



The Association of European Vehicle Logistics (ECG)

INTERNALISATION OF EXTERNAL COSTS OF TRANSPORT

ECG's Position Paper

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INTRODUCTION

As a follow-up of the White Paper on Transport Policy (2001) and in the framework of the “Eurovignette” Directive review, the European Commission is working on a strategy for the internalisation of external costs of all modes of transport. Between October and December 2007 a public consultation was carried out, and on 31 January 2008 a stakeholders Conference was held presenting the results of the Public Consultation and the EC sponsored “Handbook on Estimation of External Costs in the Transport Sector” (CE Delft study). Commission’s plan now is to work on the impact assessment of the internalisation policy options, *with a view to publish a strategy document by June 2008*. The Commission plans also to produce a *Proposal to the European Parliament and the Council for a further revision of the Eurovignette Directive*.

With this paper ECG aims to communicate its position on the various issues raised by the internalisation approach, in order to contribute to the EC strategy preparation during first half of 2008.

ECG is very much committed to the issue of external costs reduction, however would like to stress that the whole exercise of internalisation of external costs will only then make sense when external costs of each transport are correctly defined, assessed and internalised taking into account the costs that are already internalised through existing taxes and charges

ECG believes that the most effective way to pursue it is **not** internalisation through pricing. In fact ECG is currently promoting the study “*The External Costs of Transport of New Cars: Uniform Values for Europe*” which applies external costs valuation approach to road, rail and maritime typical means for carrying new cars from factories to sales subsidiaries. The study is carried by Friends of the Earth Italy and the planned deadline for the delivery of the final report is April 2008. The aim of the ECG-FoE Italy study is to provide logistic operators with a set of reference CO2 emissions and external costs values, ready to be used within their Company Management Systems in order to develop Environmental Reports and Environmental Action Plans. So the final aim of the study is to improve operators environmental consciousness and to provide an analytical basis for developing management initiatives to reduce external costs, instead of penalising companies with higher taxes.

ECG does not agree with the *marginal external costs* values (as suggested in the Handbook) such as road congestion costs during peak hours, accident costs on particularly dangerous roads, air pollution costs in densely populated areas, etc. to be used for road charging. The study that ECG is about to finalise uses the so called *average external costs* values (European wide values), which ECG believes are the most suitable values to have a clear and fair picture of external costs and of effects of reduction measures. ECG would be very happy to present the results of the study to the European Commission as soon as it is completed, this spring.

1. THE RISKS OF INTERNALISATION APPROACH

The Commission's aim to reduce external costs of transport seems to be based only on the "internalization" approach (i.e. in transport prices), but this is a highly questionable approach, with a lot of risks for the future of the European economy and society. A pre-condition for pricing (tax and charges) is the *availability of alternatives for users*, otherwise only strong economic impacts may be envisaged and no behavioural change may be induced by a rise in transport prices. The internalisation approach has serious drawbacks for the economy, the society and even for the environment:

Disadvantages for the economy

As compared to other approaches to reduce external costs, internalisation with taxes and charges will produce high *Net Costs* under a Cost/Benefit analysis:

- Higher price of transport services and subsequent higher prices of final products (inflation)
- Tax and charges drain transport companies profits, thus reducing companies' resources for investment in R&S, innovation and vehicles park renewal
- Loss of Competitiveness of European products and Reduction of the expected GDP growth rate, which go against the aim of the Lisbon strategy – one of the most important objectives of the European Commission

The only advantage of internalisation is a higher public budget, that may be used to spend for improving transport infrastructures and their maintenance. The fact is that already now road and maritime transport are paying high taxes and charges, but this income is not earmarked to improve the infrastructure needed for intermodality and logistics.

Disadvantages for society

As a general negative effect, internalisation through an increase of the present taxation levels will produce a higher impact on low income users/consumers (poverty increase).

The only way internalisation may produce social benefit is when fuel and vehicles taxes are restructured through a wider use of environmental indicators, with attention paid to reduce levels of taxation. In this case social benefits of internalisation are:

- higher awareness of users on the environmental impacts of that transport;
- higher social justice (costs of transport to be paid by users and not by the entire society);
- higher fiscal equity (taxes better balanced, in order to reflect the real social costs in the various transport situations: urban/non urban; day/night; traffic peak/not peak, etc.)

Disadvantages for the environment

Those who pay taxes and charges are those who can do something for increasing environmental standards. If the available financial resources are drained by taxes, there

will be fewer possibilities to invest money for reducing external costs. Internalisation without an investment strategy is environmentally non sense.

2. THERE ARE BETTER APPROACHES TO REDUCE EXTERNAL COSTS

Internalisation of external costs has its final aim in reducing external costs and is based on the assumption that transport choices depend on transport prices. Indeed transport choices are only weakly influenced by transport prices and are mostly influenced by the offer of services and their quality.

As said before, it would be a non sense to rise taxes on transport services (reducing margins and resources for investments) instead of providing incentives to operators to improve their environmental standards.

ECG believes that two different lines of incentives are needed by logistic operators:

- **incentives for improving management/organisational standards** (ISO 14001, EMAS, environmental company reports and indicators);
- **incentives for improving technical standards** (technology diffusion investments on low impact vehicles, on information technologies to increase loading rates, etc.).

ECG is highly committed in promoting the diffusion of cost-effective management systems, in supporting voluntary fleet upgrading and vehicles renewal by its members. ECG believes that availability of incentive schemes with such purposes is the most efficient way to reduce external costs without impacting economy and society (inflation, socially distorted effects on mobility, etc.).

A legal framework for such incentive schemes should be developed, possibly based on the complete version of art 174 of the treaty. Art. 174 of the Treaty, declaring the polluter pays principle, states also that “*Environmental damage should as a priority be rectified at source*”. This means that as a priority, before making the polluter pay through economic penalisation, policy measures should aim at reducing external costs at sources preventing final damages. Other (non fiscal) policies and measures should be used to reduce external costs of transport at source, such as technical standards or targets (single pollutant limit, noise emissions limit, average CO₂/km target), organisational standards (environmental management systems), clean technology diffusion incentives, investments in other modes with lower external costs potentials.

3. TRANSPORT TAXES AND CHARGES ARE ALREADY HIGH

Taxation and charging of transport, is already at very high levels.

ECG believes that marginal costs pricing of road transport, as suggested by the Commission, should be avoided until the prevailing fiscal regimes, based on fuel and vehicles taxes, are in force. Environmental costs or congestion costs based taxes may

gradually substitute the present transport taxation system only under a legal framework that allows for a transparent re-balancement and reduction of transport taxes.

The EC sponsored “Handbook on Estimation of External Costs in the Transport Sector” seems to highlight higher marginal external costs of road transport as compared to other modes. Rail and maritime transport appear to offer the most environmentally effective options to carry goods in Europe and their traffic should not be discouraged by higher taxes and charges to internalise specific external costs sources.

Having said that ECG would like to object to intention of the Commission to deal with the external costs of road transport first before tackling other modes of transport. This would put road transport at a disadvantage to other modes of transport and ECG believes each mode should be treated equally.

The two main areas for environmental improvement in the rail sector is noise from rail and air pollution from diesel powered locomotives. ECG believes that the best approach to reduce these environmental burdens is to act through technical standards (limits based on the new technology potential). Charging strategy is not appropriate here because it would hamper the railway freight traffic development.

As to the growing concerns on shipping air emissions, the recent development at the EC and IMO level should be mentioned, acting on environmental costs reduction at source:

- the recent directive for the reduction of sulphur content in marine fuels (Directive 33/2005), demands from operators a strict compliance even on existing ships while at berth (marine sulphur content max 0,1% from 1/1/2010);
- IMO is currently examining proposals for a reduction of the existing NOx limits on ships diesel engines and for monitoring and controlling CO2 emissions.

Also in this case, ECG believes that the best approach to reduce shipping emissions is to act through rules and standards, instead of charging ships in European harbours or including them into the EU Emissions Trading System, as is currently done with aviation.

4. SPECIFIC PROPOSALS ON HOW COULD THE NEGATIVE EFFECTS OF CONGESTION BE REDUCED WITHOUT PRICING

4.1 Environmental external costs

As previously said, instead of imposing new taxes or a differentiated charging scheme, air emissions and noise levels may be reduced at source with a common approach based on incentives provided for the voluntary adoption of the best available technologies.

For the main air pollutants, very strong reductions have been reached in the last 15 years with the Euro standards regulations, and further reductions may be achieved by an early introduction of Euro V and Euro VI standards.

As to green house gases emissions, EC has recently announced a year 2020, a deadline by which the reduction of 13 % in the non-ETS sectors should take place (23rd January Energy Package Directives): a decision that will probably move EU towards tighter rules to control CO2 emissions in the freight transport sector.

ECG and other transport organisations are examining which are the best approaches to control CO2 emissions in the freight transport sector. While a rigid CO2 limit (as in the case of air pollutants) should be avoided, more flexible approaches should be examined, such as the engine power approach (CO2 limits per kW output of the engine) or the sector wide target approach as presently examined in the passenger cars sector (average of the CO2/km car level index weighted for the quantity of new cars sold).

4.2 Congestion

Rather than internalising congestion costs through road charging, EU transport policy should support the building up of intermodal transport infrastructure (intermodal connections such as harbour-highway links, rail terminal in harbours or road-rail hubs).

4.3 Accident

ECG opposes the internalisation of this external cost through charging. Insurance is by far the most efficient way of internalising accident costs.

A systematic accident prevention approach is presently missing in many countries. At least a small part of the insurance premium should be used to finance accident prevention programmes, thus establishing conditions for a long term accident rates reduction.

First of all, this means **improving the quality of accident information** at all levels:

- statistic information, with quantitative targets and **incentives provided to administrations and operators in order to adopt best available technologies to reduce risks;**
- a case-by case accident **investigation, followed by specific prevention measures** on main factors and co-factors explaining the case (at the infrastructure level and at the fleet management level, and not only on the driver side).

More **controls in urban roads** (where the most of accidents happen) may contribute to rise drivers responsibility everywhere.

Better **driving education and refreshment**, paralleled by new assisted driving technologies, may contribute to increased awareness and improved safety and low consumption driving styles.

4.4 Additionally ECG believes that other non-pricing instruments such as investment in ITS technologies or use of modular-concept (25.25 meters eco-combis) should be promoted in tackling the above mentioned issues.

5. HOW TO USE POSSIBLE REVENUES OF INTERNALISATION

An important issue of the internalisation of external costs is how to use the revenues of charging (tax earmarking). ECG believes that a set of general principles on tax earmarking may help Commission in designing the suitable legal framework:

- transport taxes should be regarded as scope taxes and they should not be used for the general public budget purposes (i.e. use of transport taxation for non transport sectors)
- transport taxes income should be spent within the transport sector
- ECG does not see transfer of resources from one transport mode directly to the operational balance of another mode as an effective way to earmark revenues
- The most effective way to provide solutions to the problems is to use the particular charge revenue to address the externalities that create the charge
- The most effective way to promote combined transport (road-rail, road-sea, etc.) is to earmark at least a part of the tax revenues to investment in infrastructure for all modes of transport and to strengthen communication and elimination of bottlenecks between modes.
- Another (prevailing) part of the revenues should be effectively earmarked strictly following the principle of acting at source: in this case financial resources should be used to promote voluntary early achievement in emissions reductions
- An ambitious part of the resources (at least 10%) should be earmarked for Research and Demonstration projects, in order to promote the market availability of proven technologies at non-excessive costs.

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Established in 1997 in Brussels, **ECG** represents more than **2/3rds of the European Finished Vehicle Logistics industry**. ECG Members operate in the field of outbound logistics for the Automotive sector, including quality control at the end of the assembly line, storage in special compounds, transport in all modalities – rail, road and sea – removing of car distribution protection, accessories fitting, Pre-Delivery Inspections (PDI), customising, workshop activities and the refurbishing of former fleet vehicles. **ECG** has 95 **members** from **24 countries**, with an aggregated direct turnover in excess of **12 billion euros** and **30 billion euros** of indirect turnover. Members represent **over 53,000 direct employees**. In terms of equipment, the **ECG members operate 18,000** trucks, **16,300** rail wagons, **360** car carrying ships; **32** river barges; **106** port terminals; more than **64 million** square meters of compounds; about **one million** square meters of workshops.