

Polluter Pays – Problem Stays



Cheapest Cost Avoider Principle

A modern economic approach to reduce external costs of road transport



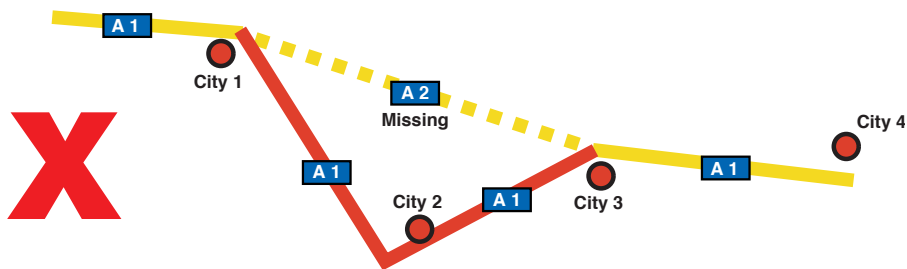
Globalisation has created a new economy based on the free movement of people, goods and services. Due to its high quality, door-to-door, service road transport has become an integral part of any logistic system and thus a vital production tool.

Road transport, like most human activities, has negative side effects like emissions and noise. These are labelled as “external effects” and the costs associated to these are called “external costs”. The challenge is how to reduce these costs in an optimal way.

Polluter Pays Principle - A tax collection scheme

Policy-makers consider the Polluter Pays Principle (PPP) as the only way to pay for external costs. However, the PPP is only another tax collection scheme, which does not reduce external costs in an optimal way because it already indicates which party should cover all external costs, without conducting a sound cost-benefit analysis. In addition, the money collected will not be used to solve the problem.

Applying the PPP to externalities caused by a missing highway link.



- To get from city 1 to city 4, with no direct route, a truck has to drive many extra kilometres through cities 2 and 3, hence uses more fuel and emits more emissions.
- The truck owners will be charged for the externalities their trucks produce.
- The revenues will not be used to solve the problem but rather for cross-subsidisation (general budgets, pension funds, less efficient transport modes etc).
- The truck owner will pass on the extra costs to the client which will make the product/service more expensive to the final consumer.

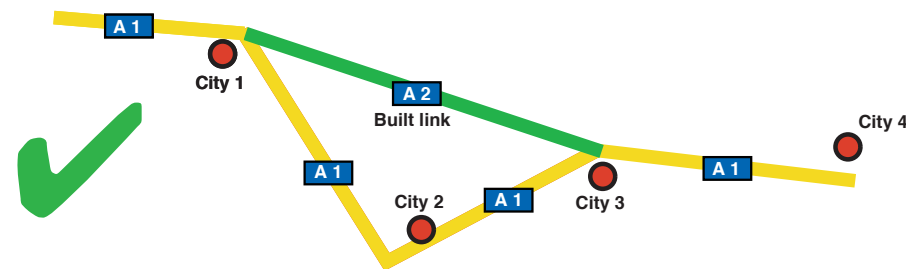
Result: The environmental impact will not be reduced. The economic costs will increase.

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Cheapest Cost Avoider Principle - A modern economic approach

In economic circles, the Cheapest Cost Avoider Principle (CCAP), which won Ronald Coase a Nobel Prize in 1991, has superseded the PPP. The underlying principle of the CCAP is that a cost benefit analysis is conducted and the stakeholder who can prevent external costs at the lowest cost for the overall economy should pay.

Applying the CCAP to externalities caused by a missing highway link.



- To get from city 1 to city 4, with no direct route, a truck has to drive many extra kilometres through cities 2 and 3, hence uses more fuel and emits more emissions.
- A cost-benefit analysis of the situation is conducted.
- This cost-benefit analysis may conclude that it makes more sense to build a direct highway link if the external costs of driving more kilometres are higher than the social, environmental and economic costs of building and using a direct highway link.
- The building costs and external costs of the new highway link would be covered by the stakeholder who could do it at the lowest cost for the overall economy. This usually leads to society and users taking action jointly.

Result: The environmental impact will be reduced. The cost to the overall economy will be minimised.

CCAP solves the problem

CONCLUSION

The Polluter Pays Principle is yet another tax collection scheme, which does not reduce external costs in an optimal way!

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To achieve sustainable development and remain competitive, the Cheapest Cost Avoider Principle, which is based on sound cost-benefit analysis, must be applied for all questions of external costs of road transport.

CCAP solves the problem

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