



# CLECAT

european organisation for forwarding and logistics

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Brussels, October 14<sup>th</sup> 2010

## ADVANCE INFORMATION ON THE CLECAT RESEARCH ON ROAD TRANSPORT TAXATION AND CHARGING IN EUROPE

### *Index*

<b>INDEX</b> .....	<b>1</b>
<b>EDITORIAL NOTE</b> .....	<b>2</b>
<b>INTRODUCTION</b> .....	<b>3</b>
<b>THE SURVEY ON ROAD TRANSPORT CHARGING AND THE INTERNALISATION OF ROAD TRANSPORT EXTERNALITIES</b> .....	<b>5</b>
INTERNALISATION OF EXTERNAL COST, CLECAT VIEWS IN ITS PUBLIC STATEMENTS. ....	5
THE FOLLOWING IS A CHRONOLOGICAL LIST OF CLECAT PUBLIC STATEMENTS CONCERNING THE TOPIC OF INTERNALISATION OF EXTERNAL COSTS AND THE EUROVIGNETTE III PUBLIC DEBATE: .....	5
<i>References</i> .....	5
<i>Key statements</i> .....	6
THE RESEARCH .....	8
<i>Preface</i> .....	8
<i>Research and Estimation Methodology and Strategy</i> .....	9
1 Approach to test hypothesis.....	9
2 Rationale for approach and methodology.....	10
<i>Useful information</i> .....	13
1 Government Revenues .....	13
2 Internal Costs (Infrastructure, Maintenance, Admin., etc.).....	15
3 External Costs (Climate change, pollution, congestion, etc.) .....	17
4 Market data.....	19
<i>Presentation of Data</i> .....	20
<i>Analysis of Data</i> .....	22
1 German and French cases .....	22
2 Italian and British cases.....	24
3 Cross referencing .....	25
<b>CONCLUDING REMARKS</b> .....	<b>26</b>
INTRODUCING THE CONCLUSIONS .....	26
PREFERRED OPTIONS .....	27
CONCLUSIONS.....	27

## *Editorial Note*

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The following text is formed by excerpts from a larger research work which will be published later in the year.

This abridged version is provided to meet the Council meeting scheduled by the Belgian presidency on October 15<sup>th</sup> 2010 and is intended to address the issue of how much of the externalities created by road transport still need – or not – internalisation.

## *Introduction*

CLECAT represents the interests of freight forwarding, logistics, transport and Customs services at EU level; as such it is the largest umbrella organisation of its kind in the EU. It represents the interests of the vast majority of large, medium and small enterprises, with membership across the European Union and beyond. Our members are users of all modes of transport, but they deal exclusively with cargo and for this reason our observations normally do not deal with passengers' issue unless these interact with freight transport. There is no preference for a particular mode of transport within our membership, as long as efficiency is ensured, but road transport is still the main transport mode in Europe, both in terms of volume and in terms of value. For this reason our members have a direct interest to monitor the level of road transport related costs.

CLECAT is committed to a fair approach to the internalisation of external cost strategy, but it is questioning the fact that the Eurovignette III proposal is in line with the internalisation of external costs principles and has serious doubts as to whether the proposal contains the appropriate measures that reduce the external costs of transport. The following research will focus exclusively on the proposal to review the so called "Eurovignette" directive (Eurovignette III), which after scrutiny may show the features of additional taxes and may be hardly considered external costs charges.

CLECAT Members have since expressed the interest to understand what is the existing contribution of road freight to their member states' finances and to identify how much of this contribution is in fact utilised within the domain of road infrastructure and transport infrastructural projects in general, how much of it contributes to the mitigation of the externalities caused by road transport and how much of it instead is used in other areas that have nothing to do with transport. The investigation might continue, at a later stage, to explore areas of harmonisation, competitive advantage of one country against the other, etc. but we have decided to limit ourselves to understanding whether, in a significant number of countries, the existing charging policy already covers for the externalities that have been targeted by the EU strategy. This also means to understand how much money is spent in the building and maintenance of transport infrastructure and how much money is collected in excess of such expenses. For this reason a survey was prepared and, despite the limited resources, the replies received have been shedding some light in this obscure area of our transport related expenditure.

In order to come to some meaningful the following research question was asked:

**To what degree does existing EU taxation policy capture and account for external cost criteria in the freight transport industry?**

We hope therefore that the eventual result of all this will put the reader in a better position to understand the situation and help him or her decide what is best for the European society with regards to this complex policy choice.

The following material has been assembled by the CLECAT Secretariat with the help of CLECAT Members and it has been analysed and edited in parts by Mr Joseph Jernigan III, who cooperated with CLECAT in the framework of an internship programme in the spring of 2010. Except where otherwise attributed the text is written by the CLECAT Secretariat.

In the abridged version that we now publish for the benefit of the Council meeting, we shall limit the scope of our research to the four largest countries in the EU, but more material on other countries, some of them on the periphery, such as Sweden, or even still in the accession process such a Turkey will be analysed in the full document that will be published later this year. We shall also take note of the compromise proposal made by the Belgian presidency in preparation of the upcoming meeting, although the elements of this proposal are not in line with the original proposal nor with the text approved by the Parliament. The full research may then become a useful tool for policymakers in the second reading.

Before we close this introduction we ought to acknowledge the contribution of many associations, interest groups, international organisations and even private individuals, who made their information and data available either publicly or specifically to CLECAT, with no compensation other than this acknowledgment. Their credits are identified individually against the information that was provided and we are happy to express our thanks and our members' gratitude.

## *The Survey on road transport charging and the internalisation of road transport externalities*

### *Internalisation of external cost, CLECAT views in its public statements.*

Before getting deeper in the analysis, we find it appropriate to highlight the following statements about road freight that we believe should be kept in mind when reading the rest of this document: the road freight sector

- is a highly competitive industry and is getting more so day by day
- is making a healthy contribution to national budgets by means of taxes and charges of various nature and form
- is at the centre of the economy by enabling the delivery of almost 100% of consumer goods
- it is the last ring in the delivery chain of the global supply of goods our economy thrives upon.

The topic of internalisation of external costs is of direct interest for CLECAT, both as representative of transport service users and as transport related service providers. CLECAT has therefore been closely involved in the early stages that led to the publication of the Commission's proposal on Eurovignette III and has since been monitoring the legislative procedure of the proposal. By going throughout our various public positions and contributions, the reader will see that our position on the Eurovignette has always been in coherence with our broader position on the internalisation of external costs in the transport sector.

In this respect, CLECAT has done its best to provide its institutional interlocutors with all the necessary assistance and input in order to ascertain both the scientific grounding of the assumptions and the possible eventual result of taxes and charges of external costs on the performance of logistics services.

The following is a chronological list of CLECAT public statements concerning the topic of internalisation of external costs and the Eurovignette III public debate:

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#### **References**

- April 2007

CLECAT contribution to the Commission's study on internalisation of external costs:

- <http://www.clecat.org/dmdocuments/PP006OSECR070410IntExtCosts.pdf>

- December 2007

CLECAT reply to the public consultation on the "Preparation of an Impact Assessment on the Internalisation of External Costs":

- <http://www.clecat.org/dmdocuments/pp020osecr071218intextcosts.pdf>

- May 2008

CLECAT position paper on the upcoming proposal for a revision of the Eurovignette Directive and its accompanying press release:

- Position paper:  
<http://www.clecat.org/dmdocuments/pp010etro080520eurovignette.pdf>
- Press release:  
<http://www.clecat.org/dmdocuments/pr001etro080520eurovignette.pdf>

- December 2008

CLECAT President speech on Eurovignette III at the European Parliament and its accompanying press release:

- President speech:  
<http://www.clecat.org/dmdocuments/pp021etro081124ephearingeurovignette.pdf>
- Press release:  
<http://www.clecat.org/dmdocuments/PR004OETro081202EPParHear.pdf>

- January 2009

CLECAT Joint Industry position paper on Eurovignette III – Charging of Heavy Goods Vehicles Proposal:

- <http://www.clecat.org/dmdocuments/pp001etro090220jntstmteurov.pdf>

- February 2009

CLECAT Joint press release on the results of the vote of the EP TRAN Committee on Eurovignette III:

- <http://www.clecat.org/dmdocuments/pr003etro090211eurovignettetransvote.pdf>

- March 2009

CLECAT Joint press release on the results of the EP plenary vote on Eurovignette III:

- <http://www.clecat.org/dmdocuments/pr006etro090312plnryvoteeurov.pdf>

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### Key statements

CLECAT's views on the internalisation of external costs in transport can be summarised by the following key points:

- **A comprehensive methodology to calculate and internalise external costs should include all forms of transport: commercial & non-commercial movements, as well as freight and passengers transport.** It is regrettable that the

exercise started only with road freight transport, thus putting the latter at a competitive disadvantage (or at least not a level-playing field) with other modes.

- In order to put all transport modes on equal footing, double taxation should be avoided during the internalisation process by taking into account those costs that are already (fully or partly) internalised through existing taxes or charges. **An internalisation system must take account of existing fiscal burdens on transport users.** Such an exercise at EU level must also take account of the overarching interest of the EU in harmonisation. Although external costs are considered as those not yet paid by users, it would be very dangerous to adopt a narrow-minded attitude by not considering existing taxes and charges on users when setting up an internalisation system.
- A great part of the external costs that are commonly identified as transport induced are in fact not induced by transport itself, but by the unfair conditions in which transport services have to run. In other words transport efficiency is seriously hampered by the lack of appropriate infrastructure and/or by the insufficient maintenance of it. **Charges connected with the internalisation of external costs should avoid penalising users for previous infrastructure planning shortcomings.** Doing so will boost public acceptance as operators may understand and accept to pay for better future conditions (on the other hand, operators will certainly object to any attempt to heavily charge the use of insufficient infrastructure as a shortcut).
- The impact of the internalisation policy would be much greater if the revenue was directly used to work on the reduction of externalities. Indeed, making users pay for the externalities they produce without working on their reduction would be unfair and produce a vicious circle of spiralling cost. **A strict earmarking system would enable each mode to finance external costs reductions** (e.g. through technological innovations and infrastructure upgrading/construction) **proportionally to the costs actually generated.** This would preserve fair competition between transport modes whilst contributing to the acceptance of the whole internalisation policy.
- Freight transport is not an independent variable, but an element of the value chain. Any additional cost in transport means an increase in the final price. Internalising external costs in transport is therefore likely to lead to some degree of inflation. Such an effect would obviously be harmful for the EU economy and in contradiction with the Lisbon Strategy. In order to avoid inflation and safeguard EU competitiveness (as well as to meet public acceptance), a new charging scheme should be revenue neutral (in Member States' budget), which means that **the introduction of a new charge should be compensated with the decrease of other taxes, especially if the system is already redundantly generating excess in revenues as it appears to be often the case.**

## *The research*

### **Preface**

by Joseph Jernigan III, Clecat intern, May 2010.

(Abridged)

To better understand how this was done I downloaded and read through numerous EC documents concerning the methodology and reasoning for both why market correction was needed and how they went about ensuring their accounting methods were as accurate as possible. Some examples of these documents include:

- The 2008 Handbook on estimation of external costs in the transport sector (Delft, February, 2008);
- The Strategy for the internalization of external costs technical annex (EC, 2008);
- The European motor vehicle park (ANFAC, 2008);
- Reforming Transport Taxes Report (ECMT, 2003); and
- External Costs in the Transport Sector – A Critical Review of the EC-Internalization – Policy (Baum, 2008).

Each of these documents covers the need and rationale for an effective, fair mechanism that will establish a system of infrastructure pricing that can take account of the social and environmental costs imposed by transportation.

As there is actually no EU layer of taxation other than general agreements on VAT and the generalized system of preferences, one may wish to avoid giving the impression that there is an overarching EU duty or excise, which is in fact not there, more to the point to answer the research question I was tasked with answering, i.e. the degree to which existing EU taxation policy captures and accounts for external cost criteria in the transport industry, I looked for data in a variety of places. Initially I focused most of my effort on data collected by the European Union's statistics portal, Eurostat. From Eurostat I was able to attain data on ton/kilometre freight haulage, motorway length, and total length of road network, amount of CO2 emissions attributable to the transport industry, total energy consumption, and governmental environmental expenditures/revenues. The rest of my data was sourced from a variety of places: the European Road Federation (ERF), the European Automobile Manufacturers Association (ACEA), individual surveys sent out to CLECAT member organizations and the replies received



from Italy, Sweden, Germany, the United Kingdom, and Turkey; more material was available through the International Transport Forum.

(Abridged)

The fact that one of the first serious attempt to price external criteria into market decisions is being done through the freight transport industry makes the question that this paper is asking [the degree to which existing EU taxation policy accurately captures and accounts for external costs criteria in the transport industry] of vital importance, because it will provide the foundation for future pricing schemes adapted to other industries with significant external costs. It is our hope to show in this survey how well (or, alas, how badly) the Eurovignette III takes account of these elements.

## **Research and Estimation Methodology and Strategy**

### *1 Approach to test hypothesis<sup>1</sup>*

The initial hypothesis that served as motivation for this paper was that a portion of externalised costs were already being accounted for by existing taxation. More specifically the extent to which existing taxation and the Commission proposed taxation rates to correct external imbalances are earmarked to addressing the problems it is meant to correct.

To test this hypothesis data was collected pertaining to the transport industry. To find this data and refine the approach of the research many different documents published by the European Commission and other organizations concerned with the transport industry were used as inspiration and reference. Some examples of these documents include:

- The 2008 Handbook on estimation of external costs in the transport sector (Delft, February, 2008);
- The Strategy for the internalization of external costs technical annex (EC, 2008);
- The European Motor Vehicle Park (ANFAC, 2008);
- Reforming Transport Taxes Report (ECMT, 2003); and
- External Costs in the Transport Sector – A Critical Review of the EC-Internalization – Policy (Baum, 2008).

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<sup>1</sup> By Joseph Jernigan III, adapted by the CLECAT Secretariat

While these studies are all unique, they each focus on the need to establish a system of infrastructure pricing that can take account of the social and environmental costs imposed by transportation that is both effective and fair. The consensus among most of these papers (Motor Vehicle Park, the Reforming Transport Taxes Report, and the Critical Review of the EC – Internalization Policy) was that the strategy and methodology being advocated by the European Commission was not adequate to accomplish these goals. However, there was a dearth of statistical proof to back up this assertion.

To understand why this is, you have to first consider the complexity and uncertainty surrounding the issue of externalities. As a result selecting the categories of taxation that were most relevant for an analysis of internalization policy was difficult. The reason for this is simple. At the moment there is no clear elucidated policy concerning the practical use and effectiveness of external charges. Any attempt made in the past to pre-assign a destination to any charges levied on the transport sector has been seriously resisted by EU governments, then represented by their Finance Ministers, to sine die. Considering we have little knowledge of whereto the revenues are collectively channelled, it is not surprising that the revenues derived from internalisation charges are actually even less conspicuous and therefore even more difficult to investigate. To compound the difficulty further the availability of data was limited and had to be assembled from a variety of sources, nonetheless the research presented in the paper should provide at least a glimpse into the problems plaguing internalisation policy within the European Union.

## 2 *Rationale for approach and methodology*

The first source consulted was Eurostat, the statistical portal of the European Union. Three other important sources were the European Road Federation (ERF), the European Automobile Manufacturers Association (ACEA) and individual surveys sent out to CLECAT member organizations (point to point replies were received from Italy, Sweden, Germany, the United Kingdom, and Turkey, other replies of a more general were received from France and other EU countries). The remaining statistical data came from the International Transport Forum, the database of the World Bank, and the UNECE Transport Division Database. This mass of data was compiled into multiple spreadsheets and eventually after analysing the data for what could and could not be used the dataset was trimmed to focus on three categories. The first was taxation revenue derived from the transport industry, the second was the cost of infrastructure maintenance and development, and the third was the cost of and social/environmental externalities. This last point was dealt with in regards to the externalities identified by the Commission.

The taxation revenue categories are as follows: value added, insurance, excise, property, circulation, and tolls. The excise tax was computed by converting the amount of oil consumed by the transport industry into litres and then multiplying that amount by the taxation rate (per litre, diesel and petrol combined). However, it should be noted that the data included in this category is incomplete because there is little information available concerning VAT revenue that is specifically derived from the transport industry. However, in view of the particular incremental nature of VAT, its impact on the final calculation should in principle culminate into the consumers' hands. This may justify, if only partly, its absence in some of our calculations. What should however not be forgotten is that our results will therefore always fall short of the absolute value of the externalities that are already covered by the existing charging policy and never exceed it if and when the VAT revenues are not clearly evidenced. As such the data included in the taxation section of the income statements is not exhaustive and is often rounded down rather than up. Fortunately, data on the cost of infrastructure and the estimation of external costs were more easily obtainable.

Expenses were separated into two categories: infrastructure and externalities, with infrastructure costs divided according to whether it was related to maintenance, construction, and administration. The categories of externalities were taken straight from the EC in its CE Delft Handbook (p. 16). In this handbook the Commission computed per/kilometre costs for each category of external costs. This ratio in conjunction with data on total kilometres travelled (supplied through various sources) by the road transport sector was used to compute the costs of each external cost category. For the sake of convenience and reference we have listed, the external cost categories and their per kilometre costs in the chart below.

<b>Category</b>	<b>Cost/km</b>
Congestion	0.124
Air Pollution	0.059
Noise	0.014
Climate Change	0.016
Up and Downstream Processes	0.019
Nature and Landscape	0.009
Soil and Water Pollution	0.01

Source: 2008 EC Handbook on the Estimation of External Costs in the Transport Sector

As was mentioned earlier, due to the fact that the figures were separated and categorised according to costs and revenues the data is presented in the format of an income statement.

Hopefully, in formatting the data in such a manner the conclusions drawn from the research will be easier to follow and understand.

## Useful information

### 1 Government Revenues

As already stated, EU taxation is not responding to a simple paradigm. There are at least three layers of taxation in the EU, if not more: EU-wide, e.g. VAT and import duties; national, e.g. income tax, excise, registry tax, etc; and local, e.g. poll tax, municipal taxes, non-resident taxes, etc. Even when restricting to road transport, the taxation regime is all but harmonised and differs strikingly from one MS to another. Nonetheless all systems respond to the basic principles of redistribution and provision of social services. The internalisation of externalities has become gradually more important, starting from its origins in excise.

The 2009 Eurostat and DG Taxud report on taxation in the EU<sup>2</sup> summarises the situation in the 27 Member States as follows: *The European Union is, taken as a whole, a high tax area. In 2007, the overall tax ratio, i.e. the sum of taxes and social security contributions in the 27 Member States (EU-27) amounted to 39.8 % of GDP (in the weighted average); this value is about 12 percentage points above those recorded in the United States and Japan. The EU tax-to-GDP ratio is high not only compared with these two countries but in general; amongst the major non-European OECD members, only New Zealand has a ratio that exceeds 35 per cent of GDP.*

In other words our taxation level is so high that we have to be very careful when devising any kind of charging policy not to tilt the balance of our society in a way that our economy as a whole would become unsustainably expensive. This is even more important when we think of targeting one essential element of the cost of the goods, its transportation.

In this light and with a view to understanding which taxation is fair we may dwell briefly on the following concepts. Two important ones are to be taken into account when considering government revenues from the internalisation of external costs point of view, they are the **double-dividend hypothesis**<sup>3</sup> and the **optimal tax theory**<sup>4</sup>.

First of all, the double-dividend hypothesis suggests that raising environmental tax revenues should have two objectives:

1. To improve the environment
2. To allow the excess burden of other taxes to be reduced

It is very interesting to observe that the double dividend is not guaranteed if the second part of the hypothesis is not present. This seems to be more than a risk for the Eurovignette III proposal, which completely ignores existing taxation.

The Optimal tax theory is the study of how best to design a tax to minimize distortion and inefficiency subject to raising set revenues through distorting taxation. Indeed, it is important that the design of new pricing schemes should take into account the existence of other distortions in the economy and of constraints on the available policy instruments (Mayeres, 2002). Careful design of the revenue recycling strategies could for instance help to improve their political acceptability.

All this is very well understood (and absorbed) by the population after centuries of disputes over the taxation level (e.g. the USA effectively seceded from the UK on a tax problem<sup>5</sup>). There is however a new way of looking at indirect taxation that is worth a couple of words. Both the

<sup>2</sup> [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-DU-09-001/EN/KS-DU-09-001-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-DU-09-001/EN/KS-DU-09-001-EN.PDF)

<sup>3</sup> [http://www.wiwiwiss.fu-berlin.de/institute/finanzen/schoeb/forschung/forschung\\_dateien/taxation02.pdf](http://www.wiwiwiss.fu-berlin.de/institute/finanzen/schoeb/forschung/forschung_dateien/taxation02.pdf)

<sup>4</sup> [http://en.wikipedia.org/wiki/Optimal\\_tax](http://en.wikipedia.org/wiki/Optimal_tax)

<sup>5</sup> [http://en.wikipedia.org/wiki/History\\_of\\_the\\_United\\_States](http://en.wikipedia.org/wiki/History_of_the_United_States)

above theories fall within a larger fiscal trend to decentralise taxation, the hindsight of it being aimed at alleviating citizens' perceived burden by attracting less attention on central governments' fiscal policy, whilst raising greater revenues. The already cited 2009 Eurostat report gives account of this taxation trend in the EU and shows how in the last two decades the evolution of taxation in most Member States is almost perfectly aligned with this; possibly few exceptions exist in the new entrants.

By means of this mechanism governments actually succeed in achieving higher taxation per head than they would be unable to impose through a simple centrally controlled tax-redistribute scheme. In addition, the publicly appealing idea of defending the environment contributes to making these indirect "green" systems more palatable, irrespective of their environmental credentials. This affects the redistributive function of fiscal imposition in rather unusual way, because it makes it possible for the affluent to pay more and simply forget about the externality. Thus the amount of revenues is then constantly increasing as long as the externalities are always there, but the "green" aims vanish in the glow of higher prices. The less affluent is left to endure the externalities, as well as to digest the inability to attain the same level of service, because of spiralling prices.

On the other side, this more remote fiscal mechanism is weakening the link between taxation and the social service provided against it. In transport infrastructure one sees the tendency to further remove the link between the governments and their long term investments, for example by resorting to public-private partnerships and concessions. This further severs the link between charges and service: it is not infrequent to see ill-maintained motorways today despite the fact that citizens had paid for their construction with their taxes, continue providing income by paying motorway charges to concessionaries, as well as additionally absorbing excise on fuel and property tax that go directly to the public finance.

All this notwithstanding, it is less than infrequent to hear that there are no funds for transport infrastructure, despite the fact that the transport sector is producing resources that more than amply allow for the maintenance of existing infrastructure and the contraction of much wanted new ones.

A critical cross-examination of the following documents gives an idea on where these low-key policy choices are leading us:

<http://www1.worldbank.org/publicsector/LearningProgram/Decentralization/Norway.pdf>

<http://www.eclac.org/publicaciones/xml/3/7783/1089i.pdf>

[http://www.imprint-eu.org/public/Papers/IMPRINT4\\_henstra.pdf](http://www.imprint-eu.org/public/Papers/IMPRINT4_henstra.pdf)

[http://www.ciesin.org/decentralization/English/Issues/Fiscal\\_d.pdf](http://www.ciesin.org/decentralization/English/Issues/Fiscal_d.pdf)

<http://www.oecd.org/dataoecd/25/36/1919252.pdf>

[http://ec.europa.eu/economy\\_finance/publications/publication14866\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication14866_en.pdf)

If one lands this mechanism in a complex area such as the EU, which is also steered by a more than complex policy making machine, embodied in the Lisbon treaty and its treasured principle of subsidiarity, one suddenly realises that the farther away the source of public revenue appears to come from, the less any citizen will feel its immediate pressure.

The question whether this very conspicuous income is then sufficient to ensure consistent transport policy and infrastructure investments in the EU, whether the revenues that are used for other than the transport sector requirements are in fact well spent with evident social benefits and whether the political choices we have just described are sustainable without compromising the development of our continent will not be answered in this document. The individual readers will have to find their own answers, if they like it, by using the instruments that this research will make available.

The following statements are not necessarily shared by CLECAT, but they are the fruit of a research on published material that pertains to the topic of this chapter:

### **Transport costs**

*Transport costs are a monetary measure of what the transport provider must pay to produce transportation services. They come as fixed (infrastructure and equipment) and variable (operating) costs, depending on a variety of conditions related to geography, infrastructure, administrative barriers, energy, and on how freight is carried.*

*Transport costs have significant impacts on the structure of economic activities as well as on international trade. Empirical evidence underlines that raising transport costs by 10% reduces trade volumes by more than 20%. In a competitive environment where transportation is a service that can be bided on, transport costs are influenced by the respective rates<sup>6</sup> of transport companies.*

*The difference between costs and rates either results in a loss or a profit from the service provider. Considering the components of transport costs previously discussed, rate setting is a complex undertaking subject to constant change. For freight transportation and many forms of passenger transportation (e.g. air transportation) rates are subject to a **competitive pressure**. This means that the rate will be adjusted according to the demand and the supply. They either reflect costs directly involved with shipping (cost-of-service) or are determined by the value of the commodity (value-of-service). Since many actors involved in freight transportation are private rates tend to vary, often significantly, but profitability is paramount.*

Source: <http://people.hofstra.edu/geotrans/eng/ch7en/conc7en/ch7c3en.html>

### **Infrastructure costs**

*Infrastructure expenditures can be classified according to the way they enhance the functionality and/or lifetime of infrastructure. According to this classification we define the following types of expenditures:*

- *Investment expenditures: expenditures on*
  - a) *New infrastructure with a specified functionality and lifetime or*
  - b) *Expansion of existing infrastructure with respect to functionality and/or lifetime.*
- *Renewal expenditures: expenditures on replacing existing infrastructure, prolonging the lifetime without adding new functionalities.*
- *Maintenance expenditures: expenditures for maintaining the functionality of existing infrastructure within its original lifetime.*
- *Operational expenditures: expenditures not relating to enhancing or maintaining lifetime and/or functionality of infrastructure.*

*Expenditures on infrastructure can also be classified according to the way they are influenced by the infrastructure usage of transport volume. According to this classification we define the following types of expenditures:*

- *Variable expenditures: expenditures that vary with transport volume while the functionality of the infrastructure remains unchanged.*

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<sup>6</sup> Rates are the price of transportation services paid by their users. They are the negotiated monetary cost of moving a passenger or a unit of freight between a specific origin and destination. Rates are often visible to the consumers since transport providers must provide this information to secure transactions. They may not necessarily express the real transport costs.

- *Fixed expenditures: expenditures that do not vary with transport volume while the functionality of infrastructure remains unchanged, or expenditures that enhance the functionality or lifetime of the infrastructure.*

*The distinction between fixed and variable expenditures is relevant because it enables an efficient allocation of infrastructure expenditures.*

Source:

[http://ec.europa.eu/transport/infrastructure/studies/doc/2005\\_11\\_30\\_guidelines\\_infrastructure\\_report\\_en.pdf](http://ec.europa.eu/transport/infrastructure/studies/doc/2005_11_30_guidelines_infrastructure_report_en.pdf)

### **Maintenance costs**

*Maintenance cost typically includes the cost of labour and parts to perform repairs. In many cases, it is also reasonable to assign a cost to down time. For example, while equipment is undergoing repairs, other costs may be incurred such as lost production, idle employees, etc.*

*Legal and safety obligations are also important factor influencing maintenance costs. The law requires vehicles to be maintained to a minimum standard, with regular vehicle inspections (Directive 2000/30/EC and Directive 2010/47/EU). If vehicles are found not to comply with minimum legal standards by an enforcement agency they can be prohibited from proceeding until satisfactory repairs have been carried out. Where this occurs, the costs of disruption to delivery schedules can be high.*

Source:

[http://www.google.fr/url?sa=t&source=web&cd=1&ved=0CBgQFjAA&url=http%3A%2F%2Fwww.freightbestpractice.org.uk%2Fpreventative-maintenance&rct=j&q=road%20freight%20maintenance%20costs&ei=GMx8TLzIBeiX4qbcjbD\\_BQ&usq=AFQjCNFpFf63w9Ub84YoqHMJM7OI-qheyQ&cad=rja](http://www.google.fr/url?sa=t&source=web&cd=1&ved=0CBgQFjAA&url=http%3A%2F%2Fwww.freightbestpractice.org.uk%2Fpreventative-maintenance&rct=j&q=road%20freight%20maintenance%20costs&ei=GMx8TLzIBeiX4qbcjbD_BQ&usq=AFQjCNFpFf63w9Ub84YoqHMJM7OI-qheyQ&cad=rja)

### **Administrative costs**

*Administrative costs are defined as the costs incurred by enterprises, the voluntary sector, public authorities and citizens in meeting legal obligations to provide information on their action or production, either to public authorities or to private parties.*

*Information is to be construed in a broad sense, i.e. including costs of labelling, reporting, monitoring and assessment needed to provide the information and registration. In some cases, the information has to be transferred to public authorities or private parties. In others, it only has to be available for inspection or supply on request.*

*An important distinction must be made between information that would be collected by businesses even in the absence of the legislation and information that would not be collected without the legal provisions. The costs induced by the latter are called administrative burdens. Some of the administrative burdens are necessary if the underlying objectives of the legislation and prescribed level of protection defined in the Treaties are to be met effectively; for instance where information is needed to make markets transparent. But there are also many cases where burdens can be streamlined and reduced without affecting the underlying objectives as such – the latter burdens are clearly unnecessary.*

*There is the need for transport companies to complete the standard operating task/procedures as well as to ensure that the conditions for an efficiently functioning Internal Market are in place, including appropriate levels of safety, security and social standards. The main issue is that the balance between the benefits of such requirements and their administrative burden needs constant vigilance, and can change over time –some of the existing procedures in place have become needlessly time-consuming, excessively complicated or obsolete, while in some cases the information required is already available from other sources.*



*Administrative requirements are an important determinant of the business environment since businesses across the EU are obliged to spend considerable amounts of time filling in forms and reporting on a wide range of issues. These costs are presently estimated to amount to 3.5% of GDP in the EU. By reducing, for example, unnecessary reporting a company's employees can spend more time on core business activities which reduce production costs and allow additional investment and innovation activities to materialise, which in turn should improve productivity and overall competitiveness.*

Source: [http://ec.europa.eu/enterprise/policies/better-regulation/files/com\\_2007\\_23\\_en.pdf](http://ec.europa.eu/enterprise/policies/better-regulation/files/com_2007_23_en.pdf)

### 3 External Costs (Climate change, pollution, congestion, etc.)

The debate on external costs, marginal costs and the issue of "correct pricing" is extremely complex. With regards to the Polluter Pays Principle (OECD, 1972) one could also refer to the 1992 Rio Declaration<sup>7</sup>. After the Stern report<sup>8</sup> it is next to impossible to ignore the issue of global warming, but it is unfortunately still very unclear what can or cannot be done. Suffice it to say that in 1994 UCTAD wrote:

*Some of the worst environmental problems are associated with poverty. With regard to the income effects of internalization policies, Karp argues that having to satisfy basic needs in the current period makes producing countries unable to look after the environment. What appears to be a short-sighted behaviour may simply be the effect of a binding constraint on current consumption. In this case, charging producers a higher price for an environmental input may exacerbate rather than correct the externality. This can be explained using the concepts of income and substitution effects. A tax on the environmental input causes producers to use less of it; this is the substitution effect. However: the tax also decreases producers' real income. If the environment is a normal good, the loss in real income leads to less environmental preservation. The income and substitution effects work in the opposite direction, so the net effect of internalization policies is ambiguous.*

Source: <http://www.unctad.org/en/docs/pocomd67.en.pdf>

These words sound dreadfully close to us even after 16 years: we all know how the environment can rapidly hit the backburner in time of crisis.

The environmental issue runs also the risk of being amply misused to disguise policy options that are more or less clearly opportunistic as genuinely intended to mitigate the problems of our times.

CLECAT does not have the ambition to seal this argument with a conclusive statement, but it has the intention to discuss the idea whether in fact charging external costs eventually reduces the externality on its own or can do so only if the charge is accompanied by appropriate measure to mitigate the source of the externality, for example by earmarking the resources to building additional infrastructure.

The following published text exemplifies the line of political thinking that is incorporated in much of the internalisation strategy of the EU.

*Externalities, which tend to be mostly negative, result in an inefficient resource allocation as commodities are not allocated on the basis of their true economic price. This is because market prices tend to reflect the cost sellers charge buyers of a commodity, a price based on the personal utility derived, while ignoring the costs/benefits imposed on third parties. Thus the*

<sup>7</sup> [http://en.wikipedia.org/wiki/Rio\\_Declaration\\_on\\_Environment\\_and\\_Development](http://en.wikipedia.org/wiki/Rio_Declaration_on_Environment_and_Development)

<sup>8</sup> <http://news.bbc.co.uk/2/hi/business/6098362.stm>

*pricing mechanism fails to reflect the true or social costs of economic activity so private costs may diverge from social costs. Resources will be allocated on the basis of private consumption and/or production decisions and not on social welfare maximising ones and for this reason resources will be allocated inefficiently.*

*This means that when engaging in a transport activity, a person will incur private costs linked to the use of a mode of transport (tolls or fuel use), but will not be taking into account nuisances imposed on others such as congestion<sup>9</sup>, accidents, noise, pollution and climate change.*

*Traffic Congestion Costs consist of incremental delay, driver stress, vehicle costs, crash risk and pollution resulting from interference between vehicles in the traffic stream, particularly as a road system approaches its capacity.*

*Source:*

*[http://ec.europa.eu/transport/sustainable/consultations/doc/2007\\_12\\_31\\_cost\\_consultation\\_paper.pdf](http://ec.europa.eu/transport/sustainable/consultations/doc/2007_12_31_cost_consultation_paper.pdf)*

*<http://www.vtpi.org/tca/tca0505.pdf>*

Our perception is that these are assumptions that unfortunately do not benefit from much backing evidence. There is in fact another line of thinking that proposes the idea that users knowingly engage in activities where externalities exist and therefore these additional costs are not external but internal in the system.

This is particularly evident when analysing congestion: most users insist in using their private car, even when they have alternatives, knowing that they will find aggravation due to congestion on the way. The only temporary mitigation comes when all users are charged (heavily, it appears: London, Stockholm, Milan access charges are good examples). Users who can find alternatives (e.g. commuters) actually use more public transport and less their own car. This does not however last long and things slowly return close to the ex-ante situation, the additional changes being somehow gradually absorbed in the social texture.

From evidence gathered in the literature it is impossible to firmly state that charging scheme mitigate externalities as a stand alone measure. This is in fact what we are talking about, as there is no clear coordination between the Eurovignette III and a far sighted continental transport policy. Time has however come to scratch the crust of data in order to better understand how the situation stands.

The compromise proposal made by the Belgian Presidency seems to run along these lines, by excluding congestion from the scope of the proposed directive, or at least it gives that impression, but the reality may be different if we take account of the possibility for MS's to use mark-ups, up to 300%!

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<sup>9</sup> Traffic Congestion Costs consist of incremental delay, driver stress, vehicle costs, crash risk and pollution resulting from interference between vehicles in the traffic stream, particularly as a road system approaches its capacity.

#### 4 Market data

Much to our regret it is difficult for a non-profit association that does not benefit from any other subsidy other than its Members' contributions to embrace a very wide research scope. We were therefore obliged to limit our analysis to the four largest EU countries in this preliminary phase. The following are the figures we were able to obtain from various sources as described earlier in this document.

		Germany	France	Italy	GB
1.	Number of Light commercial vehicles (less than 3.5t) in use in 2008	1,898,485	5,720,000	3,685,662	3,498,114
2.	Number of Light and Medium trucks (between 3.5 and 16t) in use in 2008	498,641	146,000	526,957	262,774
3.	Number of Heavy trucks (over 16t) in use in 2008	386,952	412,000	479,092	294,482
4.	Total number of trucks (over 3.5t) in use in 2008	885,593	558,000	1,006,049	557,256
5.	Total number of commercial vehicles in use in 2008	2,784,078	6,278,000	4,691,711	4,055,370
6.	Number of kilometres run by trucks over 3.5t on motorways in 2008 (in millions)	9,450	Information unavailable	4.257	1.623
7.	Number of Passenger cars in use	41,321,171	30,850,000	36,105,183	30,309,171
8.	Population	82,217,837	63,982,881	59,619,290	61,595,961
9.	GDP in industry (incl. construction) in 2008: output approach, index, 2005=100, at prices and PPPs of 2005	106.9	101.4	101.0	98.4
10.	World Bank International LPI Ranking	1	17	22	8

LPI: Logistics Performance Index

Source 1, 2, 3, 4, 5, and 7: EU Motor Vehicle Parc 2008

Source 6: Estimation based on EU Motor Vehicle Parc and data from CLECAT members

Source 8: Eurostat

Source 9: [http://w3.unece.org/pxweb/Dialog/varval.asp?ma=ZZZ\\_CoSummary\\_r&ti=Country+Overview+by+Indicator%2C+Country+and+Year&path=../DATABASE/Stat/10-CountryOverviews/01-Figures/&lang=1](http://w3.unece.org/pxweb/Dialog/varval.asp?ma=ZZZ_CoSummary_r&ti=Country+Overview+by+Indicator%2C+Country+and+Year&path=../DATABASE/Stat/10-CountryOverviews/01-Figures/&lang=1)

## **Presentation of Data**

The following tables have been collated from a number of different sources and the resulting information was eventually either provided or vetted by the national Member Federation responsible for the cited individual market. Within the scope of the research, which is not aiming at statistically relevant exhaustive coverage of the entire EU, we have limited our initial analysis to the four largest countries. These account for a little more than 53% of the EU population.

The income and expenses columns are calculated by adding the various elements of costs and revenues, with the exception of the columns referred to the external costs, which has been calculated according to the figures proposed by the EU institutions, as adopted by the European Parliament. These charges have been calculated as costs, in order to reply to our research questions on whether these are already internalised by existing charging and taxation or not.

The last result refers to the situation taking account of the Belgian compromise proposal to dispose of congestion costs, i.e. considering congestion an internal factor instead of an externality.

**Income Statement of Internalization of Costs**

**Sector: Commercial Road Transport**

**Reference year: 2008**

**Currency: Euros**

	Germany	France	Italy	United Kingdom
<b>INCOME</b>				
<b>Revenue</b>				
• VAT			7,043,817,600	4,977,400,000
• Insurance Tax	3,570,000,000	3,933,000,000	4,230,000,000	
• Property and Circulation Tax	11,040,000,000	7,770,000,000	1,774,990,396	5,380,000,000
• Excise Tax	3,360,000,000	3,957,000,000	6,470,000,000	4,921,640,000
• Motorway Tolls	3,500,000,000	9,484,000,000	4,534,000,000	
<i>Total Revenue (without VAT)</i>	21,470,000,000	25,144,000,000	17,008,990,396	10,301,640,000
<b>Total Income</b>	21,470,000,000	25,144,000,000	24,052,807,996	15,279,040,000
<b>EXPENSES</b>				
<b>Infrastructure</b>				
• Construction	5,100,000,000	12,623,444,854	6,466,990,000	5,760,239,440
• Maintenance	1,600,000,000	2,285,944,000	265,800,000	3,440,706,520
• Administration			1,296,800,000	
<i>Total Infrastructure Costs</i>	6,700,000,000	14,909,388,854	8,029,590,000	9,200,945,960
<b>External</b>				
• Congestion	3,551,089,841	3,471,628,000	10,645,772,000	3,422,896,000
• Air Pollution	1,689,631,457	1,651,823,000	5,065,327,000	1,628,636,000
• Noise	400,929,498	391,958,000	1,201,942,000	386,456,000
• Climate Change	458,205,141	447,952,000	1,373,648,000	441,664,000
• Up and downstream processes	544,118,605	531,943,000	1,631,207,000	524,476,000
• Nature and	257,740,392	251,973,000	772,677,000	248,436,000

Landscape				
• Soil and Water Pollution	286,378,213	279,970,000	858,530,000	276,040,000
<i>Total External Costs</i>	7,188,093,146	7,027,247,000	21,549,103,000	6,928,604,000
<b>Total Expenses</b>	13,888,093,146	21,936,635,854	29,578,693,000	16,129,549,960
<b><u>OPERATING</u></b>	<u>7,581,906,853.70</u>			<u>(without VAT)</u>
<b><u>PROFIT/LOSS</u></b>		<u>3,207,364,146.00</u>	<u>5,525,885,003.69</u>	<u>5,827,909,960.00</u>
<b><u>Profit/Loss, without congestion costs</u></b>	<u>11,132,996,694.70</u>	<u>6,678,992,146.00</u>	<u>5,119,886,996.00</u>	<u>2,714,873,036.40</u>

There is an open issue on the data that pertain to accidents' costs, as some consider them externalities and others do not. It must be noted that the above figures are formed by the income that is received by the member state in insurance taxes, they are not the insurance cost that is paid by the operator. In line with the CLECAT position on the internalisation of external costs, **we maintain that the cost of accidents must be covered entirely by the insurance and it should not be introduced in the above calculations.**

## Analysis of Data

### 1 German and French cases

By Joseph Jernigan III, adapted by the CLECAT Secretariat

There are several important bits of information that can be derived from the situation in Germany. The most important of which is the large sum of revenue (amounting to €7.58 billion) that is left over after taxes and charges have been levied and expenses are paid. In simple terms this means that the externality based portion of the fees are not entirely used to address the negative environmental and social impact they were designed to correct, but the overall consistency of the system suggest the existence of fair degree of wisdom in the German management which is consistent with the German public image. That said however, it is important to note that data on administrative or overhead costs related to infrastructure is not included, due to the lack of data available. However, unless administrative costs are larger than the combined cost of both construction and maintenance there would still be a surplus amount once external fees are allocated to corrective projects and the costs of infrastructure development are paid. An educated guess may tell us that Germany can still count on more than 5 billion Euros surplus even though administration costs are taken into account. This result

shows a mismatch between the taxes that are collected to address problems arising from an inefficient infrastructure and externalities and what could be spent to address and correct these problems. In fact what is currently spent on road infrastructure in Germany is €488 million less than the revenue the government would receive from the external fees on transport were it to access costs on the basis suggested by the European Council.

This mismatch could be a result of several concurring factors. It could be that taxes and external charges are too high. Another possible explanation could be that infrastructure development is underfunded, or it could be a combination of all of these factors. What this means is that taxation receipts in Germany are not accurately aligned with its infrastructure and external costs. In other words Germany seems to enjoy exploiting its transport sector (as well as all infrastructure users, regardless of their nationality) and seems to be intent in avoiding redressing the externalities that generate some of the penalising revenues. It is also extremely interesting to compare these results with other studies that have been made recently available, where apparently the Eurovignette III would actually further increase this phenomenon making Germany and France the only countries to actually benefit from its introduction.

In fact according to German economist Dr. Dieter Schmidtchen of the Centre for the Study of Law and Economic at Saarland University "taxes paid already above the level necessary to maintain infrastructure must be deducted from what it owed in external costs." If this is done as Dr. Schmidtchen suggests then the categories of external costs, as suggested by the EC, are already completely accounted for with existing taxation in Germany, actually they appear to be overcompensated. In fact, if you were to consider externally accessed fees as a source of additional revenue for Germany, which would essentially categorising it as a tax and no longer as a charge, but which is in line with the overarching philosophy of the Eurovignette III, then the level of surplus would almost triple to €21.96 billion (after subtracting infrastructure costs from taxes and external fees). Additionally, this figure does not take into account value added taxes generated from the transport industry. So unless, as previously mentioned, administrative fees were exorbitantly high or the infrastructure data were incorrect the existing framework by which the EC suggest external fees be calculated would appear to be off the mark.

Interestingly, the findings for Germany are repeated with the analysis of France. When total infrastructure expenses are compiled and subtracted from total revenue, the quotient left over after accounting for externalized expenses is again a substantial amount (totalling €3.21 billion). The categories of data used to come to this figure were the same as Germany, with both value added taxes and administrative expenses being absent from the analysis. In both this example and the one on Germany external costs and taxation receipts are largely comparable; however it

is worth noting that France appears to devote much more capital to infrastructure development. France's total external costs are also comparable to Germany's, with France's total costs standing at €7,027,247,000 and Germany's standing at €7,188,093,146. It is also interesting to note that if you categorize external cost fees as a source of revenue, as we have done with Germany, then the amount of money generated from the taxation of the transport industry in France would raise from €25.14 billion to €32.17 billion. The resulting level of surplus after subtracting infrastructure expenses (€14.9) billion would then equal €17.26 billion.

Adding the presume VAT figure for both countries would further increase the margin.

These are rather elementary observations in two countries which already charge for some of their infrastructure and that would have no legal impediment to impose an additional charging scheme commensurate to the calculated externalities if the Eurovignette III were to be adopted by the Council.

## *2 Italian and British cases*

Excluding VAT for the total income in UK may be misleading, but such is the supply of data we received. Including VAT instead, would significantly modify the operating loss in UK (from €5.828 billion to less than €1billion), that is almost totally abating it. It must also be noted that CLECAT did not receive any data on the existence of an insurance tax in the UK.

For both Italy and the UK, the taxation revenue derived from the transport industry already covers the best part of the external costs calculated as being generated by commercial road transport. It is the high total external costs of congestion in Italy and the maintenance costs of infrastructure in UK that tend to bring negative figures for the final operating income. In particular the calculation of congestion costs in Italy seem extremely high, but it also appears to be in line with a public image of the very congested traffic in the country (about 600 cars and about 14 km of roads per thousand inhabitants) and it is consistent also with the air pollution figure. The main difference between the two countries is that in most cases Italy imposes charges on motorways, whereas the UK normally does not. In the UK toll motorways are very rare and the M6 toll is showing that motorway charging is certainly not popular with the British public.

On the one hand we could say that Italians are enduring greater externalities, despite paying already handsomely to abate them, whilst the British benefit from free access to most of the infrastructure, which is however not being maintained and upgraded at the same level as in the other countries we are examining.



Three main differences can be seen as regards the total income generated in Germany, France, Italy, and the UK:

1. We can see a lower income coming from property and circulation tax in Italy (€1.775 billion) compared to Germany, France, and UK (respectively €11 billion, €7.770 billion and €5.380 billion).
2. On the other hand, the excise tax in Italy (€6.470 billion) is much higher than the one of the 3 other countries (respectively €3.360 billion, €3.957 billion and €4.921 billion).
3. Concerning motorway tolls, France with €9.484 billion, levied on all vehicles, generates more revenues than Germany (which is however only charging HDV's) and Italy combined (respectively €3.500 billion and €4.534 billion, data unavailable for the UK).

When looking at infrastructure costs, one can observe that the construction costs are higher in France (€12.624 billion) as compared to Germany, Italy and UK (respectively €5.100 billion, €6.467 billion and €5.760 billion), but one has also to observe that France is bigger and has been continuously building and upgrading its infrastructure in recent years, whereas this cannot be said in the same terms for Italy and the UK, which have failed to maintain the same pace they had before 1990 in recent years. As regards maintenance costs, it appears that Italy realises fewer expenses in this sector with "only" €266 million as compared to Germany, France and the UK (respectively 1.600 billion, 2.286 billion and 3.441 billion), this coincides with the impression that the Italian network has progressively lost its quality ranking within the EU. Finally, the table shows that Germany has the lowest total infrastructure costs with €6.700 billion whilst France has the highest with €14.909 billion (Italy and UK have respectively €8.030 billion and €9.201 billion).

Concerning the total external costs, the table clearly shows that for each category of external costs, it is Italy that possesses the highest expenses, which leads this Member State to have way higher total external costs (with €29.579 billion) than Germany, France and UK (respectively €13.888 billion, €21.937 billion and €16.130 billion).

If one wishes to push this analysis a bit further, at the risk of stating what needs to be further investigated, one could argue that lack of continuous investments in infrastructure and lack or insufficient infrastructure maintenance may generate important externalities, in greater proportion than the externalities that in-built in the system. To the contrary one could say that serious investments in infrastructure and its maintenance are likely to abate externalities more than any other measure adopted.

## *Concluding remarks*

### *Introducing the conclusions*

By Joseph Jernigan III, adapted and abridged by the CLECAT Secretariat

Logistics services cannot function as they should, as the main enabler of the supply chain, without sufficient and properly maintained infrastructure. In the last decade much effort has been deployed at identifying the best way to steer transport demand toward what has been considered for some time as a “more environmentally friendly” solution, by promoting modal shift in freight transport. This has left the infrastructure issue on the backburner for too long without any noticeable environmental improvement.

In addition road transport has been and continues being identified as “the” culprit of transport externalities, despite the great improvements that technology has provided, whilst other transport modes have been taking advantage of a more environmental image without sound scientific research based on full life-cycle calculations.

The Eurovignette III has been hailed by some as a “price signal” able to push a “modal shift”. We have in the meantime gathered evidence that the consistency of the statistical data on which the modal shift policy is based upon is at best shaky. Despite the fact the EU has probably the best transport statistics in the world, it is sad to understand that they are still not sufficient to competently advise any policy that is aimed at steering modal choices, as very recent studies show. Under these circumstances the often quoted concept of “more environmentally friendly modes” is unfortunately more similar to an almost entirely emotional, educated guess than anything else.

One final remark on the modal shift idea. Without discussing the merit of a top down strategy on modal choices, that we certainly do not share, it is CLECAT’s position that governmental attempts to accomplish this through artificially altering the pricing of transport services to encourage what is deemed the ‘correct’ modal choice, is only one element – and not the most important – that commands the modal choice of the transport industry. A shift in modal choice will naturally occur only as and if other transport nodes show the same level of quality, reliability, and efficiency. Consequently any pricing scheme must be evenly applied across modalities, just to the amount that is necessary to extract sufficient revenue to ensure the maintenance and

sufficiency of the infrastructure network. There is no right modality choice insofar as there being no mode of transport to solve all needs and fit all purposes.

Despite road transport being the most important mode of transport in terms of quantity carried within the EU, which calls for an internalisation policy that embraces road transport as well, for all road transport users, not just for freight, we should never forget that other modes of transport would also benefit from a consistent internalisation policy: maritime transport emissions are still one of the main headaches in port cities, rail freight moves mainly being pulled by diesel engines that are not compliant with any EURO class, thus making noise only one of the items that may contribute to making rail freight more efficient and palatable from an environmental point of view. Airfreight is heading toward full compliance with the ETS policy, but aviation emissions may be a problem to deal with for a long time in the future. Even IWT, that seems to score the highest in the ratio between externalities and carried quantities has much ground to improve its performance.

## *Preferred Options*

CLECAT advocates:

- Improving Infrastructure Investments
- Earmarking internalization charges to
  - o Externalities abatement
  - o infrastructure development and
  - o investment in Research and Development
- Unified measure for accounting external costs across all modes
- For climate change costs CLECAT recommends
  - o an agreement on terminology and methodology
  - o a reference calculation standard tool to enable informed choices.

## *Conclusions*

The figures and results contained in this advance information excerpt demonstrate with reasonable reliability that CLECAT was right in claiming for the past few years that road transport is already liable for a large variety of specific taxes and charges, which are paid to individual member states and that, in different member states, the percentages of this income either totally or substantially internalise most external costs.

This survey reveals also that in a number of cases the charges levied on road transport, especially on freight vehicles, either completely cover the external costs or even contribute to a net profit even after external costs have been taken into account. If such costs exclude congestion, inline with the Belgian compromise proposal, such net contribution is even greater and in certain cases may appear not to be proportionate. It is also noteworthy that the more central is the position of a country in the EU the greater are the advantages for its own budget, which may look like exploiting geography to the detriment of EU's cohesion.

It would be both dangerous and unfair to ignore this reality completely and set up a new system based on the artificial assumption that we should start from a blank page and ignore existing charges, which is – in essence – what the Eurovignette III proposal does.

The creation of a double taxation scheme would also jeopardise the very existence of many road hauliers. This concerns in particular SME's which are the main players on the road transport market and generate a large part of its employment. These companies would struggle to survive in a business environment that would inevitably put the greatest pressure on them, without forgetting the fact that altered conditions in road transport services would substantially affect EU external trade. The pressure would appear to be placed more heavily on the periphery of the Union than at the centre, making it very difficult, especially for the new entrants to redress their economies. It cannot be forgotten that the freshly proposed compromise made by the Belgian Presidency also introduces elements of distortion. Individual MS's may be able to apply mark-ups and charges that create artificial elements of cost in one member state rather than another.

CLECAT would also like to add that the distinction between infrastructure costs and external costs is decisive and that even if it is necessary to adopt a strategy in order to internalise the external costs generated by transport, the externalities induced by insufficient infrastructure should however be singled out and dealt with separately (e.g. the case of Italy and the UK).

The polluter-pays and user-pays schemes should not play one against the other or be confused with each other, i.e. polluter-pays should address externalities, whilst user-pays should be used only to pay infrastructure maintenance and construction. Confusing them and combining them can indeed boost to revenues from road transport, but in the long run it would backfire, as we have seen in the introduction.

The results of this study confirm CLECAT's conviction that what the Council should do is to reject the current proposed Eurovignette directive, so that the political debate can focus on a more

comprehensive proposal, intended to address externalities by the strictest appropriation of the generated revenues, taking all transport modes in the scope of the internalisation package. The Commission has the expertise to address this debate in a more constructive way. This is a debate about our future prosperity, not only about road transport and it should never be taken hostage by particular interests or emotional overreactions. The decision we have to take must be comprehensive, effective and must provide for greater harmonisation in the Single Market.

As a final comment, CLECAT would like to remind the reader that making users pay for externalities they produce without working on the reduction of these externalities would be counterproductive: it fails to ensure the continuity of the market and it creates the conditions for introducing a decline factor in the economy.

Therefore a further element of distress comes from hearing the rumours that suggest the few lines that were introduced by the Commission (and kept by the Parliament) to address the issue of earmarking are being quickly disposed of by the Ministers. This is in line with the worst expectations of the experts that discussed this proposal in 2008 and 2009. If this option becomes true, the eventual result of the Eurovignette III would be a tax, on top of all other taxes, that would make money flow from the periphery of the Union to central countries such as Germany and France. It is also noteworthy that these are certainly the ones which need this extra income less than others, considering their economy seems to be better placed than others'.

Internalising external costs through charging systems is only one aspect of a more global policy that should aim at reducing these externalities. Other instruments may include regulation, infrastructure planning, building and updating, as well as technological innovation and service upgrading.

The reader must also realise that alternative constructive approaches and incentives should not be left aside in the internalisation process and that other effective measures than road pricing are also possible to influence drivers' behaviours, encourage fleet renewal and diminish external costs. As a feasible alternative to taxing the transport sector, CLECAT supports for instance the promotion of best practices that allow the measurement of the efficiency and sustainability of co-modal chains in projects and business cases like Green Corridors and CityLog. Member States must realize that awarding "best practices" and likewise punishing "worst practices" through grants and fines respectively could have more positive effects on the market than general taxes and charges with a rather low impact on the freight transport system.

The Commission is supposed to publish its new White Paper in the near future. We believe a well thought proposal on a comprehensive internalisation strategy and an equally comprehensive approach to the completion of the single market in transport would be the qualifying highlights of this initiative. We also believe an integrated approach that has the ambition to deal with the issue of congestion by suggesting the appropriate legislative steps would be welcome by all users. The extensive debate that was generated on these two items in these recent years – and the lesson learnt by having proposed legislation that has failed to meet its objectives in full (e.g. in rail and road market liberalisation and harmonisation) or fallen short of dealing appropriately with the balance between development and environment, as it appears to be the case in the Eurovignette III proposal – may certainly contribute to a more effective policy approach in future.

To conclude, we must make sure that our appetite for innovation and investment is enhanced by a far reaching transport policy that will tackle transport externalities by properly studied measures, not with a poisonous apple that fell from the basket of the Commission's proposals almost two years ago. No matter how beautiful this fruit may have looked to some member states then, it is no longer digestible; **it will create havoc in logistics, which can no longer count on earmarking, and mistrust among Member States, which will be induced to think that some of their peers exploit them.** The Eurovignette III seems to be far from fair, **it pretends to deal with externalities** but it seems to be just about money with nothing in return. It takes away from less well-off countries without even benefiting those that appear not to be in need. This is a recipe that may **squander the trust in the cohesion** of the EU in a moment when it is already under severe scrutiny.

Can we pay such a price... just to pretend?