



IRF position on the Eurovignette Directive

Fair and efficient charging vs. internalization of external costs

Introduction

When putting their finishing touch to the Eurovignette directive MEPs should not forget the core concept behind infrastructure charges: financing the delivery and maintenance of efficient transport networks, which is vital for the socio-economic progress of Europe, particularly in difficult times.

Proposals, such as one-sided “internalization of external cost”, risk jeopardizing the principles of equality and “transparency of cost” completely. Besides the clear difficulties in accurately assessing the external costs of transport, other determining factors are also neglected.

A sensible policy must consider - for any mode - all costs and benefits derived from transport, both direct and indirect, as well as the costs already being paid by users. The most efficient solutions must be promoted, whilst respecting environmental and safety standards. **Positive incentives** are needed, **not punitive charges or cross-subsidies**, also for making rail more attractive and beneficial to users.

I. Experience from Switzerland – rejection of internalisation

Other countries have also debated the merits of a policy of internalizing external costs of transport. It may surprise MEPs to note that in 2001 the Swiss Parliament rejected such a policy.

So far only the exception to the Swiss rule is known: some limited “internalization” through the Swiss heavy truck toll started in 2000 (LSVA/RPL). Yet, in June 2001 the **Swiss Parliament rejected the principle of internalizing external costs for transport**. Acknowledging that other factors, such as indirect benefits, subsidies and the tax burden of motorists, have to be considered too, Swiss deputies concluded that internalization was only acceptable if applied to all transport modes and feared that such a policy may oblige national rail operators to pay, and that the road sector could be entitled to receive a net transfer. One core argument was that railways have not internalized the “external cost” of their heavy subsidies. (*See annex 1, excerpts from the Swiss parliamentary records*).

II. Considering all costs and benefits in all transport modes

Regarding direct costs, **road is currently a net contributor**, with users (in the EU15) paying around 350bn euros annually, of which only a third is reinvested into road infrastructure. At the same time **road fails to cover all its direct costs**, and still relies on government subsidies. According to a study commissioned by DG TREN, national rail operators in EU 15 received in 2001 an average of 31% of operational subsidies (up to 74%). *See annex 3*.

Besides external costs, the use of road **networks also produces considerable positive externalities, so-called indirect benefits**. Although indirect benefits from road networks are evident, e.g. in terms of contribution to labor productivity, benefits to citizens not using road networks, it is also difficult to attribute an exact value. Furthermore, through a range of taxes and charges (fuel and vehicle tax, insurance, etc.) certain externalities of road transport are already internalized. This is not the case for other modes, for example airlines still do not pay tax on kerosene. Indeed, all transport modes create negative externalities, including rail, and it is not acceptable to apply a principle of externalization exclusively to road transport.

For the time being it is impossible to weigh up the negative and positive externalities.

International Road Federation

17-19 rue de la Tourelle bte 1, B-1040 Brussels, Belgium
2 chemin de Blandonnet, 1214 Vernier Geneva, Switzerland

www.irfnet.org

Tel : +32 2 234 6630 Fax : +32 2 230 7907
Tel : +41 22 306 02 60 Fax : +41 22 306 0270



III. Internalisation v. mitigation

Further to the inaccuracies and problems concerning external costs, the merit of such a policy is also questionable. First of all the Eurovignette directive fails to ensure additional funds where they are needed for efficiency gains. By neglecting bottle-necks **new negative externalities are created** (congestion and pollution). Moreover, the **internalization of external costs will offer no solutions to reducing the negative externalities** of road transport. There are no plans to dedicate additional truck toll incomes to effective measures for mitigating negative externalities.

From an overall socio-economic viewpoint: levying extra charges on road users, will not modify their modal choice (generally for roads) but increase their cost, and thus, hamper the efficient functioning of the economy, particularly at the present time with sky high fuel prices.

The **most effective way of dealing with the negative externalities of transport is mitigation**. The road and automobile sectors have already made massive progress in reducing the externalities of road transport; these actions must be recognized and supported by the EU. (eg. incentives / penalties for engines to reduce emissions; noise barriers as part of infrastructure cost included in toll rate, etc.)

IRF Position

Considering that:

- Road users pay well in excess of direct costs, while other modes continue to rely on government subsidies.
- Road systems also produce large indirect benefits which must also be taken into account.
- Internalisation is not an effective policy for reducing the negative externalities of road transport.

The IRF calls for infrastructure charging to be used as a means of financing the delivery and maintenance of efficient transport networks. It should not be a pretext for adding additional charges to road users.

Therefore, the IRF insists that “internalization of external costs” be rejected in favour of promoting focused and efficient measures to reduce the negative externalities of transport, such as:

- fiscal incentives targeting engines with reduced vehicle emissions
- sound barriers to reduce noise pollution
- safety equipment to mitigate road accidents

Annexes

1. Excerpts from Swiss parliamentary records of the debate on the **Bundi Initiative: transparency of costs in transport** and results of the Parliament vote
2. Full transcript of Swiss parliamentary debate
3. Table of rail subsidies in EU15