

# Reducing New Car CO<sub>2</sub> Emissions

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Malcolm Fendick

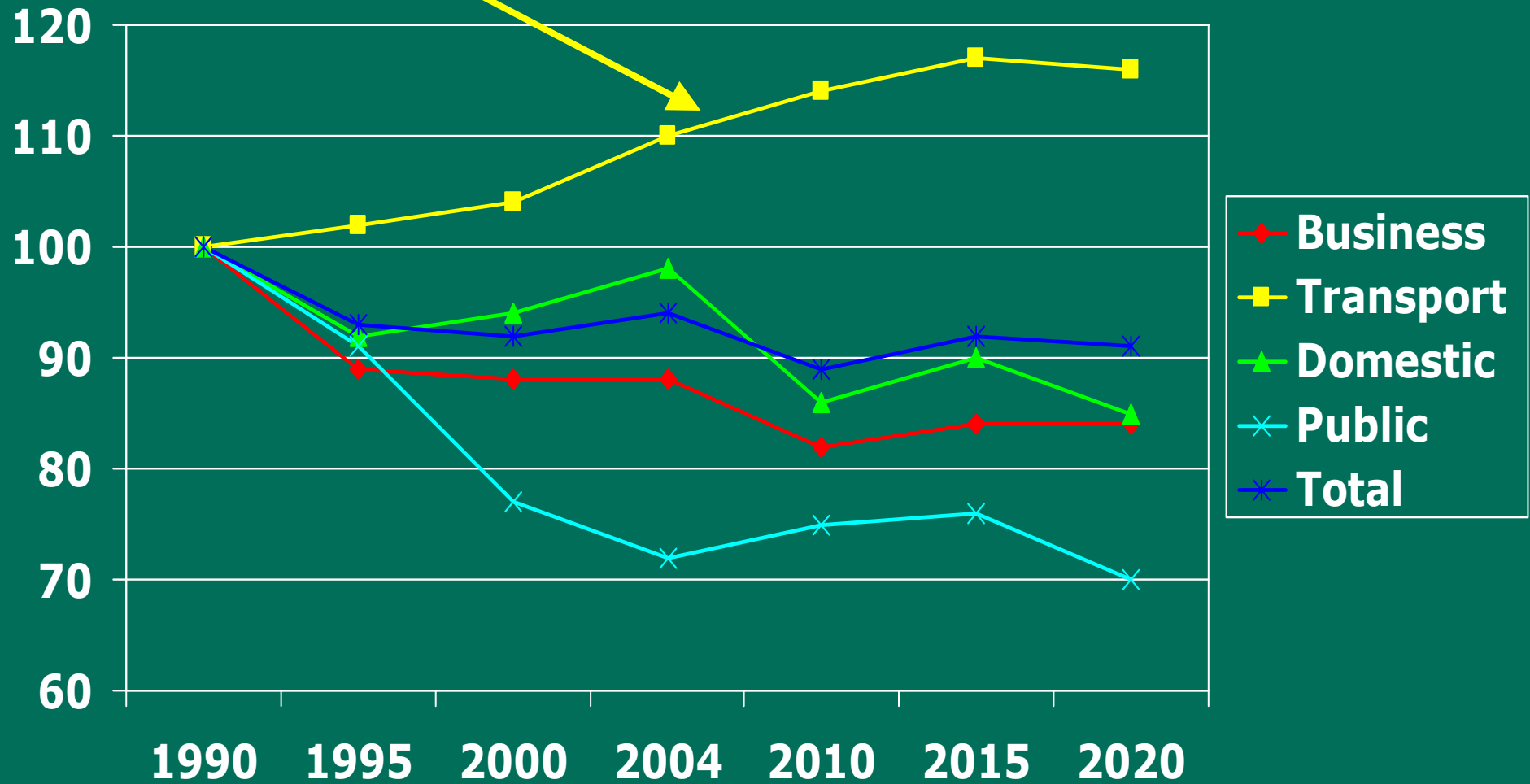
Divisional Manager, Cleaner Fuels & Vehicles

# Outline

- Dealing with CO<sub>2</sub> emissions from transport
- Progress under the existing voluntary agreements
- Policy options for reducing new car CO<sub>2</sub> emissions
- The way forward – What the Government is intending to do
- Questions

# Transport CO<sub>2</sub> emissions

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# Tackling CO<sub>2</sub> emissions from Road Transport

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- Encouraging more environmentally friendly forms of transport (funding public transport, local authority schemes to promote cycling & walking)
- Reducing the fossil carbon content of fuels (Fiscal incentives, RTFO)
- Increasing the fuel efficiency of vehicles (Vehicle labelling, fiscal incentives, voluntary agreement)



# Options for policy instruments

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1. A new round of Voluntary Agreements
2. Mandatory targets. Could be designed in a number of ways:
  - a. Vehicle class standards
  - b. Sales-weighted average targets - met at either manufacturer or holding company level
  - c. Sales-weighted average targets with trading between holding companies
3. Car manufacturers in the EU ETS

# Option 1 – New Voluntary Agreements

- Set targets to be met collectively at industry association level as a weighted average of sales
  - ✓ Avoids the administrative costs of regulation
  - ✓ Potential shorter time to implementation than regulation
  - ✗ Few penalties for failing to meet the targets
  - ✗ Likely to be less certain of CO<sub>2</sub> reductions than under a mandatory regime

# Option 2a – Vehicle Class Standards

- Vehicle tailpipe standards introduced in the form of an EC Directive or Regulation
- Different standards for different classes of car
  - ✓ Stronger incentive to reduce CO<sub>2</sub> emissions and therefore greater certainty that they would be delivered
  - ✗ No incentive to go beyond the standard
  - ✗ Would take time to negotiate and implement

# Option 2b – Sales-weighted Average Targets

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- Allow car manufacturers to meet an average target for all vehicles in their range OR at holding company level so they can offset emissions of high CO<sub>2</sub> brands against low CO<sub>2</sub> brands
  - ✓ Manufacturers have greater flexibility in meeting their targets
  - ✓ Lower administrative costs of regulation
  - ✗ Would need to look at impacts on smaller manufacturers and competitiveness

# Option 2c – Sales Weighted Average Targets with Trading

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- Same as Option 3 but manufacturers allowed to trade between each other
- Manufacturers who achieve an average CO<sub>2</sub> level below the target would earn CO<sub>2</sub> credits
- These could be rolled forward to the next compliance period or sold to a company that hasn't met their obligation

## Option 2c Continued

- ✓ Additional flexibility in compliance as targets don't need to be met by each manufacturer
- ✓ Incentives for going beyond targets – you get more credits which can be sold or rolled over
- ✓ Price transparency as credits would be traded on open exchanges which publish prices
- ✗ Trading would add to administration costs
- ✗ Would need to look at impacts on small manufacturers and competitiveness
- ✗ Agreement at an EU level could be difficult to achieve

# Option 3 – Car Manufacturers in EU Emissions Trading Scheme

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- Car manufacturers either fully integrated into the scheme or they could be set a mandatory target linked to the EU ETS.
  - ✓ Has the potential to deliver significant carbon savings at a low cost
  - ✓ Would allow manufacturers the option of improving car efficiency or paying for reductions in other sectors where savings can be made more cheaply

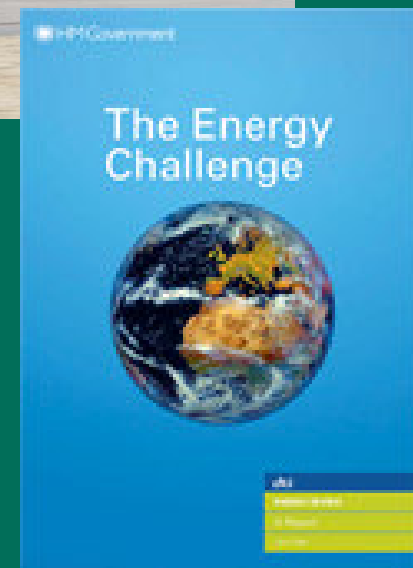
## Option 3 continued

- ✘ Changes to EU ETS can't be made until after 2012
- ✘ Allocation of CO<sub>2</sub> allowances could impact the number of cars manufacturers can sell – achieving agreement on this could be difficult.
- ✘ Would have to make assumptions about vehicle distance travelled to convert g/km CO<sub>2</sub> to tonnes CO<sub>2</sub> to allocate permits. This uncertainty may undermine the cap and trade nature of the EU ETS.

# The way forward – what the UK Government is doing

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- Consulting with industry and key stakeholders
- Engaging with the Commission and other member states



# For further details see

- Background on energy and CO<sub>2</sub> policy  
<http://www.dti.gov.uk/energy/review>

- Discussion paper on the DfT website:  
<http://www.dft.gov.uk/>

Follow the link to 'Roads and Vehicles' and then  
'Consultation papers'