

# Why the EU needs a ZEV Fleets Regulation & how to do it

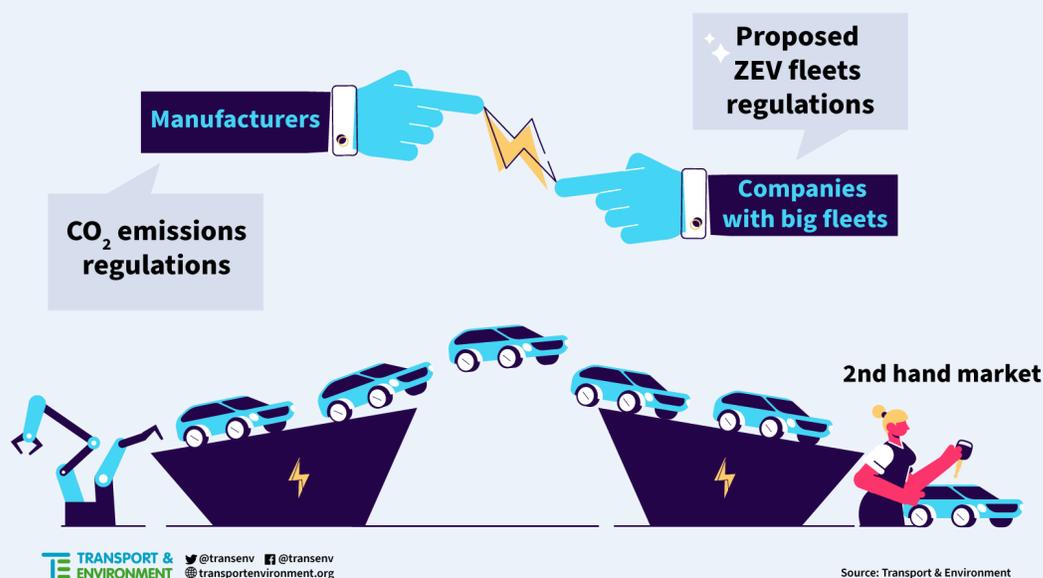
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## Executive summary

Fleets - of both passenger vehicles and vans - across the European Union account for 20% of total light and heavy duty vehicles, but are responsible for half the emissions from road transport: because they are driven more than private cars, fleets contribute disproportionately to greenhouse gas emissions. Crucially, fleets drive market demand through new registrations of company cars, and shape the wider EU car stock by quickly reaching the used car market.

With the EU currently revising several pieces of the regulatory framework determining both emission reduction efforts and electrification in the road transport sector, what is missing is action to address the demand side of vehicles, i.e. a policy on corporate and urban fleets.

## ZEV fleets regulation: supply meets demand



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The Sustainable and Smart Mobility Strategy (SSMS) is a step in the right direction and it announced - alongside a milestone of at least 30 million zero emission vehicles in operation on European roads by 2030 - the need for policy measures to stimulate demand for zero emission vehicles in corporate and urban fleets. The question is how such a future policy should look like. To answer that, T&E has commissioned a legal study to Milieu Consulting to examine the legal feasibility of different options for legislative measures that could be put forward by the Commission.

This policy briefing accompanies the legal study and shows that an **EU Regulation to set zero emission vehicles quotas** is the most appropriate legislative instrument to boost the uptake of zero emission vehicles.

T&E recommends that such a regulation:

- sets a mandate for any company with a fleet size of 25 vehicles or more to **acquire half of its new cars and vans as zero emission vehicles from 2025** and 100% from 2030.
- sets a mandate for high-mileage fleets (i.e. taxi, private hire, delivery vans, etc.) in urban areas to **operate half of their fleet as zero emissions vehicles by 2025** and all fleet by 2030.

T&E estimates that requiring EU companies to acquire 50% of their fleets as zero emission cars would bring at least 15 million electric cars - half the SSMS' ambition - that will be available for the wider public on the used car market by 2030.

An EU Regulation setting zero emission vehicle quotas is the most appropriate way to boost the uptake of zero emission vehicles in corporate and urban fleets. It will secure a much needed CO<sub>2</sub> emissions reduction while increasing demand for zero emission vehicles EU-wide, helping carmakers comply with the mandated car CO<sub>2</sub> standards. The increase in demand would in turn help strengthen investments and scale up ZEV production in the EU, creating jobs, while helping companies EU-wide reduce operating costs from their fleets. And last but not least, it would accelerate electrification of the wider European car stock via the used car market with affordable zero emission cars from corporate fleets.

T&E therefore recommends the European Commission to launch as soon as possible the impact assessment and public consultation processes needed to initiate an ordinary legislative procedure to propose a Regulation setting ZEV targets for corporate and urban fleets, as described in this briefing.

## Definitions & scope

### Scope

The scope of this briefing applies to fleets of cars and/or vans belonging to companies or private organisations. It is therefore different from the scope of the Clean Vehicles Directive<sup>1</sup> as Directive (EU) 2019/1161 applies to public fleets.

### Definitions

**Fleet:** a number of vehicles operated by a single organisation or under the same ownership. Vehicles registered under a company name or any private organisation name can potentially be part of a fleet.

**Zero Emission Vehicle (ZEV):** a car or a van with no tailpipe emissions.

With the current state of technology, this translates into a battery electric vehicle, or a fuel cell vehicle.

A technical definition would be a vehicle of category M1 (vehicles used for carriage of passengers, comprising not more than eight seats in addition to the driver's) or N1 (vehicles used for the carriage of goods and having a maximum mass not exceeding 3.5 tonnes) with a maximum tail-pipe emission of zero grams of CO<sub>2</sub>/km.

**ZEV fleets:** fleets made up of zero emission vehicles.

**Urban fleets:** vehicles operated predominantly in urban environments by a single organisation or under the same ownership. In short: taxi fleets and ride-hailing company fleets for passenger transport, and last-mile delivery fleets for goods transport.

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<sup>1</sup> Official Journal of the European Union,  
<https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019L1161&from=EN#d1e645-116-1>

# 1. Introduction

Europe's economy must be fully decarbonised by 2050 if we are to avoid the catastrophic consequences of the climate emergency and meet the commitments of the Paris Climate Agreement and European Green Deal. The transport sector in Europe represents over a quarter<sup>2</sup> of greenhouse gas (GHG) emissions and is the main cause of air and noise pollution in cities. Yet, it is the sector of the economy with the least progress to date: the carbon dioxide (CO<sub>2</sub>) emissions from new cars increased for three years in a row (between 2016-2019) before the entry into force of the new CO<sub>2</sub> targets for cars and vans in 2020. To achieve a zero emissions road transport system by 2050, all new cars, vans, smaller trucks and buses must be zero emission no later than 2035.

The European Green Deal recognises this fact, setting the goal of achieving a 90% reduction in transport emissions by 2050. Much attention is therefore being brought to reducing emissions and encouraging electrification in the road transport sector, with several key pieces of the relevant regulatory framework due to be revised this year in order to accelerate this process.

However, one area which deserves particular attention and which is not yet specifically regulated is the corporate vehicle market segment. The EU should focus on electrifying corporate cars as it constitutes a powerful lever toward the decarbonisation of transportation in Europe. This paper will first look at why regulating corporate fleets is so important and then consider how the EU can best accelerate the transition to clean fleets.

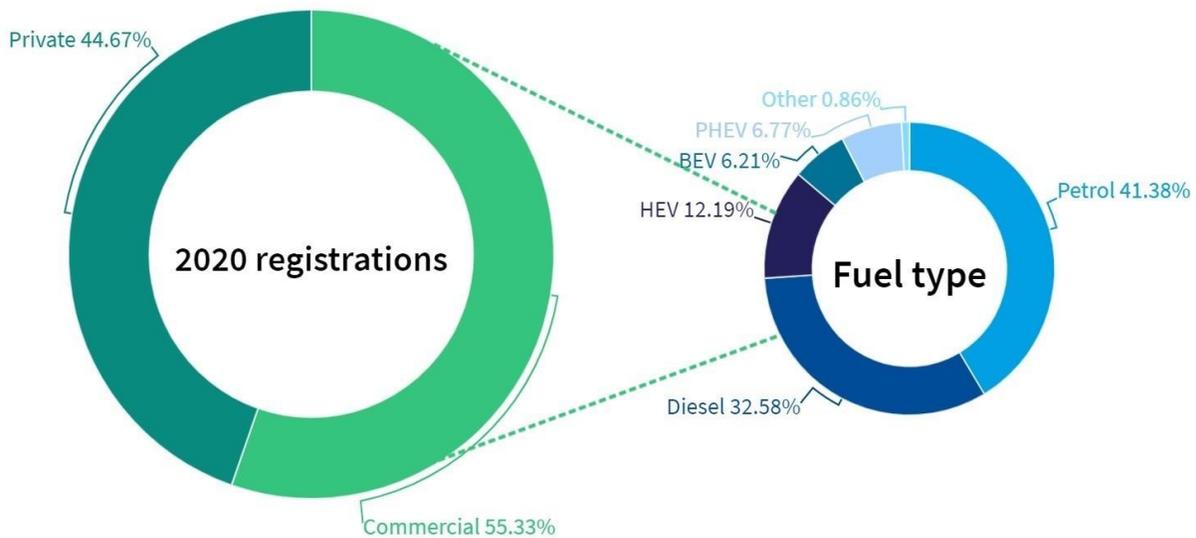
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<sup>2</sup> 28% of the GHG emissions in 2019. Source: UNFCCC provisional reporting of 2019 country emissions. Includes international aviation and shipping - cars and vans account for 15% of the total emission.

## 2. Why regulate ZEV fleets

### 2.1. The importance of corporate and urban fleets

When fighting against climate change and local pollution, not all vehicles should be considered equal: with 63 million vehicles, fleets account for 20% of all vehicles in Europe but are responsible for 50% of all road transport emissions<sup>3</sup>. This is because corporate cars are driven on average 2.25 times more than private cars, so they emit disproportionately more CO<sub>2</sub>.



**Source:** T&E analysis, DATAFORCE 2020 new vehicle registrations

Furthermore, over half of the cars sold today in Europe are company cars: 10.9 million new cars were registered in 2020, with more than 6 million going to companies, and less than 5 million belonging to private individuals. And 87% of new company car registrations were still petrol and diesel vehicles in 2020<sup>4</sup>.

<sup>3</sup> EY and EURELECTRIC, [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_gl/topics/energy/ey-accelerating-fleet-electrification-in-europe-28012021-v2.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/energy/ey-accelerating-fleet-electrification-in-europe-28012021-v2.pdf)

<sup>4</sup> T&E calculations based on DATAFORCE 2020 data for 17 European countries (Austria, Belgium, Cyprus, Czechia, Denmark, Finland, France, Germany, Italy, Latvia, Lithuania, Netherlands, Poland, Slovakia, Spain, Sweden, United Kingdom). These countries cover 95% of EU28 registrations based on ACEA passenger

That is why corporate fleets (which register more vehicles per year than private individuals) not only drive automotive market demand, but they also further emissions as they emit disproportionately more CO<sub>2</sub> than private cars. Therefore, electrification of the segment should be seen as ‘low hanging fruit’ that can really accelerate progress towards decarbonising road transport.

Millions of high-mileage polluting vehicles in corporate and urban fleets can be targeted with only a few measures, and can reap huge climate benefits. Furthermore, steering companies towards zero emission fleets at EU level can bring further benefits: boosting EU-wide demand, strengthening investments and scaling up zero emission vehicles (ZEVs) production in the EU while creating jobs.

While corporate fleets have been identified by the European Commission as a key lever to boost the uptake of zero emission vehicles, urban fleets have also been included in the Sustainable and Smart Mobility Strategy flagships. And that particular subsegment of fleets is indeed a key part of the puzzle to decarbonising transport. If the amount of CO<sub>2</sub> corporate cars emit is disproportionate compared to private vehicles, the CO<sub>2</sub> emissions from urban fleets are daunting by comparison: high-mileage taxi and ride-hailing fleets drive five times more (about 60,000 km per year) than the average driver<sup>5</sup>.

A clear conclusion can be drawn from the above: that the European Commission is right to focus on corporate and urban fleets, as they are currently dominated by highly polluting petrol and diesel vehicles; they are contributing disproportionately to CO<sub>2</sub> emissions from the road transport sector; and they are a demand driver for the automotive market.

Boosting the uptake of ZEVs will also secure demand across the EU, helping carmakers comply with the stricter car CO<sub>2</sub> standards under the European Green Deal. Regulating corporate and urban fleets can massively accelerate the uptake for zero emission vehicles with only a few measures at EU level.

But there is another crucial benefit to be taken into consideration. Measures to boost the uptake of zero emission vehicles in corporate and urban fleets will not only drive demand for new vehicles, reducing emissions from fleets. It will also accelerate the wider transition to electric cars, as corporate vehicles enter the used car market quicker than private ones, meaning a continuous influx of relatively new and cheap zero emission vehicles will be available to private buyers on the second hand market.

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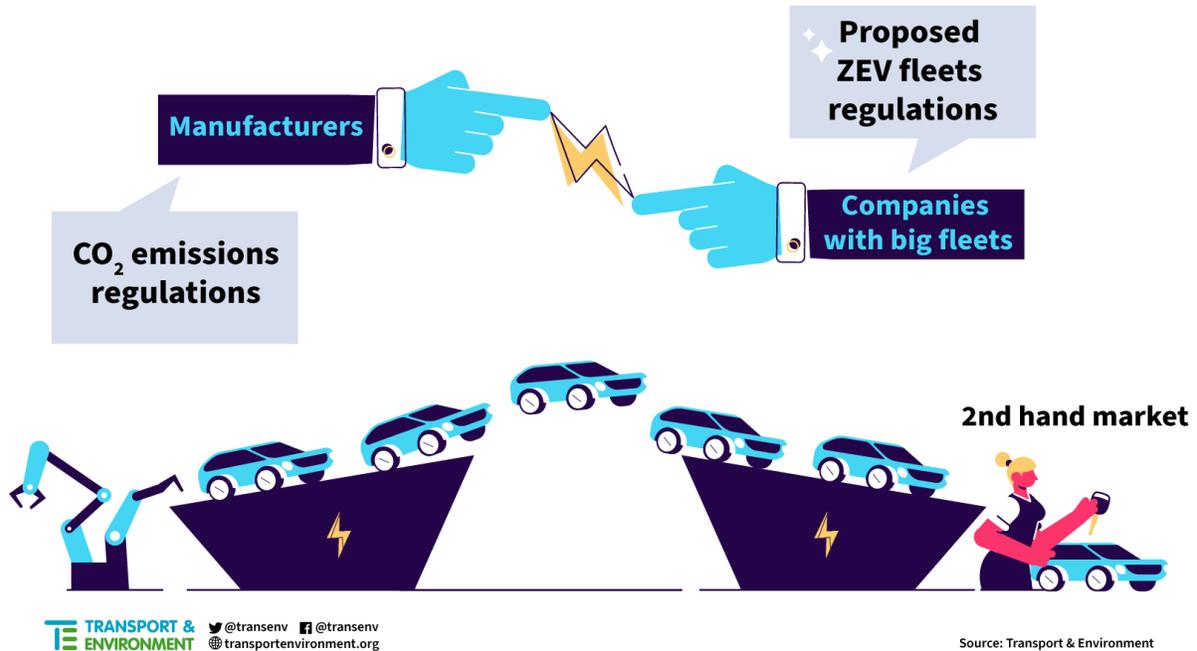
vehicles

<https://www.acea.be/press-releases/article/passenger-car-registrations-23.7-in-2020-3.3-in-december>

<sup>5</sup> T&E,

<https://www.transportenvironment.org/sites/te/files/publications/Why%20Uber%20should%20go%20electric.pdf>

# ZEV fleets regulation: supply meets demand



A huge shift is then expected in the private market, as the average European buys a used car<sup>6</sup>. Accelerating electrification of fleets means much faster and affordable penetration of zero emission cars into the wider European car stock, because corporate cars become private cars via the second-hand market after an average ownership of only 36 to 48 months.

<sup>6</sup> DG Climate Action, European Commission.

[https://ec.europa.eu/clima/sites/clima/files/transport/vehicles/docs/2nd\\_hand\\_cars\\_en.pdf](https://ec.europa.eu/clima/sites/clima/files/transport/vehicles/docs/2nd_hand_cars_en.pdf)

## DID YOU KNOW?

In 2020, 11 million new cars were registered in the EU. Over 6 million of those - or 55% - were acquired by companies, and less than 13% were electric (6% full electric and 7% plug-in hybrid).<sup>7</sup>

If companies acquired all-electric cars for just 50% of their fleets from 2025, T&E estimates that

**at least 15 million all-electric cars will be available by 2030**

for the wider public on the used car market.

## 2.2. Lower total cost of ownership

On top of the benefits mentioned above, there is another powerful reason for the European Commission to consider developing a ZEV Fleets Regulation: it already makes economic sense<sup>8</sup> for companies to operate zero emission vehicles in most markets today, and the shift will eventually be profitable from a total cost of ownership perspective (TCO)<sup>9</sup> for all fleets everywhere in Europe.

That is why the share of EV sales in fleets is already higher (about 13% in 2020) today than in the private segment (8% in 2020). This means that during the COVID-19 crisis in 2020, EV sales kept growing, while the overall passenger vehicle market (i.e. conventional powertrains: petrol and diesel) declined.

The higher uptake of EVs amongst companies can be explained by the fact that company purchase decisions are driven by TCO, not purchase price alone. Electric cars are cheap to drive but currently cost more than conventional cars to buy, which is one of the main barriers to private EV adoption. However, recent data<sup>10</sup> suggests that falling battery pack prices will take electric cars to price parity in the mid-2020s.

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<sup>7</sup> T&E calculations based on DATAFORCE 2020 data for 17 European countries representing 95% of the market.

<sup>8</sup> Transport & Environment, <https://www.transportenvironment.org/sites/te/files/publications/Why%20Uber%20should%20go%20electric.pdf> and [https://www.transportenvironment.org/sites/te/files/publications/2020\\_10\\_Company\\_cars\\_briefing.pdf](https://www.transportenvironment.org/sites/te/files/publications/2020_10_Company_cars_briefing.pdf)

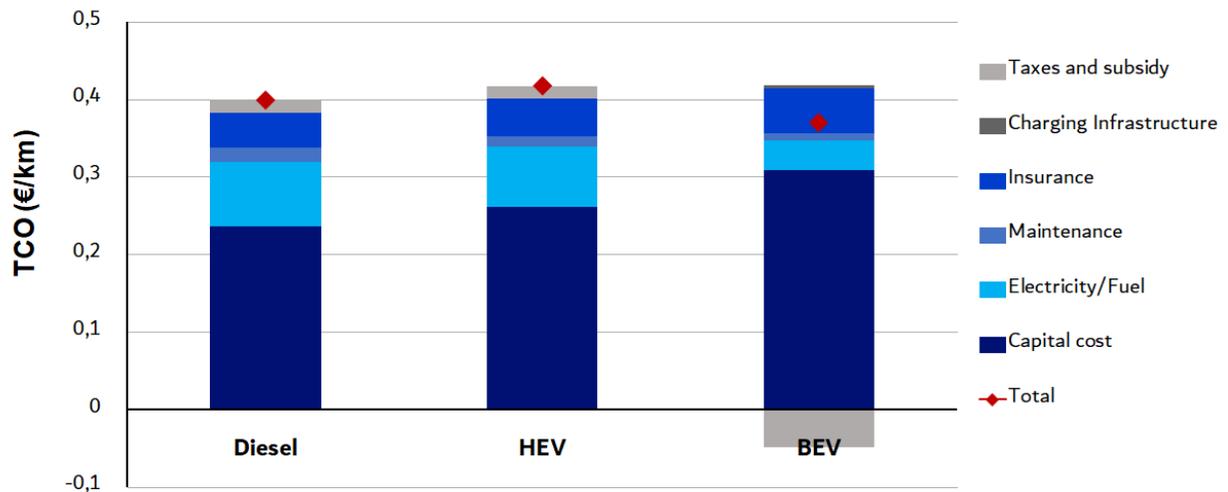
<sup>9</sup> LeasePlan, <https://www.leaseplan.com/corporate/news-and-media/newsroom/2020/30-09-2020>

<sup>10</sup> Bloomberg, <https://www.bloomberg.com/opinion/articles/2019-04-12/electric-vehicle-battery-shrinks-and-so-does-the-total-cost>



## Fully electric cars are the cheapest option

TCO comparison for a large company cars, EU average



The figure above shows how the TCO for a full-electric large company car (a Tesla Model 3 has been used for the comparison) is 11% lower than the TCO of a petrol-hybrid car, and 7% lower than a diesel.

Hence, guiding fleets towards zero emission vehicles via EU Regulation will help companies reduce their operating costs today, while enabling the arrival of affordable electric cars into the wider European car stock via the second hand market tomorrow. All while helping Europe meet its Green Deal targets by progressing road transport decarbonisation.

### 3. How to accelerate the transition to zero emission vehicle fleets

How can the EU target fleets with a few measures? The Sustainable and Smart Mobility Strategy<sup>11</sup> published last year is a good starting point, as it identifies the value of corporate fleets as a demand driver. The strategy sets out an action plan of concrete policy measures, and underlines that a comprehensive policy is needed to stimulate demand for zero emission vehicles, stating that “the Commission will propose actions to boost the uptake of zero emission vehicles in corporate and urban fleets”.

Electrification of corporate and urban fleets could be achieved in part at national level through taxation reforms. However, there are strong arguments for EU action in this area as it will be most effective and more appropriate, both for reasons of scale and effectiveness in achieving the EU objective to reduce vehicle emissions: the scale and speed of action necessary is best achieved at EU level.

#### 3.1. An EU Regulation: the optimal legislative tool

A legal study that T&E commissioned to Milieu Consulting<sup>12</sup> has examined the legal feasibility of different options for legislative measures that could be put forward by the Commission in order to boost the uptake of zero emission vehicles in corporate and urban fleets.

The options analysed were:

1. the revision of the Clean Vehicles Directive to expand its scope to private fleets;
2. a separate legislative proposal - a Directive or a Regulation - setting zero emission vehicles quotas for corporate fleets; and
3. other types of EU level measures that could be appropriate to set zero emission vehicles quotas for companies.

After examining the legal feasibility of those three options, the study confirms that a new EU Regulation setting zero emission vehicles requirements for corporate and urban fleets is the optimal way to implement measures to boost the uptake of zero emission vehicles in corporate and urban fleets, as outlined in the Sustainable and Smart Mobility Strategy.

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<sup>11</sup> European Commission Press Corner, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_2329](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2329)

<sup>12</sup> Milieu Consulting, <https://www.transportenvironment.org/sites/te/files/publications/Study%20on%20EU%20legislation%20of%20corporate%20fleet%20electrification%20FINAL.pdf>

Setting zero emission vehicles requirements for corporate fleets and urban fleets in a Regulation would ensure they are applied in a clear and uniform way and within a shorter time frame than permitted by other legislative measures, such as a Directive (the revision of the CVD is only due for review in 2027). Introducing ZEV quotas for fleets through the adoption of a new Regulation would allow for faster and more efficient action.

A new EU Regulation would also be most appropriate to set zero emission vehicles requirements for corporate and urban fleets than other legislative measures that currently exist in the relevant regulatory framework, as the mechanisms used by these instruments do not appear to be easily adaptable to specifically target corporate fleets.

For example, the incentives for ZEV sales within the cars CO<sub>2</sub> regulation could be reinforced in the upcoming revision, but the legislation targets car manufacturers, and it is not clear how they could be required to increase sales specifically to the corporate market segment.

The other demand-side measure with the most potential for increasing the share of ZEVs would be the Energy Taxation Directive (ETD), as it lays down minimal tax rates for motor fuels and electricity, above which Member States have discretion to establish their respective rates. The ETD is due to be reviewed, with the aim of ensuring that tax rates of energy products reflect their negative climate externalities, while also ensuring a fair distribution of costs in society. Increasing the price of fossil fuels while making electricity used for transport cheaper would incentivise the use of electric vehicles, and particularly so for high mileage fleets such as company cars. But EU competence on taxes is quite limited. Although the ETD establishes certain requirements on Member States regarding their decisions on tax rates, tax allocation remains a strictly Member State competence, and therefore this could not be mandated by an EU measure. Requiring zero-emission vehicles quotas for companies owning fleets of 25 vehicles or more goes beyond the scope of the ETD and promoting a raise on tax rates for fossil fuels would not be sufficient.

### **3.2. Legal requirements to draft a new ZEV fleets Regulation**

Before the Commission starts drafting a new law, it needs to ensure that it is designed to achieve its objectives in the most efficient and effective way. A number of assessments hence need to be performed, beginning with an impact assessment to properly analyse the economic, environmental and social impacts. Furthermore, on top of an impact assessment, and in order to determine the feasibility of the proposed measure setting zero emission vehicles quotas, the proportionality and subsidiarity criteria need to be addressed, together with a legal coherence and effectiveness check.

The legal study commissioned by T&E confirms that an EU Regulation would pass the *subsidiarity* test as it would be more effective in increasing the number of ZEVs in corporate fleets in a more generalised

way across all Member States, independently of their economic capacity. A Regulation would also ensure that harmonised criteria are applied as to which vehicles are considered zero emission.

Moreover, in order to be considered *proportional*, the EU Regulation would have to be designed so that the objective of increasing demand for ZEVs in corporate fleets is achieved without overly burdening companies, and in particular small and medium enterprises (SMEs). Leasing and long-term rental industry leaders' interviews have confirmed that fleets with 25 vehicles or more have professional fleet management - typically found in large corporations. Hence, the 25 vehicles threshold should secure the proportionality needed. However, this number could be adjusted after the public consultation phase, as a company with more than 50 staff, €10 million in turnover and €10 million on its balance sheet - the EU definition of medium enterprise - could be getting ZEVs without undue financial effort, even with a smaller than 25 vehicles fleet.

Last but not least, both a coherence and an effectiveness test need to be performed, and the legal study suggests that the proposed Regulation would be fully coherent with the general objective of reducing emissions from the transport sector, as including quotas for zero emission vehicles for corporate and urban fleets would make a significant additional contribution to the emissions reduction effort.

### **3.3. Setting ZEV quotas for corporate and urban fleets**

After assessing the requirements for drafting new legislation, and according to the legal study undertaken by Milieu Consulting, T&E believes the best policy to stimulate demand for zero emission vehicles in corporate and urban fleets, as outlined by the Sustainable and Smart Mobility Strategy, is to mandate zero emission vehicle quotas in fleets via an EU regulation. This should be done as follows:

- For corporate fleets, the EU Regulation should set a mandate for any company with a fleet size of 25 vehicles or more to acquire 50% of its new cars and vans as zero emission vehicles from 2025, and 100% by 2030.
- For urban fleets, the EU Regulation should set a mandate for high-mileage fleets such as taxi, private hire, car sharing, ride-hailing and delivery vans in urban areas to operate zero emissions vehicles: 50% of the high-mileage urban fleets have to be made of zero emission vehicles from 2025, and 100% from 2030.

The proposed threshold has been set to 25 vehicles following industry expert interviews (leasing companies and automotive data analysts) performed by Dataforce and LeasePlan, who confirmed that the amount of 25 vehicles in a fleet would exempt small companies from the target.

There should, of course, be exemptions considered for special cases, i.e. based on yearly distance driven by vehicles, fleet type, fleet usage, or EV readiness<sup>13</sup>, to mention but a few. The exemptions could be determined following the impact assessment and open consultation phases.

Together with exemptions, a set of effective, proportionate and dissuasive penalties or sanctions should also be included in the Regulation to secure compliance EU-wide.

Complementary measures to encourage compliance should also be considered, as for instance recognising the efforts of companies to electrify their corporate or urban fleets by supporting their efforts in making fleets 100% zero emission ahead of the EU required timelines with a reward system: e.g. an EU green fleet label.

Last but not least, in order to ensure compliance via effective supervision, a transparent, recurrent and compulsory reporting system on corporate and urban fleets composition should be put in place, as without it no penalty and reward system would work.

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<sup>13</sup> LeasePlan, <https://www.leaseplan.com/corporate/news-and-media/newsroom/2021/01-03-2021>

## 4. Recommendations and conclusions

In light of the above, and based on the findings of the legal study by Milieu Consulting, T&E recommends the European Commission to launch the impact assessment and public consultation processes needed to initiate an ordinary legislative procedure to propose a Regulation establishing ZEV targets for corporate and urban fleets as soon as possible. An EU Regulation to set zero emission vehicles quotas is the most appropriate legislative instrument to boost the uptake of zero emission vehicles in corporate and urban fleets, as required by the Sustainable and Smart Mobility Strategy.

### Why should the EU regulate fleets?

|   |  |   |
|---|--|---|
| More than 55% of car sales in Europe are corporate registrations where the business case to go electric exists today                  | It will bring emission reductions faster than the private market (fleets drive 2.25 times more and hence pollute more, high-mileage urban fleets even more so) | It will secure demand for EVs across the EU, helping carmakers comply with the stricter car CO <sub>2</sub> standards under the European Green Deal |
| It will create offtake security, hence strengthen investments and scale up zero emission vehicles production in the EU, creating jobs | It will accelerate electrification of the existing EU fleet via the used car market with affordable zero emission cars passed on from corporate fleets         | It will help companies reduce the operating costs from their fleets   |



**It will boost the uptake of zero emission vehicles in corporate and urban fleets, an objective outlined in the Sustainable and Smart Mobility Strategy**

### How can the EU regulate fleets?

Creating an EU Regulation that:

- sets a mandate for any company with a fleet size of 25 vehicles or more to acquire its new cars and vans as zero emission vehicles from 2025.
- sets a mandate for high-mileage fleets (i.e taxi, private hire, delivery vans, etc.) in urban areas to go zero emissions by 2030.
- exempts the smallest companies in line with the EU Better Regulation agenda

- introduces a penalty system to ensure compliance.
- includes a transparent, compulsory and regular reporting system on fleets composition for corporate and urban fleets across the EU to verify compliance.

### **How fast should EU fleets go electric?**

(1) By 2025:

- Corporate fleets will need to procure 50% of its new vehicles as ZEV.
- 50% of urban fleets will need to be ZEVs.

(2) By 2030:

- Corporate fleets will need to procure 100% of its new vehicles as ZEV.
- 100% of urban fleets will need to be ZEVs.

Setting an ambitious roadmap with an EU Regulation, accelerating the shift to zero emissions fleets in companies EU-wide, will provide the necessary clarity to focus the efforts of all stakeholders to achieve this goal. In fact, some companies have already committed to electrifying their fleets by 2030 as part of their broader sustainability strategies, but to achieve the Union's climate ambition it should ensure the electrification potential is met in full and fast. Moreover, introducing new legislation to require corporate and urban fleets to go zero emissions will stimulate demand, helping reach - and even surpass - at least 30 million zero emission vehicles operating on European roads by 2030, hitting the milestone set by the Sustainable and Smart Mobility Strategy.

## **Further information**

Saul Lopez  
Emobility Manager  
Transport & Environment  
saul.lopez@transportenvironment.org  
Mobile: +33(0)663757227