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INTERNALISATION OF EXTERNAL COSTS

The maritime industries share the concern of other stakeholders on the methodology followed

The undermentioned Trade Associations¹, members of the maritime industries Forum Group Transport, representing the European maritime cluster, are closely following initiatives of the European Commission on the internalisation of external costs. Proposals supported by studies and research are, according to Commissioner Barrot, to be put forward to the European Parliament and Council of Ministers by June this year. The maritime industries acknowledge the principle of internalisation of external costs. However the industries have serious concerns about the methodology that is being used.

INTRODUCTION

As mentioned in various Commission Papers maritime services form the backbone of European and global trade with 90% of European external trade transported by sea. Maritime services are combining with different transport modes, completely in accordance with the philosophy of co-modality that is so actively and vigorously promoted by the European Institutions. There are about 12 million containers (TEUs) intermodal moves per annum in Europe alone.

The maritime industries believe it is unnecessary and wrong to use the internalisation of external costs as an instrument to 'align' the costs of different modes with each other, effectively raising the costs of one (or more) modes against the others. The view of the group is that if the process of internalisation of external costs were to be pursued it should promote the co-modality philosophy and provide an instrument for impartial and meaningful performance benchmarking to aid modal choice. After an impartial assessment of different externalities is carried out, which can be considered to be beyond reproach, promoting a modal shift to those modes which generate fewer and smaller externalities would then become an option we could then support. However, such an outcome seems far from certain at the present time.

INTERNET CONSULTATION

The European Commission organised on the 31st January 2008 a follow up conference on the Internalisation of External Costs. The industries share the strong concerns expressed by the vast majority of stakeholders present (including ports, shipowners, freight forwarders and shippers) during the conference.

The maritime industries also share the criticism expressed by stakeholders in response to and about the Commission's internet consultation. Whilst internet consultations can be positive, there are at least two reasons for concern in the way this inquiry has been structured:

- The questions were clearly based on a number of pre-conceived ideas which would have the effect of creating a biased response.
- No methodology was explained as to how the responses would be analysed and appraised. The industries find it disappointing that the Commission was not able to respond to the question as to whether an appropriate weighting mechanism would be given to responses from an association representing thousands of workers, by comparison with responses from a private individual.

Consultation Document

The handbook on estimation of external costs in transport fails also to provide an answer to the issue of ‘weighting’ responses. Neither does it dispel the concerns that the issue is based on preconceived assumptions about the use of internalising external costs as an appropriate mechanism for addressing the issues.

In particular the mere methodological foundation that none of the existing costs and charges are taken into consideration is something which the maritime industries Group believe especially questionable. Ignoring existing costs and charges would certainly not guarantee that the methodology is sufficiently robust to offer a fair and impartial approach in addressing externalities. Some of the existing costs, taxes and charges already address externalities either by definition (e.g. insurance) or because they are designed to do so (e.g. differential in charging according to a Euro class of engine, time of the day, congestion etc.). Such charges are not levied uniformly across the EU yet, nevertheless, exist in the majority of situations.

Another area where we (as freight industry professionals) were taken somewhat by surprise was the idea of parting this handbook from the most commonly used international measurements (e.g. t/km). This point will be addressed later in this paper.

It is also impossible to ignore the total divergence of opinions between the Commission and the Parliament over who should pay the external costs: the view expressed by the Commission that the “polluter pays” is completely at odds with the view of Parliament to combine the “polluter pays” principle with the “user pays” principle. Such disparity of views is, in our opinion, the consequence of unclear, objectives and scope of the whole exercise.

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Congestion

Congestion is rightly identified as an externality that must be considered. However, penalising users of congested nodal points and/or congested transport modes will not solve the problem of congestion. In the case of maritime freight services, for example, cargoes have to get to the port anyway, whether by road, rail or inland waterways: penalising the infrastructure users will not alter this fact. As already expressed by all stakeholders during the consultation on a European Port Policy, new investments in port capacity and extension of hinterland connections are the priority

action points. If there are no alternatives, penalising congestion without addressing the infrastructure problem will only increase costs. Furthermore, the more transport capacity there is the fewer accidents there are likely to be – the costs of accidents being one of the externalities the Commission's proposals are seeking to cover within a charge.

Air Emissions

Reduction of air emissions is rightly a key priority for governments globally. Different actions are taking place in this respect. The maritime industries fully share the view of the Commission that for transport by air and sea, international solutions should be found that take into account the global nature of these transport modes. Action is being taken in the relevant International UN Bodies in this respect.

Within the 'handbook', however, and as mentioned previously, the industry is at a loss to understand why the tonne/km performance measure has not been used as a basis of calculating external costs. Again, the Group stresses that this is a globally accepted and recognised measure. In the event that one decides to use alternatives to such widely accepted, standard measures, it is necessary to explain the reasons behind such a choice and to offer a toolkit that enables easy conversion that aids better understanding.

Over and above any questionable aspects which can be analysed in detail, the industry has strong doubts whether future revenues resulting from internalising external costs will be used in the way they are meant to be, i.e. to address the externalities and to improve the relevant transport sector conditions. It is discouraging to hear the lack of commitment in this direction. Moreover it should be realised that in the context of co-modality, all modes, including transport by road, should be 'beneficiaries' of any investments made using revenue raised from any charges.

CONCLUSION AND RECOMMENDATIONS

Transport is an indispensable element for European trade which in turn is the basis of the welfare and standard of living for European citizens. The Lisbon Policy aims at maintaining and enhancing Europe's competitive position in global trade. The proposed policy options for internalising external costs which have been explained so far, directly conflict with the Lisbon Policy.

Many externalities have already been internalised today. The maritime industries would therefore recommend a much more gradual and pragmatic approach to addressing the issues, rather than one based on mere theoretical models. Any new measures should take into account what is already in existence and, in particular, look at the impact on the competitiveness of European trade and industry. Price is, furthermore, far from being the only factor which determines the choice of a transport mode. Other, service-related, factors play an equally important – if not more important – role.

The Commission should therefore concentrate time and resources on other measures which would effectively contribute to sustainable transport in Europe.

These include the sustainable provision of infrastructure and the implementation of the 'co-modality' concept. The latter implies achieving efficient service levels in all transport modes and applying source-based measures to combat pollution.

The maritime industries does not share the sense of urgency about internalising external costs that seems to prevail in the European Union's institutions and in some areas of business. This exercise is likely to have a profound effect on our lives and standard of living like few others we have witnessed to date. It must therefore be carried out with far greater care and due diligence and without haste. These are trying economic times already; we must not needlessly add to our precarious economic fortunes. If we are not careful, this issue could send us further into economic decline, and have a lasting negative effect.

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¹ AMRIE, CESA, CLECAT, EBU, ECASBA, ECSA, EMEC, EMPA, ESC, ESPO, ETA, EuDA, FONASBA/ECASBA, FREIGHT FORWARD EUROPE, IHK, O.C.E.A.N.

EFIP, ETF, FEPORT have not subscribed to this position paper.