

23 April 2013

Compliance by creative accounting

How 'supercredits' would undermine the EU's car CO₂ standards for 2020

Background – review of EU car CO₂ standards

In 2009, the EU set legally binding targets for new cars to emit on average no more than 130 grammes of CO₂ per kilometre (g/km) by 2015 and 95g/km by 2020 [1]. The way the 2020 target will be met is currently being considered by the European Parliament and Council following a Commission proposal in 2012 [2].

In the Parliament, the lead environment committee will vote on 24 April. In the Council, European governments will agree their joint position on 15 May, before the three institutions (Commission, Parliament and Council) negotiate the final shape of the law in closed so-called 'trilogue' meetings. The conclusion of this process is expected before end of June 2013.

Independent consultant Ricardo-AEA has analysed the potential impacts of 'supercredits' on the CO₂ reduction target, and estimated the potential costs and benefits of the legislation [3].

Supercredits – the car industry's favourite loophole

Supercredits are a loophole that carmakers are advocating to weaken and delay the EU's CO₂ reduction target of 95g/km for 2020. With supercredits, each low carbon vehicle sold will count multiple times towards a carmaker's fleet average. Proponents argue that this will encourage the supply of electric and hybrid cars. However, this accounting trick will also allow carmakers to compensate for polluting vehicles with a handful of low-carbon vehicles. This will in turn undermine the CO₂ emission target.

Without super-credits



0g/km

+



190g/km

=

95g/km

With super-credits, multiplier 2



1 EV sold



1 imaginary sale

+



=

Carmakers can meet this target without any loopholes. Europe's largest carmaker, VW, recently confirmed that it was "not speculating on any loopholes to achieve its target" [4], and that it would meet its regulatory target "without any reservations" [5].

In fact, carmakers could even achieve this 95g/km emission level without any electric or plug-in hybrid cars, by simply improving the efficiency of conventional vehicles. Some makers of large vehicles will also use hybrid technology that captures and re-uses energy in braking.

Key proposals for supercredits

Under current rules, the use of supercredits was supposed to end in 2015. But under pressure from carmakers, the Commission, a number of MEPs and some EU governments have proposed to maintain this loophole and to even expand it. The German government favours a scheme that could weaken the target to 101g/km or even 116.5g/km in 2020, depending on the market share of electric vehicles. Its proposals could delay the achievement of the 95g target by four years, to 2024.

Impacts of supercredits – higher costs and more CO₂ emissions

The exact impact of supercredits depends on their design (for example whether credits can be banked and spent in later years) and the market uptake of low emission cars. Their impact increases over time, as new vehicles penetrate into the EU car fleet, if no further CO₂ standards are set after 2020.

- **A worse deal for the climate - more CO₂ emissions**

In the longer term, the German government proposal could increase annual CO₂ emissions from cars by 4.4 to 10.4% by 2030 compared to targets without supercredits (assuming a market share for electric vehicles of 5 to 15% in 2020).

- **A worse deal for Europe's economy - higher oil import bill**

The German government proposal could lead to an oil import bill that is €2.5 to €8.4 billion higher than without supercredits in 2030 (with a market share of 5 to 15% for electric vehicles in 2020).

- **A worse deal for consumers - bigger fuel costs**

The German proposal could also increase car lifetime fuel cost by around €690 to €2,400 (with a market share of 5 to 15% for electric vehicles in 2020).

- **A worse deal for Europe's competitiveness - loss of EU leadership on cleaner cars**

While the EU still has the world's most ambitious car CO₂ regulation, other markets have established similar standards. The US in particular has set annual targets for carmakers up until 2025 and is catching up fast with Europe, threatening its technological advantage. The EU is only now starting to debate any target for that date.

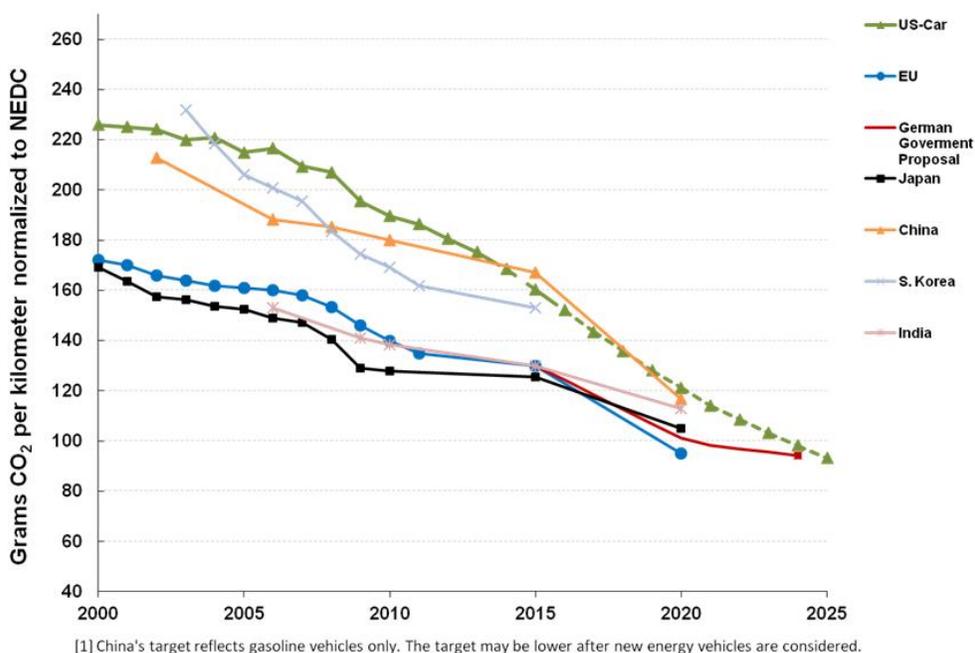


Fig. 1 Global passenger car standards, based on the International Council for Clean Transportation (ICCT), compared with the German government proposal (assuming 5% electric cars in 2020).

The way forward – a 2025 target of no more than 60g CO₂/km

Any supercredits would diminish the environmental and economic benefits of the EU CO₂ standard and so should not be included in legislation. A more effective way to stimulate investment in ultra-low carbon technologies is to set a long-term target of no more than 60g/km by 2025.

Notes:

[1] Regulation (EC) No 443/2009, [http://eur-](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:140:0063:008:en:PDF)

[lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:140:0063:008:en:PDF](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:140:0063:008:en:PDF)

[2] EC 2012, Proposal for a Regulation to define the modalities for reaching the 2020 target for reducing CO₂ emissions from new passenger cars, [http://eur-](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0393:FIN:en:PDF)

[lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0393:FIN:en:PDF](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0393:FIN:en:PDF)

[3] Ricardo-AEA 2013, Low emission car measures under the EU's CO₂ regulations for passenger cars, <http://www.greenpeace.org/eu-unit/en/Publications/2013/Report-Low-Emission-Car-Measures-Under-the-EUs-CO2-Regulations-for-Passenger-Cars/>

[4] VW 2013, Volkswagen Group to reduce CO₂ emissions to 95 g/km by 2020,

http://www.volkswagenag.com/content/vwcorp/info_center/en/news/2013/03/CO2.html

[5] VW 2013, Volkswagen and Greenpeace underline strict CO₂ limits for new cars,

http://www.volkswagenag.com/content/vwcorp/info_center/en/news/2013/03/Volkswagen_and_Greenpeace_underline_strict_CO2_limits_for_new_cars.html

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