



Munich, 3 April 2008

ADAC Position on the European Commission's initiative “Internalisation of external costs in transport”

With more than 16 million members, ADAC e.V. is Europe's largest automobile club. For over 100 years, the club has spoken on behalf of private road users in Germany. ADAC endorses a future-oriented transport policy which is both economically viable and environmentally sustainable. ADAC supports the European Commission's intention to find reasonable solutions for reducing the negative impact of transport.

I. General remarks

This Position Paper refers to the “Handbook on estimation of external cost in the transport sector” presented by the European Commission, and the aim defined in Article 11(4) of the Directive 2006/38/EG of developing a generally applicable, transparent and logical model for the assessment of external costs for all modes of transport on the basis of the “polluter pays” principle.

ADAC welcomes in principle the Commission's efforts to reduce the negative impact of transport, but we have reasonable concerns about achieving this by means of “internalising external costs”. Specifically, ADAC does not share the Commission's opinion (cf. IP/08/54 dated 16 January 2008) that a consensus was achieved on “best practice methods to estimate and monetise the external costs generated by transport activities”. The Handbook should be understood as a basis for discussion, to be followed by further in-depth study of this complex issue. We need to weigh up the benefits and costs of measures. We need to consider the existing contributions of road users and the recovery of infrastructure costs, and compare them on the basis of a full cost calculation.

Reducing negative effects is more important for ADAC than distributing the costs.

II. Main concerns

1. Developing the Eurovignette, the European Institutions had good reason to explicitly abandon the social marginal costs principle and apply a cost calculation based on average infrastructure costs. Combining average infrastructure costs and external marginal costs would not be conducive to the system and result in unfair disadvantages for infrastructure users, since based on a marginal costing principle, infrastructure costs are much lower than is today's average.
2. Some cost categories identified in the Handbook are not external costs for road transport. This applies in particular to congestion charges and risk values for accident costs which should be regarded as internalised for road users.
3. A closer look reveals that the Handbook uses rather broad cost estimate margins, some even up to a factor of 10. This means that – contrary to what the study suggests – there still are considerable uncertainties with regard to the calculation of costs. This also applies to climate change costs where the study concluded opting for cost values per tonne of CO₂ for cross sector emission trading which by far exceed the current world market price and top the values identified in a number of comparable studies.
4. Costs for constructing, maintaining and operating infrastructure are not considered. This must be criticised in that the revenue to be allocated to different modes is neither quantified nor compared to the cost.
5. A great number of road transport regulations are in place and it is unclear whether benefits always exceed the cost. Unsolved assessment uncertainties prevent identifying reliable monetary values of environmental damage. It is hence impossible to estimate the consequences of internalisation measures where regulations are unilaterally based on external costs. Public charges raised on this basis are political prices which follow other laws than those of market competition with the result that for instance the costs for avoiding an externality may clearly exceed the potential benefits.
6. German motorists already pay a total of €53bn per year in vehicle-related charges. This covers more than three times the infrastructure costs of roads. Rather than introducing new fiscal charges which eventually result in higher revenue for the government, we need to better use the existing potentials of regulatory instruments, innovation and infrastructure enhancements.
7. Concealed price increases in the form of Pigouvian taxes are a very limited means to counteract negative effects. The actual corrective effect is often disproportionate to the additional burden. The government is unable to establish optimum conditions for transport using regulative measures.

III. Evaluation of the methodology from the road transport point of view

The Commission dealing with the “internalisation of external costs” provides us with the opportunity to apply a real full cost calculation to the transport sector.

- Proposal: To avoid an unfair double burden for road users, we should aim at implementing full cost calculation in the comprehensive sense.

Reasons: To safeguard fairness, the Commission should use the opportunity to deal with both internal costs and the existing internalisation of transport-related external costs and the potential benefits for the transport sector. The studies included in the Handbook are not based on cost calculation in the comprehensive sense, since they only relate to transport costs which were defined as being external. In addition, they do not quantify the revenue generated in transport-related taxes and charges which should be allocated to the different transport modes. The reader is unable to reconstruct the methodology or quantification, and to determine which internalised amounts correspond to which cost categories. In addition, the text is contradictory in that it considers the costs for construction, maintenance and operation of infrastructure as internalised with the result that such costs are not reflected in the calculation. No explanation is given as to which internalised costs from charges and taxes were allocated to the individual transport modes. There is a risk that this conceals subsidies.

In addition, the transport sector – and road transport in particular – is a key source for creating added value and benefits for the general public. Any measure restricting road transport will certainly have an impact on such benefits.

- Proposal: To avoid the overvaluation of external costs and, consequently, unfair costs for the transport sector, the existing calculation bandwidth should be based on the lower assumption.

Reasons: The mentioned studies extend over a considerable span of quantitative results. The reasons are different pricing policy premises (social marginal costs versus social average or full costs), different estimation methods (bottom-up versus top-down) and some significant differences in the definition of external and internal cost elements. In addition, the studies use different quantitative bases, especially with a view to the applied cost and evaluation approach for e.g. the Value of Statistical Life (VOL) and the Value of Time (VOT), and with a view to the quantitative structures applied (e.g. mileages, emission data). This reveals a number of systematic difficulties:

1. Some negative effects such as noise, habitat fragmentation and habitat loss and climate change are difficult to express in monetary values, since there is no real market price for the preservation of life and environmental quality. Pricing is based on subjective or social values which involves the risk to apply inflated political prices.
2. It is not possible to fully cover all effects, especially environmental and health effects. Many effects are caused by the combined interaction between different sectors.
3. The calculations given vary considerably, since they are based on highly different methods and base data. So far, no scientifically founded consensus could be found for the individual cost elements and the criteria for their evaluation.

IV. Criticism of the proposed internalisation strategies

An internalisation strategy which is based on external marginal costs is not in line with the principle of the Eurovignette Directive, i.e. ensuring full recovery of infrastructure costs. In addition, in view of unsolved methodological uncertainties and the high economic benefits of road transport there is a risk that the citizens of European suffer actual losses in social welfare. An internalisation strategy which is based on charges as opposed to a regulatory approach will not reduce external effects to the extent desired by policy makers, especially in view of the open questions concerning methodology.

- Proposal: The proactive support of technical innovation, the removal of bottlenecks by improving infrastructure and traffic management and a consistent development of the existing regulatory instruments are more effective means than Pagouvian charges which produce merely fiscal effects. In addition, they generate more benefits to society than a reduction of the traffic volume.

Reasons: Preventing or displacing traffic has a direct negative impact on the competitiveness of the European market, if for no other reason than the considerable differences in quality between the various transport modes both for mobile citizens and the shipping industry. Also, a modal shift from road to rail would require enormous initial investments in the transport infrastructure.

While regulatory measures – such as strict emission standards for vehicles – will ensure the sustained reduction of negative effects, charges raised to internalise external costs – provided that no alternative measures are available – may not yield any significant reduction. Costs would indeed be recovered but not avoided.

- Proposal: The Member States should use existing road pricing to better comply with their infrastructure responsibility.

Reasons: One major design flaw of the Eurovignette Directive is that while it does provide full allocation of infrastructure costs, revenues are not earmarked for infrastructure upgrade and maintenance. This will jeopardise both the acceptance of charges and even long-term infrastructure financing.

Internalising congestion costs as suggested in the Handbook would only amplify this flaw, since a high level of congestion shows that a road in fact needs to be extended. The lack of earmarking in the Directive would result in the providers of infrastructure – whether public or private – maximising their profits through higher congestion charges in combination with planned undersupply.

- Proposal: Generally, revenues should be used to minimise negative externalities in the transport mode where they are generated.

Reasons: It is not economically viable to misappropriate the revenue of one mode of transport – including the revenue resulting from additional charges for environmental, congestion and accident costs – for expanding a different mode of transport. Such cross-subsidisation is a break with the “causer pays” principle (and benefits received principle) and runs counter to the aspect of cost transparency. In addition, it is a disincentive for the subsidised operator who will no longer base the expansion of infrastructure capacity on economic criteria. This is a reality in

the rail sector (politically supported expensive high-speed rail lines versus efficient commercial rail transport). The prospect of receiving public funds to cover their deficit spending tempts operators to demand excessive expansion, since the sector benefiting from expansion measures will not be required to adequately contribute towards the financing. This sector will benefit from lower marginal costs.

IV. Conclusion

ADAC aims to emphasise that the traffic volume grows because mobility has become a key factor for the development of our society. The related costs must be adequately reflected. In view of the continuing information deficit and the above methodical weaknesses, the internalisation of external costs according to the “causer pays” principle must not be seen as the mere implementation of reliably calculated values.

The discussion must consider the benefits of road transport which is available everywhere and at all times. Other obvious benefits include time savings, larger catchment areas for work and shopping, and a better choice of products or the possibility to reach distant recreation destinations. In addition, there are less apparent benefits such as the impact of transport on economic growth, its significance as an own economic sector, the area development potential and the external benefits of road transport.

So far, the discussions did not cover the possible impact of internalisation on the economy of labour and the job market which should not be ignored. Before implementing any type of internalisation strategy, we should assess the consequences for the development of employment. Otherwise, in view of the specific role the transport sector has in economic and social processes, this may affect consumption and the production potential and threaten competitiveness all over Europe.

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Transport Policy and Consumer Protection