Aligning Incentives for GHG Emissions Reductions

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CEPS Workshop
2nd July 2013, Brussels
Key Messages

• A robust system of testing is a prerequisite of aligned incentives

• Taxation systems should effectively encourage the purchase of low carbon models
  – Grants should not be used to support car purchase

• Clear labelling systems can complement fiscal incentives
The average deviation between test and real-world performance varies widely

Divergence of average real-world and test CO2 emissions

100% = type approval value
Manipulation of test results distorts the market

CO2 deviation between test and real-world performance
20 best selling models in Germany

<table>
<thead>
<tr>
<th>Class</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>City Car</td>
</tr>
<tr>
<td>2</td>
<td>Super mini</td>
</tr>
<tr>
<td>3</td>
<td>Small</td>
</tr>
<tr>
<td>4</td>
<td>Family</td>
</tr>
<tr>
<td>5</td>
<td>Crossover</td>
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<td>6</td>
<td>MPV</td>
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<tr>
<td>7</td>
<td>Exec</td>
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</tbody>
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A portfolio of actions is needed to address testing limitations

1. Close the current loopholes in NEDC
2. WLTP from 2017:
   - Include auxiliary equipment energy use
   - Be representative of average drivers
   - Prevents future manipulation – strengthen Conformity of Production (<4% deviation)
3. Calibrate future targets WITHOUT rewarding current manipulation
4. Increase consistency and independence of type approval and conformity of production
   - EU Type Approval Authority
5. Ensure consumer information is based upon representative figures by applying adjustment factors
Country rank of EU new car CO\textsubscript{2} emissions
Principles of effective fiscal incentives

**More effective**
- Large tax differentials
- Purchase taxes & company car tax schemes strongly graduated by CO2
- Bonus – mallus
- Equal taxation of petrol and diesel

**Less effective**
- Purchase grants
- Weakly graduated circulation taxes (also regressive)
- Weak graduation
- Diesel tax breaks
A absolute labelling scheme should be adopted that enables comparison of vehicles within market segment.
Principles of good label design

More effective

• Absolute
• Real-world
• Fuel economy
• Simple design
• Linked to national taxes
• Comparative information
• € per km
• QR code
• Electric range

Less effective

• Relative
• Test results
• CO₂
• Text and number heavy
• Uniform EU-wide
• No comparisons
• No running cost information
• Disclaimers
• Wh/km
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