

Position paper

Internalisation of external transport costs

Infrastruktur, Verkehr und
Telekommunikation

Position on the European Commission's proposals for internalising external transport costs and on the draft revision of the road charging directive

- (1) **Mobility and transport are an integral part of both our society and our modern economy with its division of labour.** Free movement of trade and responsible mobility provide a great impetus to creating value added and prosperity. Both business and citizens will continue to be dependent on an efficient transport system. The negative impact of mobility and transport on the environment, nature and human beings must therefore be reduced without endangering the foundations of our economy.
- (2) **Business stands behind the objective of and accepts its responsibility for reducing the negative effects of our modern mobility.** Emissions, noise, congestion and accidents need to be further minimised. To that end, German businesses offer a wide range of innovative solutions whose development and application should be promoted on a targeted basis.
- (3) **With effective and cost-efficient instruments, it is already possible to achieve remarkable successes for safe, environment-friendly, low-emission and low-noise mobility.** These include limit values for harmful substances and noise, monetary incentives such as noise- and emission-based air transport fees, an emission-based scale of road tolls for heavy goods vehicles and promotion instruments including encouragement to purchase modern utility vehicles. It is essential to continue to use and to further develop this successful mix of instruments also in the future.
- (4) **Possible additional instruments must offer a clear added value in terms of effectiveness and cost-efficiency.** Environmental, regulatory and pricing measures must be evaluated in a cost-benefit analysis. Additional measures must promote innovative technologies and enhance Germany's competitiveness. For that reason, stand-alone solutions such as Europe's isolated stance on including air transport in emission trading therefore attract a critical reaction. Initiatives must take account of the great significance of mobility for business and society as well as the benefit of transport to the economy as a whole.
- (5) **BDI takes a critical stance on the European Commission's proposals for internalising external transport costs.** The focus of a strategy for environment-friendly mobility must be a minimisation of the negative impacts of transport and not price increases based on a controversial allocation of costs. Measuring, placing a monetary value on and charging for external effects throws up considerable methodological questions and practical problems. By contrast, a reduction of negative impacts from transport can only be expected in the medium term at best.
- (6) **The proposed internalisation will result in cost increases even for environment-friendly transport operations and in distortions of**

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competition between modes of transport. One-sided or staged charging of external costs covering only one mode of transport should be rejected. A strategy for environment-friendly mobility must ensure transparency and fair competitive conditions for all modes of transport. Existing mode-specific taxes and charges already have to be taken into account. The European Commission is rightly pursuing the principle of co-modality whereby each mode of transport must be able to develop its strengths and efficiency advantages on a level playing field and in a transport system that is as interlinked as possible.

- (7) **Needs-based development of transport infrastructures is essential to minimise the negative impacts of transport.** Elimination of capacity bottlenecks by extending infrastructure makes a fundamental contribution to avoiding congestion and the associated external effects. Revenues from infrastructure charges such as the lorry road toll must be deployed in financing circuits which are earmarked for maintenance and extension of infrastructure. With the rapid expansion of modern traffic management systems, it is possible to exploit further potential for efficiencies in all modes of transport, to use scarce resources more efficiently and to minimise the negative impacts of transport.

On 8 July 2008 the European Commission presented a package of measures for “Greening Transport”. The package includes a general communication on greening transport, a communication on a strategy for internalising external costs, a proposal for a revision of the road charging directive and a communication on measures to reduce noise in rail transport.

BDI below sets out its position on **internalisation of external costs in the framework of the road charging directive**.

II. Principles

Mobility and transport are an integral part of both our society and our modern economy with its division of labour. Free movement of trade and responsible mobility provide a great impetus to creating value added and prosperity. Both business and citizens will continue to be dependent on an efficient transport system. The negative impact of mobility and transport on the environment, nature and human beings must therefore be reduced without endangering the foundations of our economy. Business stands behind the objective of and accepts its responsibility for reducing the negative effects of our modern mobility. In this regard, the focus of a strategy for environment-friendly mobility must be a **minimisation of the negative impacts** of transport and not price increases based on a controversial allocation of costs. The aim must be to promote investments at the same time, and hence to strengthen the attractiveness of Germany and of Europe as locations for business.

Industrial undertakings have contributed to reducing negative impacts of transport with a **wide range of innovations**. Thanks to the use of modern plastics in vehicle construction and the associated weight reduction, around 500 million litres of fuel are being saved each year in road transport. This corresponds to about 1.4 million tonnes of CO₂ emissions avoided annually. Fuel additives for combustion engines help to prevent deposits in engines and further to reduce fuel and CO₂ emissions. Modern active and passive transport safety technologies have led to a reduction in accident figures despite the sharp increase in traffic volumes. Innovative propulsion technologies in air transport have led to a considerable reduction in noise nuisance, and innovative technologies such as low-noise braking systems are also helping to minimise the negative impacts of transport in the rail sector.

In recent years, **remarkable successes and innovations** for safe, environment-friendly, low emission and low-noise mobility have seen the light of day with the existing environmental, regulatory and pricing instruments. The successful mix of instruments comprising exhaust gas limit values, fiscal incentives, and promotion mechanisms must constantly be further developed and also continue to be used in the future for an environment-friendly transport model. Possible additional instruments such as the proposed internalisation of external costs in the framework of the road charging directive must offer a clear added value in terms of effectiveness and macro-economic cost-efficiency.

Needs-based development of transport infrastructures and rapid **expansion of modern traffic management systems** for efficient use of infrastructures are essential to avoid negative impacts of transport. They are fundamental instruments of an active state infrastructure policy and therefore at the same time key for an effective and economically acceptable mobility policy. The persistent inadequacy of financing for transport infrastructures has led to declining quality and visible capacity bottlenecks in all modes of transport. Tailbacks, loss of time, and delays are the consequence. A state-orchestrated

increase in the price of transport will also not benefit the environment. Since freight operations constitute derived demand and are usually not very flexible, a marked reduction in traffic – even with pricing policy measures – is not possible or will be associated with considerable negative effects for the entire economy. A shift to other modes of transport may lead to ecological benefits. However, this solution often breaks down due to a shortage of infrastructure capacities. Against this background of an inadequate state infrastructure policy, an additional burden on transport with congestion charges seems inappropriate.

The various modes of transport have different utilisation and quality profiles. For that reason, they cannot be substituted for each other at will. Hence, the European Commission is rightly pursuing the principle of co-modality whereby each mode of transport must be able to develop its strengths and efficiency advantages on a level playing field and in a transport system that is as interlinked as possible. One-sided charging of external costs covering only one mode of transport will lead to **intermodal distortions of competition** and have negative consequences for the economy as a whole. For that reason, it should be rejected. Existing fiscal burdens and reliefs applicable to modes of transport in the form of mode-specific taxes, fees and charges must already be taken into consideration with an eye to Germany's and Europe's competitiveness. For road transport alone, state revenues from charges of this type amount to more than 50 billion euros a year.

III. Evaluation of individual elements

BDI is critical of the European Commission's proposals for internalising external costs in the framework of the road charging directive.

With the proposed charging of external effects to road freight transport via supplements for air pollution, noise and congestion in the lorry road toll, further **price and transport cost increases** are to be feared first and foremost. In addition, this would result in distortions of competition between modes. In the analysis of the effects of its proposal for a directive, the European Commission comes to the conclusion that the proposed internalisation will lead to negative effects for economic growth, exports, mobility and employment. By contrast, a reduction of negative impacts from transport can only be expected in the medium term at best.

Measurement and placing a monetary value on external costs entails **considerable methodological problems**. Complete identification and allocation of all effects – internal and external – to the correct polluter is hardly possible. The quality of the available data and the underlying methodological processes suffer from serious uncertainties in some cases. Estimates of the level of external effects of transport therefore exhibit wide spreads. This also emerges from the manual on external costs in the transport sector presented by the European Commission in January 2008. Many of the yardsticks proposed for placing a monetary value on external costs are difficult to understand in terms of both their methodological basis and their level. The cost rates proposed by the Commission in the framework of the road charging directive also present great uncertainties. Moreover, since a charging of marginal external costs seems to be hardly workable, the proposed cost rates conceal the risk of steering charges determined arbitrarily for political reasons which can be expected to have negative economic consequences overall.

Charging of congestion costs is not justified in the framework of internalising external costs. It is true that traffic jams have considerable negative consequences, mainly in the form of lost time, higher operating costs, etc. Estimates indicate costs of more than 100 billion euros a year for Germany

alone. However, since these costs are paid in the first instance by road users themselves, they constitute costs which are external to users but internal to the system. They differ fundamentally from other external effects – even in the unanimous view of economists – and cannot be added together to give a common total amount. In addition, the persistent under-financing of transport infrastructures contributes fundamentally to bottlenecks, heavy traffic and congestion. An additional burden imposed on users by the state's failure to invest is unjustified and should therefore be rejected. Furthermore, the proposed form of charging for congestion costs would give false incentives for the necessary infrastructure investments. Thus, persistent under-financing of the transport infrastructure and increasing capacity bottlenecks could lead to the resulting traffic jams generating extra revenues for the state in the form of congestion charges.

International experience shows that capacity-based utilisation charges are successful above all if they increase the users' freedom of choice. Accordingly, such charges would be a sensible instrument only in conjunction with an extension of road users' alternatives. This also applies for a revenue-neutral **temporal and spatial differentiation of the lorry road toll**, as in the framework of the freight transport and logistics master plan proposed by the German government. Hence, positive macroeconomic and ecological effects can only be expected from such a differentiation of the lorry road toll if there are spatial or temporal alternatives to using the infrastructures eligible for the lorry road toll. As a rule, that is not the case since many freight operations have little flexibility in terms of time or the use of alternative infrastructures or other modes of transport is not possible. Furthermore, a greater spread of transport times, e.g. thanks to greater censor flexibility in shipping terminal opening hours raises issues linked to pay and working time.

Regarding the European Commission's proposed **charging of noise costs**, it should be borne in mind that only a portion of noise costs can be classified as external. Time-based differentiation of toll rates and any associated shift of transport operations to low-demand periods runs counter to the wish to reduce noise nuisance, especially at night. Consistent further development of existing toolbox, technological innovations and the use of infrastructure-related possibilities for noise reduction essentially seems to be sensible and effective instruments. These instruments have already achieved impressive successes in recent years. For instance, the financing of numerous passive noise-protection measures by the relevant mode of transport have also contributed to real relief for those concerned.

With the existing effective limit values for emissions of harmful substances and thanks to technical innovations, it has been possible in recent years to curb road transport emissions significantly, and hence also reduce **air pollution**. Current estimates assume an emission reduction of 94% for volatile organic compounds (VOC), 86% for particles (PM), 90% for carbon monoxide (CO) and 73% for nitrogen oxides (NO_x) by 2020, with 1990 as the base year. Not least thanks to the successful spread of lorry road toll rates by emission class, the share of low-emission utility vehicles in the Euro-V class has doubled within only one year to almost 30% of transport operations on Germany's motorways. A further rapid increase in the share of low-emission vehicles is important and can be expected in the years ahead.

Charging of accident costs, which is also being discussed in this context, is not justified, bearing in mind the fact that contributions are already paid regularly into vehicle insurance schemes and sickness insurance funds. These costs are already internalised to a large extent and flow into individual price signals. The European Commission rightly comes to the conclusion that these costs cannot

be internalised via charging of marginal costs. Concerning the external **costs of climate change**, the European Commission rightly points to existing regulatory and fiscal instruments. Thus, despite ongoing strong growth in road transport in Germany by around 1.5 million tonnes since 1990, CO₂ emissions have been cut by more than 25 million tonnes since 1999. This is an outstanding success. The European trend is in the opposite direction. All in all, road freight transport in Germany generated a 4.3% share in national greenhouse gas emissions in 2005.

The proposed internalisation of internal costs – which would only produce **ecological benefits in the medium term** – seems to bear no relation to the efforts associated with collecting, placing a monetary value on, charging and increasing costs even for environment-friendly traffic. This also applies against the background that the existing very successful spread of emission-based lorry toll rates would, according to the European Commission's proposal, in future only be applicable to the charging of external costs for air pollution. The specific incentive to use particularly environment-friendly vehicles would then be even less than it is today. Moreover, the proposed internalisation strategy would generate a negative impetus for economic growth and the efficiency of Europe as a location for business.

Needs-based investments in maintenance, modernisation and extension of transport infrastructures are essential to prevent and minimise negative impacts of transport. Revenues from use-related infrastructure charges must therefore essentially be earmarked and recycled in financial circuits for investments outside the general budget. **Possible revenues** from supplements to the lorry road toll for charging external costs should also be earmarked for reducing the negative impacts of transport and/or for extending existing infrastructures or new build. In order to ensure that traffic flows smoothly also across borders, application of an electronic toll system is also absolutely essential. The fundamental question of whether and where external costs should be charged via the lorry road toll should be decided taking account of the principle of subsidiarity at the level of Member States. In any event, the principle of voluntary introduction should govern the inclusion of further eligible vehicle categories and roads.

IV. Conclusion

Business stands behind the objective of and accepts its responsibility for reducing the negative impacts of transport. The mix of existing instruments comprising exhaust gas limit values, fiscal incentives, promotion mechanisms and technological innovations has already booked remarkable successes. With a wide range of technical innovations, industrial undertakings help to minimise the negative impacts of our mobility. Needs-based development of transport infrastructures and rapid expansion of modern traffic management systems are also decisive. They contribute greatly to avoidance of congestion and hence to prevention of many negative impacts of transport. Additional instruments must clearly offer added value in terms of effectiveness and cost-efficiency. They must foster innovations and strengthen the competitiveness of Germany as a location for business. Charging via supplements to the lorry road toll seems inappropriate for minimising the negative impacts of transport, in particular in light of fundamental methodological problems with measurement and allocation of external costs.