

Opinion of the Economic and Social Committee on the 'Green Paper — Towards fair and efficient pricing in transport — Policy options for internalizing the external costs of transport in the European Union'

(97/C 56/08)

On 8 January 1996, the European Commission decided to consult the Economic and Social Committee, under Article 198 of the Treaty establishing the European Community, on the Green Paper — Towards fair and efficient pricing in transport — Policy options for internalizing the external costs of transport in the European Union.

The Section for Transport and Communications, which was responsible for preparing the Committee's work on the subject, adopted its Opinion on 11 September 1996. The Rapporteur was Mr Kubenz.

At its 339th Plenary Session (meeting of 31 October 1996), the Economic and Social Committee adopted the following Opinion by 68 votes to four with six abstentions.

1. Introduction

The Green Paper revives the European debate on transport problems highlighted by the Cannes Summit (June 1995), which called for action to create fairer competition between transport modes. The Commission believes that urgent problems, such as congestion, delays, accidents and environmental pollution, cannot be adequately solved by current transport policy. By internalizing external costs, the Commission aims to make transport pricing fairer and more efficient and to prompt a rethink on the questions of investment and the modal split⁽¹⁾ since, in its view, there is a significant mismatch between the prices paid by individual transport users and the costs of many journeys. Certain costs, such as those associated with environmental pollution, accidents and excess traffic, are covered only partly, if at all, whilst others, such as infrastructure costs, are allocated in a great variety of ways.

2. Gist of the Green Paper

2.1. The Green Paper is concerned with pricing in transport.

2.2. The Commission identifies three main sources of external costs:

- congestion (traffic jams) (representing approximately 2 % of EU Gross Domestic Product (GDP));
- accidents (representing approximately 1,5 % of EU GDP);
- air pollution and noise (representing approximately 0,6 % of EU GDP).

Together, these account for 4,1 % of EU GDP or approximately ECU 250 000 million per annum.

⁽¹⁾ The distribution of transport between the different modes, such as road, rail, inland waterway, etc.

2.3. According to the Commission, road traffic is responsible for 90 % of these external costs. This paper therefore concentrates on road transport⁽²⁾.

2.4. The Commission believes that external benefits are immediately offset by lower transport costs and directly internalized by the users concerned. This paper does not, therefore, analyze the case of positive externalities⁽³⁾.

2.5. The Commission is convinced that the internalization of external costs will affect transport prices, with the result that some will rise whilst others may fall.

Progress towards fair and efficient pricing will bolster the Community's intermodal transport policy which aims to unlock the full potential of all transport modes⁽⁴⁾. However, the main message in the Green Paper is that taxes and charges should be better differentiated in relation to the difference in costs.

2.6. Different pricing instruments are proposed by way of example:

- amendment of Community legislation in respect of road use charges for the purpose of allocating infrastructure costs;
- an electronically-calculated distance-related tax on heavy goods vehicles, which would also take account of infrastructure damage and usage;
- toll charges in regions of high traffic density and conurbations;

⁽²⁾ Executive Summary, page 1d, Point 6, penultimate sentence. The ESC notes differences between the different language versions of the Commission document.

⁽³⁾ Page 7, Point 2.5, 'What are the main transport externalities?', last sentence.

⁽⁴⁾ Page 47, Point 9.2, first sentence.

- differentiated mineral-oil taxes, which would take account of the environmental impact of individual fuels;
- vehicle taxation based on noise emissions and environmental acceptability, using electronic, distance-related calculations wherever possible;
- variable airport charges (air transport) and track charges (rail).

2.7. The Commission is seeking further information on the safety gains and risks associated with different vehicle types and modes of transport.

2.8. The Commission is proposing a series of EU policy measures over the next few years with a view to ensuring greater progress in internalizing transport costs:

- launch of studies;
- Communication on the Auto/Oil Programme and concomitant proposals on vehicle standards;
- replacement and revision of Directive 93/89/EEC (Eurovignette), which was rejected by the European Court of Justice;
- environmental framework for transport;
- airport charges;
- railway track charges and finance;
- corridor studies on a selected number of TENs⁽¹⁾ corridors;
- first results of a strategic environmental and economic assessment of the TENs network;
- review of existing Community legislation on pricing in transport;
- revision of minimum excise rates for mineral oils;
- re-examination of State Aid Rules and preferential tax treatment in inland transport;
- Communication on noise;
- comprehensive review of vehicle-related taxation;
- review of aircraft fuel exemption;
- elaboration of accounting frameworks for the external costs of transport;
- standards for road pricing and route guidance equipment;
- White Paper on further progress towards fair and efficient pricing in transport;
- proposals on pricing in road haulage.

(1) Trans-European networks.

3. General comments

3.1. Whilst the Green Paper raises questions and outlines strategies, it does not put forward any definitive solutions since the Commission sees it as a discussion document.

3.2. The Economic and Social Committee has, on several occasions, urged the Commission to examine the problem of external costs, e.g. in its Opinion on the legislative Commission programme for transport/the common transport policy action programme 1995-2000⁽²⁾.

3.3. The Own-initiative Opinion on transport costs in the road freight transport sector as a basis for comparison with other transport modes⁽³⁾ called for infrastructure and external costs to be fully allocated to the different modes in a fair, uniform manner.

The Committee is therefore pleased that the Commission has decided to address this topic.

3.4. A policy of minimum intervention in transport has been repeatedly called for by the Committee, for example in its Opinion on the proposal for a European Parliament and Council Decision on Community guidelines for the development of the trans-European transport network⁽⁴⁾. The Committee also thinks that priority should be given in this development process to ensuring that transport systems and infrastructures are economically viable.

3.5. Back in 1992, the Committee recommended a strategy based on the use of economic instruments which should focus on improving environmental protection and the non-discriminatory harmonization of transport markets [Opinion on the Green Paper on the impact of transport on the environment: a Community strategy for 'sustainable mobility'⁽⁵⁾]. Point 5.3.5 of the Opinion stated the following:

'To frame a viable strategy the Commission should in the long term undertake an in-depth study to facilitate an accurate assessment of the external costs of transport, the share of these costs to be borne by each transport mode, and the share of each mode of transport per unit transported. This study should take account of all environmental factors, such as land occupation, noise, sound emissions, vibrations, air pollution, etc. If external costs are assessed on the basis of only one parameter, (e.g. energy consumption), the data obtained will certainly be incomplete, if not inaccurate, which could lead to distortions in competition.'

(2) OJ No C 39, 12. 2. 1996, p. 43.

(3) OJ No C 18, 22. 1. 1996, p. 27.

(4) OJ No C 397, 31. 12. 1994, p. 23.

(5) OJ No C 313, 30. 11. 1992, p. 43.

3.6. The ESC is pleased to find many of its concerns raised in the Green Paper.

It reiterates the importance it attaches to the calculation and consideration of external and infrastructure costs.

It stresses that, if any procedure for the internalization of external costs is to be effective, it must be applicable to all transport modes.

Nevertheless, a start must be made at long last with the lengthy process of cost internalization because road transport poses the greatest problems.

3.7. The Opinion on the Development of Short Sea Shipping in Europe⁽¹⁾ urged attention to be paid to enabling 'short sea shipping to compete on equal terms with the other transport modes through transparency of subsidies and future internalization of external costs'. The role of the European Commission in defining and implementing this idea was considered crucial.

4. Specific comments

4.1. Internalization of external costs

4.1.1. The Economic and Social Committee regrets first and foremost the absence of complete EU statistics and precise definitions of the phenomena under examination, which does nothing to facilitate the debate. As a result, there is an urgent need to improve the data base so that pronouncements can be made for all EU transport modes, on the basis of uniform assessment and calculation methods.

4.1.2. The definition and calculation of the external costs to be allocated to transport users are hotly disputed at present. In Germany alone, nine separate studies have estimated external road transport costs as being anything between DM 29 700 million and DM 123 700 million per annum.

4.1.2.1. The Green Paper identifies 'congestion costs' (delays and operating costs) as a major cost element. These mainly affect the transport users responsible for their generation and hence are already internalized in part⁽²⁾. It therefore seems questionable whether an additional user charge can be justified.

4.1.2.2. In some Member States, direct accident costs, are already largely internalized through insurance premiums; in some cases, they are covered by general

insurance schemes. The Green Paper fails to solve the basic problem of the allocation of injury costs⁽³⁾. More research is needed, as Annex 7 of the Green Paper points out.

4.1.2.3. Cost estimates are not indicated for transport noise (see Green Paper, Point 7.3). Annex 2 merely sets out the details of the different methods of calculation. There is, therefore, an urgent need for the definition of a precise methodology.

4.1.2.4. The level of the external costs to be allocated depends on where and when these costs arise. Considerable savings could be achieved by spreading out the burden of transport more in terms of time and place. Thus, urban infrastructure is not designed to operate at maximum load during the 'rush hour'. The latter depends on such factors as the start and end of the working day and shop closing-times. Numerous measures could be taken to alter the situation, e.g. improving local passenger transport [as proposed in the Commission Green Paper: The Citizens' Network: Fulfilling the potential of public passenger transport in Europe⁽⁴⁾], introducing flexi-time for work and production, different working life patterns, teleworking and teleshopping. Since such measures are local in character, they should be adopted locally after discussion with all the parties concerned.

4.1.3. A basic shortcoming of the Green Paper is that it deals exclusively with external transport costs and ignores external benefits. Research has shown that transport services generate overall economic benefits. These benefits stem from: greater mobility; a better division of labour; productivity gains throughout the economy as a whole; more rapid technical advances; and higher GNP with a resultant improvement in overall employment. In view of these findings, far greater attention should be paid to external benefits.

⁽¹⁾ OJ No C 97, 1. 4. 1996, p. 15.

⁽²⁾ The corresponding cost categories take account of any damage to third parties resulting for example, from atmospheric or noise pollution.

⁽³⁾ Everyone is aware that a journey by any means of transport involves an accident risk. Consequently, anyone who decides to embark on a journey believes that the benefit of the journey outweighs the risk. The risk of such a person being involved in an accident must accordingly be considered to be already internalized. On the other hand, the risk to other transport users and fellow passengers, the economic damage to society through loss of accident victims' productivity (minus savings on the non-use of resources) and, where relevant, the grief of relatives and friends, the aversion to suffering and the value attached to the pleasures of life are not internalized.

⁽⁴⁾ COM(95) 601 final. See, also, the corresponding ESC Opinion (OJ No C 212, 22. 7. 1996, p. 77).

4.2. *Safeguarding fair competition*

4.2.1. In the foreseeable future, national operators in all transport modes will be able to compete throughout the EU. The basic aim of the Green Paper is to establish fair competition based on the allocation of infrastructure and external costs.

4.2.1.1. Although the purpose of the Green Paper is to propose a balanced, i.e. fair, and efficient transport pricing system, this can clearly be only one of the means of achieving a common transport policy based on market-economy principles. The basic principle of any market economy is that the problem of alleviating shortages and congestion (as here in the case of transport infrastructure capacity) must be tackled from two sides, viz.:

- by using prices to control demand;
- by making improvements in supply.

4.2.1.2. It is precisely this principle which the Green Paper should stress further instead of concentrating on demand management. If the improvement of infrastructure is excluded as a solution, the burden of adjusting demand becomes too great and the adjustment costs to be borne by transport users are increased beyond justification. The development of an intermodal infrastructure network, the building of new loading and unloading facilities and multimodal transfer terminals and action to complete the internal market in the rail and inland waterway sectors and develop public transport will make it possible to switch traffic from the road to other modes.

4.2.1.3. The Green Paper does not acknowledge or discuss the many opportunities for improving road transport offered by more efficient infrastructure and telematics, as highlighted in the Committee's Opinion on the Communication from the Commission to the Council and the European Parliament on telematics applications for transport in Europe⁽¹⁾; the Committee urges the Commission to examine this issue swiftly.

4.2.1.4. Studies have shown that local and regional improvements to infrastructure, i.e. more specific measures such as:

- the development of six-lane motorways;
- bypasses;
- the completion of missing links in the trans-European networks;
- the elimination of bottlenecks

are particularly suitable for achieving good cost-benefit results.

Infrastructure improvements and repairs would reduce external costs. This possibility, which would allow a general reduction in transport costs, must be exploited.

4.2.1.5. Above all, the medium- to long-term overall economic impact of a strategy which adjusts transport prices differently according to mode is not adequately examined in the Green Paper. The reactions of shippers have not been adequately investigated either. One of the studies to be launched by the Commission (Annex 11) will therefore focus on:

‘Internalizing external costs in transport: consequences for industry’

4.2.1.6. Studies of the impact of prices on the choice of transport modes show that, during the oil crises (of the 70s and 80s), demand relative to the prices of petroleum products was particularly inelastic in the private transport sector, i.e. the dramatic increase in fuel prices had only a limited effect on consumption. Demand becomes elastic only in the long term, when realistic alternatives are available. This means that, in the short term, any increase in the financial burden on road transport must be absorbed by other areas of daily life.

More expensive road transport involving a mopping-up of purchasing power may also mean that money is not available for the acquisition of new, cleaner and safer vehicles, with the result that vehicle age will rise.

4.2.1.7. Financial incentives should be offered in an effort to increase the acceptability of eco-friendly vehicles, as outlined in the Green Paper (Section 6.5.iv.). The internalization of environmental costs can lead to a differentiation of the charges and prices borne by the road user, thereby prompting responsible behaviour. Willingness to change behaviour patterns can be secured far more effectively by rewards (e.g. tax concessions, premiums or differential registration fees) than by penalties (in the form of higher road use charges).

4.3. *Need for an integrated strategy*

4.3.1. Any projected reform of transport taxes and prices must form part of an integrated strategy. In theory, this coordinated strategy covering all transport modes must set the ‘right’ price relationships between the different modes, such as road and rail transport, road and local public transport, or road and inland waterway transport. Increasing the prices of a single mode could create unjustified distortions, not only on the transport market but also in related industrial and commercial operations.

⁽¹⁾ OJ No C 18, 21. 1. 1996, p. 32.

4.3.2. In this connection, the focus of attention must be on the extent to which the different transport modes cover their infrastructure and external costs. In most European countries total revenue from vehicle taxes, fuel taxes and road tolls are two to three times higher than total expenditure (Green Paper, Annex 5, Table 5.1). Road taxation exceeds infrastructure expenditure by some BECU 65 in the Union as a whole.

4.3.3. In this connection, if transport modes are to compete on an equal footing, a fair and transparent sharing of the cost burden is essential. In the absence of such harmonization, the success of the liberalization process and the opening-up of transport markets would be permanently threatened. Differently administered pricing systems for infrastructure use would subsequently lead to a new regulation of the transport markets, which would be at odds with a central EU goal (completion of the Single Market). A pricing policy focusing solely on one transport mode is therefore out of the question.

It is thus absolutely vital for the discussion of the allocation of external costs to take account of the external benefits. If these benefits are considered, the issue can no longer be confined to the allocation of external costs. The aim should rather be to achieve such a traffic distribution as to maximize the difference between benefits and costs. An even-handed identification of the economic, social and societal benefits of individual transport modes is necessary.

4.4. *The modal split and its impact on international trade*

4.4.1. Increasing taxes, levies and charges on road transport could provoke a shift to other modes and, as a result, promote the closer interconnection of all transport modes, provided all modes are able to absorb the ensuing additional burden without difficulty.

If, however, these changes in the modal split cannot be made because of a lack of alternatives or other factors, such as distances travelled⁽¹⁾ or the failure to integrate traffic flows in production systems, the overall economy will suffer losses without there being any reduction in external costs.

4.4.2. The Green Paper should also be assessed with reference to the goals of development of the economically weaker peripheral countries, cohesion in Europe and the integration of Central and Eastern European countries. Because of productivity problems, these countries will not be able to share in the economic progress and growth of the European Single Market until their accessibility is guaranteed and their ability to sell their products is not impaired by their distance from the market. According to the Cecchini Report, the European Single Market provides a number of powerful growth stimuli (larger market, lower production costs, international division of labour) and implies an ongoing increase in traffic. This further growth can be only partly absorbed by the railways, for example by direct links between industrial centres, and inland or coastal shipping; the intensification of trade between the core industrial countries and the peripheral regions will also be accompanied by a growth in road freight transport.

4.4.3. The consequences of a change in transport pricing must be examined in great detail. This must focus on the public impact and the relationship between private and public transport. It will also be necessary to identify the consequences of the internalization of external costs for industry, commerce and service undertakings both within the EU and from the standpoint of international competition between areas of economic activity.

(1) Passengers: 80 % of total transports effected by road, 75 % represents distance of less than 10 km; Freight: 70 % of total transports effected by road, 66 % represents transports below 50 km.

Brussels, 31 October 1996.

*The President
of the Economic and Social Committee*

Tom JENKINS
