

Opinion of the European Economic and Social Committee on the ‘Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions — Strategy for the internalisation of external costs’

COM(2008) 435 final/2

(2009/C 317/14)

Rapporteur: **Mr SIMONS**

On 8 July 2008 the Commission decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions — Strategy for the internalisation of external costs

COM(2008) 435 final/2.

The Section for Transport, Energy, Infrastructure and the Information Society, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 20 May 2009. The rapporteur was Mr Simons.

At its 455th plenary session, held on 15 and 16 July (meeting of 15 July), the European Economic and Social Committee adopted the following opinion by 133 votes to six with three abstentions.

1. Conclusions

1.1 The Committee notes that the Commission has done a great deal of work on developing internalisation of the external costs of all modes of transport. The Committee acknowledges this, particularly given the difficulty of the task, but nonetheless points out that a number of hurdles remain in relation to practical application, it being particularly important to retain the existing broad base of support.

1.2 The internalisation of external costs must reduce pollution and nuisances caused by all existing modes of transport.

1.3 The Committee urges the Commission to ensure from the outset that transport undertakings from third countries are effectively included in the internalisation of external costs, so as to prevent them from occupying a more advantageous position.

1.4 The current situation, whereby the external costs of the individual modes of transport and users are not passed on, confers a competitive advantage on those modes of transport which have high societal costs. With internalisation on the other hand, these distortions of competition will be eliminated, causing a shift to more environmentally-friendly modes. The Committee considers it important to communicate this principle much more effectively, because it may also be associated with changes in supplier and user structures in transport.

1.5 The Committee agrees with the Commission that a framework needs to be established at Community level. The Committee feels that no Member State should be able to opt out of this.

1.5.1 The Committee feels that the framework should lay down conditions, such as the level of charges, which would be based on the standard of living, with a high degree of differentiation by area rather than by country, and with different timing arrangements; charges aimed at internalising external costs should comply with this framework, within a certain margin of tolerance.

1.5.2 Authorities responsible for levying charges, e.g. Member States or regional or local authorities, should then set the charges more exactly on the basis of their detailed knowledge of the location, within the margin allowed.

1.6 The Committee believes there is an urgent need for the Commission to submit specific proposals for the introduction of a European framework for internalisation for all modes of transport, and to arrange for further development and implementation by the Member States together with the European Commission, even during the crisis. The proposals should of course command the support of society and the transport modes and should take account of environmental concerns. Payments or levies should also be related to use and not to ownership of means of transport.

1.7 If the internalisation of external costs is put into practice, the Committee considers that revenue should be used, subject to compliance with national budgetary rules, for measures to reduce the external effects, such as directly related environmental damage or necessary medical treatment arising from modes of transport.

2. Introduction

2.1 The question of internalising external costs is not new. The British economists Pigou (1924) and Coase (1960) developed theories of the way in which the costs of positive and negative external effects could be incorporated via pricing into the market mechanism; Pigou's mechanism involved subsidies and charges; Coase suggested tradable property rights, albeit on strict conditions (transaction costs should be negligible or non-existent; damage should be measurable and the number of actors limited).

2.2 External effects also occur in transport, the guided movement of vehicles along transport infrastructure. Where there is a large number of actors, as in inland transport, Pigou's approach is to be preferred, particularly as, when it is applied to marginal external costs, efficient allocation takes place.

2.3 This subject was raised in an EC context from as early as the late 1960s. But given the state of economic theory at that time it was not possible to assess how accurately these effects could be measured and priced in practice. The aim at that time was to correct the supposed unequal conditions of competition for the various modes of transport.

2.4 But things did not stand still. Reference could be made to the 1995 Green Paper on transport pricing, the 1998 White Paper on A phased approach to a common transport infrastructure charging framework in the EU, the 2001 White Paper on European transport policy for 2010 and the 2006 mid-term review of the White Paper.

2.5 In 2006 the Commission was asked ⁽¹⁾ to present, no later than 10 June 2008, and after examining all options including environment, noise, congestion and health-related costs, a generally applicable, transparent and comprehensible model for the assessment of all external costs and their allocation to the various modes of transport. This model was to serve as the basis for future calculations of infrastructure charges. The model was to be accompanied by an impact analysis of the internalisation of external costs for all modes of transport and a strategy for a stepwise implementation of the model for all modes of transport.

2.6 The aim was to internalise external costs for all modes of transport and thus set a fair price, so that users would bear the real costs they caused. Users would thus become more aware of the consequences of their action and would be able to modify their behaviour in order to reduce external costs.

2.7 The Committee has already looked at the internalisation of external costs in some of its past opinions. In a 1996 opinion the Committee pointed out that 'the different infrastructure and external costs of different modes of transport can lead to unfair competition if they are not imputed fully'. Thus, its opinion on the 2001 White Paper, the Committee states that it shares the Commission's view that 'the thrust of Community action should

(therefore) be gradually to replace existing transport system taxes with more effective instruments for integrating infrastructure costs and external costs'.

2.8 In its opinion on the Mid-term review of the 2001 Transport White Paper the Committee expresses its agreement with the Commission's changed approach of moving from a policy of forced modal shift to 'co-modality' ⁽²⁾, a policy of optimising all modes of transport, making them more competitive, sustainable, socially beneficial, environmentally-friendly and safe, with more and better combinations.

2.9 In the light of this, the Committee considers it right that each mode of transport ⁽³⁾ should pay its total costs.

2.10 The Committee has issued a number of opinions on sustainable urban transport, including that on the Green Paper Towards a new culture for urban mobility ⁽⁴⁾ and its exploratory opinion on an Energy mix in transport ⁽⁵⁾. An extra dimension is added to the Committee's approach to the issue: the principle that the user pays becomes the polluter, or where appropriate the user, pays.

2.11 The essence of the proposed strategy is that the principle of the marginal societal cost price should be used as the general principle for the internalisation of external costs.

2.12 The principle requires that the transport price should be equal to the additional cost caused by one extra infrastructure user. In principle the additional costs should cover the costs of the user and external costs and lead to the efficient use of infrastructure and a direct link between the use of public resources and transport services. A charge based on marginal social costs would in this way lead to efficient use of existing infrastructure ⁽⁶⁾.

2.13 The Committee considers that the internalisation of external societal costs could have consequences. Therefore the social partners need to be involved in the discussion at the earliest possible stage to discuss how implementation is to take place in the various sectors.

3. Summary of the Commission communication and Council conclusions

3.1 With its Greening Transport package, comprising a general communication, a proposed amendment to the Eurovignette directive, a communication on limiting noise emissions from existing rolling stock on the railways and a strategy communication, the Commission aims to incorporate external costs (CO₂, air pollution, noise and congestion) into the price of transport, so that users will bear the costs they create.

⁽²⁾ Section 1.2, final paragraph and section 9, fourth paragraph of the mid-term review.

⁽³⁾ All modes of transport coming under European Community rules, i.e. not military vehicles etc.

⁽⁴⁾ OJ C 224 of 30.8.2009, p. 39.

⁽⁵⁾ OJ C 162 of 25.6.2008, p. 52.

⁽⁶⁾ Based on Commission document COM(2008) 435 final on the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Strategy for the internalisation of external costs.

⁽¹⁾ Article 11 of Directive 2006/38/EC.

3.2 Additional policies continue to be needed, such as a policy on energy sources, internal market policy and a policy to stimulate a technological innovation. Revenue should be invested in the reduction of external costs, e.g. by investing in research and innovation, green infrastructure and the development of public transport. A review should be carried out in 2013.

3.3 At its meeting of 8 and 9 December 2008 the Council stated that a gradual, fair, efficient and balanced approach should be adopted as regards the various modes of transport that would also be neutral from a technological point of view. It also notes that the Commission has proposed 2013 as the year in which the review of the implementation of the strategy will take place. The Council goes on to say that 'compliance with these principles is a precondition for ensuring public support for the internalisation of external costs'.

4. General comments

4.1 The Committee notes that the Commission has been taking action since 2006. It has held public consultations and workshops with stakeholders, submitted a proposal for a common framework for the internalisation of external costs, carried out an impact assessment and drawn up a strategy for the phased internalisation of the external costs of every mode of transport.

4.2 In short, the Commission has in a short space of time done a great deal of work on the internalisation of external costs, a dossier which can certainly not be described as straightforward. The Committee considers the Commission's working documents SEC(2008) 2209, SEC(2008) 2208 and SEC(2008) 2207 to be very sensible, apart from the conclusions they draw. It is a pity that the formal Commission communication does not make greater use of these documents, e.g. the best solutions arising from the analysis. The Committee considers that it would be worthwhile looking at the possibility of further developing the basic data from the Handbook on estimation of external costs in the transport sector.

4.3 The Commission and the Council consider that the most important thing is to maintain the support which exists in society at large, but more particularly in the modes of transport, for an objective, generally applicable, transparent and easily understandable system.

4.4 The Committee considers that account will have to be taken of a number of important conditions, such as technological developments, the societal impact of the introduction of the system, the effects on the Community's island, landlocked and outlying regions, the amount of investment in the sector and the contribution to the objectives of a sustainable transport policy.

4.5 The Committee agrees with the Commission that it is essential that revenue from the internalisation of external costs be earmarked for measures which, in order to promote the sustainable operation of transport modes in line with efforts to combine and optimise them, should preferably in the first instance be applied to transport modes where the contribution to combating pollution, noise and congestion is greatest.

4.6 Revenue should be used to prevent and/or mitigate undesirable external effects, e.g. for measures on the ground or to offset the cost of medical treatment directly related to transport use, or else for carbon sinks.

4.7 The Committee also considers it essential that the breakdown of external costs for each mode be known and duly recognised.

4.8 In the interests of fairness, the congestion costs of road transport should, for example, be allocated to both goods and passenger transportation.

4.9 In the context of the sustainable development of transport modes, the Committee calls for more emphasis on social issues when the internalisation of external costs is being discussed.

4.10 The Committee would also like to stress that the internalisation of external costs must not impact on employees' wages; the costs should be borne by the users of the transport mode.

4.11 The Committee therefore in principle endorses the Commission's philosophy of internalising all external costs (7). However, the desired effect will be achieved only if this philosophy is applied on the same scale wherever external costs arise.

4.12 The current situation, whereby the external costs of the individual modes of transport and users are not passed on, confers a competitive advantage on those modes of transport which have high societal costs. With internalisation on the other hand, these distortions of competition will be eliminated, causing a shift to more environmentally-friendly modes. The Committee considers it important to communicate this principle much more effectively, because it may also be associated with changes in supplier and user structures in transport.

4.13 The Committee agrees with the Commission that a framework needs to be established at Community level.

4.13.1 But the Committee believes that internalisation charges should have to comply, within a certain margin of tolerance, with a number of conditions. Points to consider here include the various types of external cost, the level of charges, which would be based on the standard of living, and a high degree of differentiation by area rather than by country, with different timing arrangements.

4.13.2 Authorities responsible for levying charges, e.g. Member States or regional or local authorities, should then set the charges more exactly on the basis of their detailed knowledge of the location, within the margin allowed, taking account of differences in the standard of living between areas.

(7) The Committee points out that historic road vehicles, vessels and aircraft should be excluded.

4.13.3 In sea and air transport, internalisation of external costs will need to take account of the reality of global competition facing these transport sectors.

4.13.3.1 From a competition point of view, on the other hand, a single strategy and methodology should be applied simultaneously to the classic inland transport sectors operating within Europe – roads, the railways and inland waterways - with scope for differentiation in line with the characteristics of individual sectors.

4.13.3.2 This kind of internalisation is consistent with co-modality policy and the policy set out in the communication, and it brings '1992' (!), i.e. the completion of the internal market, closer.

Brussels, 15 July 2009.

The President
of the European Economic and Social Committee
Mario SEPI

5. Specific comments

5.1 In connection with inland waterways the Commission correctly refers to the Mannheim Convention as a regulatory framework worthy of consideration. This treaty applies on the Rhine, including the Swiss section of the river, and its tributaries. It is older than the Union treaties and, with a third country involved, therefore has priority ⁽⁸⁾. It prohibits charges on traffic.

5.2 The Committee, while aware of the constraints imposed by the deep world crisis, remains sympathetic to the mainly environmentally inspired idea of internalising external costs and feels that we should not allow ourselves to abandon this aim.

5.3 On the contrary, the Committee would like to see positive steps being taken even during the crisis, with the further development and refinement of the internalisation framework, as described in point 4.13.1. The Committee considers this a task which should be carried out in close cooperation between the European institutions, the Member States and business.

⁽⁸⁾ Article 307 TEC.