate and energy legislation, including for road transport (“Fit for 55” Climate Package).

**Aim:** A separate EU emissions trading system for road transport and the buildings sectors (EU ETS II) is to be created, energy tax rates aligned with CO<sub>2</sub> emissions, CO<sub>2</sub> emission standards for cars and vans tightened, low-carbon fuels promoted and the charging and refuelling infrastructure for vehicles with alternative propulsion methods expanded.

**Affected parties:** Vehicle manufacturers, fuel producers, users of motorised road transport.

### Brief Assessment



#### Pro

- ▶ A separate EU emissions trading system for the road transport and buildings sectors (EU ETS II) is appropriate. It will give road users the incentive for lower carbon purchasing decisions and driving behaviour, prevent rebound effects and provide incentives for blending alternative fuels.
- ▶ The switch to vehicles with alternative propulsion systems (e-mobility, alternative fuels) requires the envisaged EU-wide development of a close-knit charging and refuelling infrastructure.

#### Contra

- ▶ Stricter CO<sub>2</sub> fleet targets do not guarantee that CO<sub>2</sub> emissions in road transport will drop to the desired level: The EU ban on the internal combustion engine in 2035 must be rejected in order to enable innovations to internal combustion engines that continue to be used worldwide.
- ▶ In order to increase the acceptance of the EU ETS II, the Social Climate Fund should receive more resources, be relieved of bureaucratic social climate plans and become a pure transfer system between Member States and thus less restrictive in terms of its use for direct income support.

## EU ETS II: Emissions Trading for Road Transport and Buildings [Long Version A.2.1]

**Commission proposal:** A separate EU emissions trading system for the road transport and buildings sectors (EU ETS II) is to be created. Oil companies will be required to hold allowances, but e.g. car drivers will not.



**cep-Assessment:** The EU ETS II will effectively and efficiently reduce overall carbon emissions from the road transport and buildings sectors. The CO<sub>2</sub> price provides incentives for alternative fuels, for choosing lower carbon modes of transport and for fuel-efficient driving, not only for new vehicles but also for old ones with combustion engines. The EU ETS II should therefore be the main instrument for CO<sub>2</sub> reduction in road transport.

## EU ETS II: Supply of Allowances and MSR II [Long Version A.2.4 and A.2.5]

**Commission proposal:** The supply of allowances by way of auctions will initially be 30% higher than the envisaged cap. A separate Market Stability Reserve (MSR II) will be created for the EU ETS II.



**cep-Assessment:** The initial 30% increase in allowances will ensure the availability of additional market liquidity. Establishing a separate MSR II for the EU ETS II may reduce large-scale price fluctuations over time, increase the predictability of price trends and protect transport users and households from excessive price increases. In the event of sharp price rises, however, it should react more quickly than suggested.

## EU ETS II: Use of Auction Revenues [Long Version A.2.6]

**Commission proposal:** Member States decide on the use of revenues generated from the auctioning of EU ETS II allowances, except those that flow into the EU budget as “own resources”. Member States must use the auction revenues to promote climate change mitigation, to reduce “distortionary taxes” or support low- and middle-income transport users.



**cep-Assessment:** The fair use of auction revenues will be crucial for public acceptance of the EU ETS II. They should not flow into the EU budget as own resources. Member States should be obliged to use most of these for direct income support instead of for the financing of climate action. For reasons of social justice, it is better to finance carbon reduction and measures to overcome “market barriers” from the national budgets.

## Social Climate Fund [Long Version A.3]

**Commission proposal:** A Social Climate Fund containing 25% of the expected auction revenues will be set up. Its funds are allocated to Member States according to their per-capita GDP and based on the proportion of low-income (“vulnerable”) households and size of the rural population. Member States must draw up detailed social climate plans. The funds may only be given to the needy in a very targeted manner.



**cep-Assessment:** In order to increase acceptance of the EU ETS II in the Member States, the resources of the Social Climate Fund should be increased and it should be transformed into a pure transfer system between Member States by abandoning the bureaucratic social climate plans, thus making it less restrictive in terms of its use as direct income support for small companies and middle-income households.

## Energy Taxation [Long Version A.4]

**Commission proposal:** Energy products are taxed according to their energy content and on a tiered basis according to their CO<sub>2</sub> emissions. Tax rates are indexed. Sustainable biofuels are taxed half as much as fossil fuels, renewable synthetic fuels and “advanced” biofuels just under an eighth as much.



**cep-Assessment:** Indexation of minimum energy taxes is appropriate as otherwise the incentive to save energy provided by energy taxes will diminish over time. Aligning energy taxes more closely with CO<sub>2</sub> emissions offers additional leverage to make alternative fuels cheaper than fossil fuels. The reduction in tax rates for sustainable biofuels, however, only goes part way towards a full tax exemption.

## CO<sub>2</sub> Fleet Targets for Road Vehicles [Long Version A.5]

**Commission proposal:** As of 2030, the EU’s CO<sub>2</sub> fleet target for new cars will be set at 45% of the 2021 level; and at 50% for LCVs. As of 2035, the EU CO<sub>2</sub> fleet-wide targets for new cars and LCVs will be 0 g CO<sub>2</sub>/km. The possibility of relaxing manufacturer-specific CO<sub>2</sub> fleet targets by having a high proportion of e-vehicles, will end in 2029.



**cep-Assessment:** Stricter CO<sub>2</sub> fleet targets do not guarantee that CO<sub>2</sub> emissions in road transport will drop to the desired level: They do not counteract the trend towards heavy and powerful vehicles and can lead to an increase in mileage (“rebound effect”). Unmodified CO<sub>2</sub> fleet targets continue to leave room for the development of more efficient vehicles with internal combustion engines which – worldwide – could use alternative fuels more economically. The ban on internal combustion engines by 2035 should be rejected.

## Alternative Fuels Infrastructure [Long version A.7]

**Commission proposal:** Member States must meet minimum requirements for the spacing and capacities of charging and refuelling infrastructure for electricity and alternative fuels in the Trans-European Transport Network (TEN-T).



**cep-Assessment:** The switch to vehicles with alternative propulsion systems (e-mobility, alternative fuels) requires the envisaged EU-wide development of a close-knit charging and refuelling infrastructure. In addition, in future, car manufacturers themselves will not be able to comply even with the CO<sub>2</sub> fleet targets already in force without the desired increase in e-mobility and the expansion of the necessary charging infrastructure.