

Should the EU ETS be extended to road transport and heating fuels?

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Abstract This paper considers the current proposal to extend the EU ETS to cover CO₂ emissions from the combustion of heating and road transport fuels. We argue that increased coverage of the EU ETS, together with a binding cap consistent with a net zero trajectory, would be a powerful dynamic incentive to efficient emissions reduction. In addition, it would complement standards-based policies currently enacted in these sectors in several ways. Distributional implications remain a serious challenge to such an extension but several mechanisms are available to alleviate them.

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