



Response to the European Commission White Paper on Fair Payment for Infrastructure Use.

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This report was drafted in the Secretariat of T&E by Frazer Goodwin with input from the Board of T&E, in particular Ton Sledsens and Magnus Nilsson.

1. Key Recommendations

- A) **Internalisation of external costs needs to be adopted as a priority policy goal.** Only when this goal has been achieved will Europe's transport system operate efficiently within a pricing system that is fair.
- B) Continued work on methodologies for assessing social marginal costs should not prevent the **implementation of policies aimed at internalising transports external costs now.**
- C) The start made by the White Paper on freight transport now **needs to be replicated in passenger transport.** The initiatives taken both by the Commission and Member States need to dovetail with the policies on freight. Here again, however, requirements for further community initiatives should not prevent implementation now.
- D) The transport sector will have additional costs if internalisation is genuine, but the increase in the fairness of the pricing system and efficiency of the transport sector will benefit the economy. **The pricing structure for transport infrastructure in Europe should serve the European economy rather than any one sector.** Instead of seeking revenue neutrality with respect to the transport sector, wider reforms should seek revenue neutrality for governments - thus offering the possibility of general reductions of other taxes e.g. on labour.
- E) **The timetable elaborated by the White Paper for further action is too long-winded.** The only barrier to implementation is a lack of political will to strengthen Europe's economy by improving the transport system in ways that threaten strong lobby groups. There is no necessity for long-winded technical debate prior to policy action.
- F) **The pricing system should not be used as an instrument for raising revenue for further infrastructure construction.** Indeed social marginal cost pricing is a tool to improve the efficiency of existing infrastructure use and thereby reduce the need for further investments.
- G) Instead of waiting for action within international fora to implement internalisation policies, **the EU should use unilateral action as a spur to progress within the global fora that regulate shipping and aviation.**
- H) There is an additional need to stress to policy makers that the **technology for electronic road pricing is proven, cheap and far from cutting edge.** Without this clarity technological obstacles can be perceived rather than actual barriers to implementation.
- I) The **expert committees established to follow up the White Paper must have representatives attending from all of the effected Stakeholder groups** in order to create a process based on openness and transparency as well as to comply with the spirit of the Convention on Public Participation signed at the Århus Environment Europe conference in 1998.

2. Introduction

This report is a response to the White Paper on Fair Payment for Infrastructure Use the European Commission published in 1998. This White Paper, however, covered only a part of the wider debate on the internalisation external costs in transport. Many of the comments T&E has on the content of the White Paper need to be placed within this wider context and so this report elaborates not merely T&E's comments on the White Paper but also addresses the wider debate on internalisation.

The debate has come a long way since T&E published the report "Getting the Prices Right" in 1993. This report called for transport prices to more accurately reflect the costs transport imposed on society as a whole. Whilst the international community have long promoted the polluter pays principle, discussions on how best to translate this principle into the field of transport pricing had not always been high on the political agenda. The publication of Getting the Prices Right helped to change this, and the debate surrounding the internalisation of external costs has led to both a Green and White Paper from the Commission.

In order to place T&E comments on the White Paper within the context of this debate this report starts with an overview of the development of the internalisation debate (Chapter 3 *History and Background*). This section elaborates not only how the debate has progressed but also details how knowledge of the problem has developed.

This is followed by an update of the current nature of the debate and the position the White Paper assumes within it (Chapter 4 *The state of the internalisation debate in general*).

Having set the scene the report then moves on to make specific comments on the White Paper itself (Chapter 5 *The Infrastructure White Paper*).

The report is completed with a conclusion outlining how T&E's comments on the White Paper and the debate in general may be taken forward. This section includes recommendations addressed to the European Parliament for inclusion in their response to the White Paper.

3. History and Background.

The international community has promoted the polluter pays principle as the means to control environmental impact since the Stockholm declaration of 1972¹. The principle has a much longer standing in international law however as witnessed by the outcome of the Trail Smelter case of 1947². What in effect the principle is doing is merely applying the logic of liability law to the environment. In other words, if you cause damage to another party or the environment you are liable for reparations.

Implementing the polluter pays principle in transport would require the pollution costs of transport being charged in transport prices. But transport currently creates other costs to society which are not included in the price such as congestion costs, noise, and accidents. If we are to get the prices right for transport - internalise transports external costs - these costs too need to be included in the price charged. Defining and calculating such costs has been the subject of debates over several decades.

When T&E published "Getting the Prices Right" in 1993 the list of costs addressed was by no means exhaustive. Some important and obvious external costs could not be included because of methodological difficulties, in particular emissions of nitrogen oxides and congestion costs. Nevertheless these costs were identified as additional to those that could be calculated in the report and so the recommendations made were acknowledged to be deliberately conservative.

Nevertheless, "Getting the Prices Right" helped ensure that the question of how and which transport costs could be internalised received far greater attention. This debate, once the arcane preserve of environmental and transport economists, therefore spread to the wider policy community.

Initially, those engaged in the debate were from what could be referred to as hostile or opposing camps. Those with a vested interest in maintaining the status quo insisted that if external costs needed to be internalised in the price then there were also mitigating external benefits. Unfortunately for this argument much of the effects highlighted as "external" benefits transpired to be either elements of the transport service internal to the price or a natural consumer surplus. The only clearly identified external benefits of transport being shorter waiting periods for transplant donor organs due to traffic accidents and transport hobbies such as train or aircraft spotting.

The debate had progressed clearly into the policy community when in December 1995 the European Commission published a Green Paper titled "Towards Fair and Efficient Pricing in Transport". Whilst the Green Paper set out to explore the policy options for internalising the external costs of transport in the EU, there were some external costs that did not receive extended coverage, specifically climate change costs.

Nonetheless, an interesting feature of the Green Paper was that the focus lay upon how inefficient and unfair the current pricing system is. Amending transport prices to internalise external costs would redress this, making the pricing system both fairer and more efficient. The traditional view that environmental protection somehow was at odds with improving the economy was therefore undermined. All of a sudden it was those resisting attempts to protect the environment that were undermining economic

¹ The Stockholm Declaration was the final statement of the United Nations Conference on the Human Environment in 1972. This was the first large scale international conference addressing the environment to be attended by Heads of State.

² The Trail Smelter arbitration tribunal ruled that the operation of the smelter in Canada had caused significant damage to the US and that the scale of this damage was \$78,000 (Case decision given in American Journal of International Law 33 (1939) and 35 (1941)).

performance. Whilst T&E had been making such points for several years it was a welcome step when part of officialdom, in the form of the European Commission, accepted and embraced this concept.

Needless to say, however, the vested interests in the transport industry did not embrace the concept. While the basic reason for internalising externalities is to generally improve the socio-economic performance of the transport sector and thereby stimulate economic growth, it was apparent that the change also would create economic losers, and the would be losers held sway in their respective lobbying federations.

Fortunately, this hostile reaction did not prevent the European Commission from continuing to explore how best to move forward on internalisation of external costs in transport. In July of 1998 the Commission published a White Paper on transport infrastructure pricing titled "Fair payment for Infrastructure Use". Whilst this report is a reaction to this White Paper and includes specific comments on its contents, it is also a commentary on the state of the internalisation debate in general.

It is T&E continued position that the prices for all transport are currently distorted, not just the elements addressed by the White Paper. At the moment transport continues to be far too expensive, principally because its prices are far too cheap. The pricing of transportation is supported by hidden and open subsidies given to the sector through tax-breaks, regulations, monopolies, etc. Only when transport prices more accurately reflect transports burden to the economy will transport, overall, start becoming less costly to us all.

4. The State of the Internalisation Debate in General

This section will build upon the background and history given in the previous section with an overview of how the debate can be characterised today. This is commenced by examining the understanding and acceptance of the internalisation principle by a wide range of actors. This is followed by an outline of the degree to which knowledge has advanced on application of the principle and to which costs this has been possible. The technological advances that allow implementation of this increased knowledge in specific policies are then described. This is followed by the final section of this chapter that reviews the various policies for internalising external costs that have now been developed. The chapter is concluded with a short summation that prepares T&E's comments on the Infrastructure White Paper that follow in the next chapter.

4.1 The Principle of Internalisation

It is worth recalling that internalisation of transports external costs is no longer a fringe or extremist position. It has now been accepted in principle by a large variety of actors in wide variety of fora including :

- governments
- inter-governmental organisations
- some industry associations
- public health groups
- environmental organisations

Of course the most significant in this list are the first two. Governments have pledged to internalise transports external costs, although their progress to this stated goal in concrete policies has not matched their enthusiasm for the concept in principle. Most significant has been the declarations made at the third Pan European transport Conference in June 1997 in Helsinki and the United Nations Economic Commission for Europe's Regional Conference on Transport and the Environment in November 1997 in Vienna. At both of these gatherings the principle of internalising transport external costs received warm endorsement by Government Ministers.

Of course, this should be unsurprising as governments have, as stated earlier, consistently favoured the polluter pays principle since 1972. What, therefore, is new within these declarations is the application to the transport sphere of a more general principle agreed internationally. Moreover, as we saw above the question of cost internalisation in transport does not only relate to environmental protection, the aim is to improve economic efficiency in general terms. It is therefore fair to say that the application of the polluter pays principle within transport has far more to do with sustainable development and competitiveness than mere environmental protection.

Inter-governmental bodies and agencies have also affirmed the internalisation principle. We have already seen that the European Commission's Green and White Papers demonstrated the extent to which the principle had been embraced by the Commission. Other bodies such as the European Conference of Ministers of Transport (ECMT) and Organisation of Economic Co-operation and Development (OECD) have consistently embraced internalisation. This is evidenced by a string of publications from both ECMT and the OECD, in addition to the declaration of the third Pan European Transport Conference in Helsinki.

Furthermore in the process that led to the declaration and programme of joint action at the UN-ECE Vienna Conference, both the UN-ECE and the World Health Organisation (WHO) also affirmed the internalisation principle. This acceptance by the WHO of

internalisation of external costs has also translated into their work under the Joint Action Programme agreed at Vienna. The Draft Charter on Transport, Environment and Health due to be signed at the Fourth WHO Meeting on Environment and Health in London in June strongly reaffirms the internalisation principle.

There are some surprising industry associations that have endorsed the internalisation principle although some have done so with little enthusiasm and many caveats. An example of this is found in International Road Transport Union's (IRU) extremely selective interpretation of how Agenda 21 could apply to road haulage "Driving Towards Sustainable Development". The IRU identified five prerequisites to reach "our common goals" in this document and of these, four addressed the cost internalisation issue. There was even the conclusion that "to achieve sustainable development, fixed costs (road taxes, the "Eurovignette", etc.) must be replaced in the long term by variable, non-discriminatory costs, and most importantly, with no increase - for macro economic reasons - in the total-tax burden". Despite this apparent conversion to the polluter pays principle, the IRU then went on to insist that "pricing measures are not environmentally effective and can even be counter productive". Despite the apparent confusion in the minds of the road haulage lobby, even they can agree to the principle of the polluter paying. It is only the application of the principle to the road sector they appear to continue to be vehemently opposed to.

The most welcoming industry bodies are, unsurprisingly, those connected to the rail sector. In 1995 the UIC "emphatically" supported the internalisation of external costs in their report "Reducing the External Costs of Transport". Here they stated that "in order to achieve a balance in the development of the various transport modes, and cater for environmental protection imperatives, it is vital that the external costs of transport be taken into account and passed on to the user as part of the price he or she must pay." The level the study assigned to the external costs of transport was as high as 4.6% of GDP.

But endorsement of the internalisation principle does not stop at the rail sector. A range of other bodies and interests have supported application of the internalisation principle. Public health groups such as the European Public Health Alliance and the International Society of Doctors for the Environment for example consistently and strongly support the internalisation principle. Examples of this can be found in their contributions to the negotiations for a Charter on Transport Environment and Health to be signed at the fourth World Health Organisation Ministerial Conference on Health and the Environment in June of 1999.

4.2 Internalising a Variety of External Costs

The support of those in the public health community is indicative of the increase in knowledge that has accumulated over the period since the publication of *Getting the Prices Right*. For example with air pollution there had previously been long term studies on chronic exposures from the USA and evidence of dramatic effects from the severe pollution episodes in London in the 1950s. There is now growing evidence that the air pollution arising from transport has serious health effects in European Studies such as the APHEA programme³. Such increases in knowledge do not merely add to the support base for application of the internalisation principle of course, they add to the costs that transport is currently causing.

We have already seen that for methodological reasons the costs of congestion and emissions of oxides of nitrogen were not included in the calculations in *Getting the Prices Right*. In the intervening period much of the methodological problems encountered have been resolved.

That is not to say that more research into assigning monetary values to external costs is not needed. But as views of different problems develop new perspectives may appear. Some important external costs such as visual intrusion in town and rural landscapes may never be possible to estimate and thereby to internalise easily. In spite of the knowledge gaps it is now true to say that the knowledge we have at our disposal allows us to proceed with internalisation - the gaps in our knowledge that do exist are no reason to prevent the process commencing. The UIC is currently finalising a report that will outline in detail the extent to which knowledge now has progressed within the field of estimation of external costs, both in terms of the types of costs, the methods used to calculate their value and the modes of transport to which they are applicable.

An example of the progress made are calculations of the costs of nitrogen oxides where despite methodological problems remaining shadow prices to estimate external costs have now been calculated by a number of researchers. The nature of the external costs of NOx pollution mean that overall these costs estimations must still be viewed as rather inexact. Nevertheless it is now possible to derive a figure that estimates costs for NOx in a manner that allows this cost to be added to those that can be derived for other externalities. Indeed it was possible for a detailed cost benefit assessment to be completed for the Commission in order to adopt limit values for oxides of nitrogen under the framework of European air quality legislation.⁴

Establishing estimates for the costs of congestion have progressed to the extent where urban road pricing schemes with charge rates variable with traffic volumes now in the pipeline. Trial schemes are being devised in a number of EU states. Congestion costs themselves are unusual in that whilst they are external costs in the strictest definition, being external to the prices an individual pays for transport, the costs actually remain

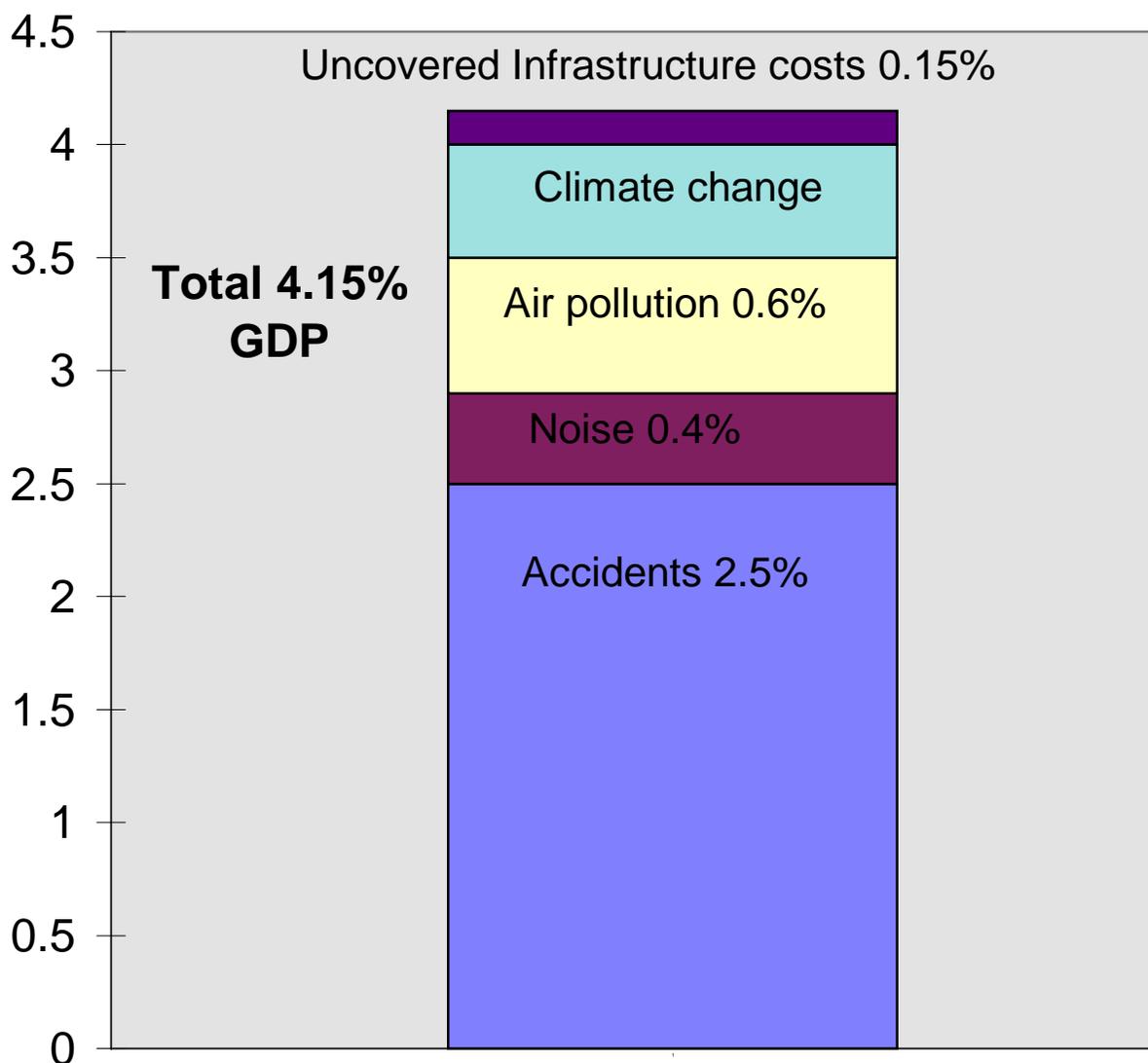
³ APHEA - Air Pollution and Health, European Approach - a programme supported by the European Commission developing an epidemiological meta-analysis to determine the health effects of several types of short term pollution in 15 European cities. The approach taken being published in Katsouyanni, K. *et al* in the European Respiratory Journal (No. 8 - pp1030-1038) in 1995., and the results appearing in a special supplement to the Journal of Epidemiology and Community Health in 1996.

⁴ The Framework Directive on ambient air quality assessment and management - 96/62/EC had a "daughter directive" proposed including limit values for oxides of nitrogen (COM (97) 500) that estimated the benefits of reducing pollution of nitrogen oxides to compliance with the proposed limit values to be valued at between 408 and 5,900 million ECUs per year. Whilst this is an extremely large range that does not take into account some important effects such as ozone and acidification (which will be covered with a separate "daughter directive" proposal and associated assessment) the fact that such an analysis was possible demonstrates the progress made in this area.

within transport. Internalisation of these transport costs within prices will increase the efficiency of the transport system as a whole. It is this efficiency gain that has driven the limited application of the internalisation in pilot schemes so far and contributed to focusing on the economic gains that result from an internalisation policy rather than costs.

The European Conference of Minister of Transport Secretariat (ECMT) has reviewed the progress towards both defining external costs and elaborating policies to internalise them. Their publication, "Efficient Transport for Europe - Policies for Internalisation of External Costs", demonstrates the extent the debate on internalisation had progressed by 1998. The report collated data from numerous published studies estimating external costs and used a meta-analysis to derive an overall estimation. The estimation of the total external costs, excluding congestion, given in the report is 4% of GDP. This reaffirms the fact that the estimates for external costs given in Getting the Prices Right were conservative, being approximately 2.5% of GDP.

Average estimates of total external costs of road and rail transport as percentage of GDP (ECMT 1998)⁵



⁵ Efficient Transport for Europe Policies for Internalisation of External Costs ECMT 1998 p72.

4.3 Technological Progress

Of the extensive range of policies identified by the ECMT “a system of electronic road pricing covering all roads would come close to being the perfect policy instrument”. When “Getting the Prices Right” was published, this policy instrument could not have been thought possible due to technological limitations. Subsequent progress in electronics - and particularly in cellular telephony - have made comprehensive electronic road pricing a viable policy option. Indeed the advances in this technology have caused the Commission to come forward with an overall strategy aimed at ensuring the technology develops in such a way that interoperability is not prevented.

This is certainly an area where Community action is needed to ensure different systems are interoperable. But it is equally important that technological development potential is realised and innovation encouraged. It is therefore welcome that the approach the Commission has suggested is one reliant upon “minimal functional features” rather than a scheme overly prescriptive permitting or promoting a particular type of technology. However, concerns over interoperability should not be the exclusive focus of the Commission's work in this area. There is a role to play in facilitating the uptake and application of this technology, predominantly developed and produced in Europe, for the Commission via demonstration projects etc. The only barriers to application of this technology both in Europe and elsewhere relate to weak political will rather than technological possibilities.

4.4 External Benefits ?

Whatever happened to the argument on external benefits ? As we outlined in the previous chapter the industry had argued that if transport created external costs, it also produced external benefits that mitigated these costs. The arguments are no longer being made and have been countered not only by T&E, but also by bodies such as ECMT, and even the rail industry association UIC.

Moreover, at the public meetings held by the Commission to discuss the Green Paper with all stakeholders, economists from all backgrounds rejected completely the notion of external benefits. The external benefits that the industry claimed were in fact the natural consumer surplus or part of the service paid for in the price. Whilst the industry's grasp of basic economics has therefore improved as a result of this debate, the application of the internalisation principle has been delayed.

4.5 Policies for Internalising External Costs

The revision of the Treaty of the European Union at Amsterdam has meant that the level to which environmental considerations are successfully integrated into the sectoral policies of the EU has been re-examined. A Commission Communication outlining the approach that would be necessary for integration to be realised within EU policies was adopted in April of 1998. This Communication was taken up enthusiastically by the EU heads of government at both the Cardiff and Vienna Summits.

At Cardiff their agriculture, energy and transport ministers were instructed to begin the integration process by elaborating strategies for each of their sectors. At Vienna the reports the heads of government received from these three sectors were welcomed as a first step and the ministers instructed to continue their work which were this time to include specific targets, timetables and strategies.

Given the fact that the impetus for this process emanates from the highest political level this process should greatly assist in providing the necessary political momentum to begin the elaboration of policies that start the internalisation process. The transport ministers have themselves agreed to the principles of internalisation and now they are being told by their government heads to find ways of integrating environmental considerations they need look no further than their own statements of principle.

Of all of the European countries to agree to the principle of internalisation of external costs one has attempted implementation rather more than the others - Switzerland. This is especially the case for the charges that the Swiss wished to levy on road freight. Referenda in Switzerland firstly established and subsequently confirmed a policy that would levy charges on road freight to finance investment in rail. This would allow an eventual complete switch for transit traffic off the road and onto rail dramatically reducing transport externalities in Switzerland.

At the same time the Swiss Government was negotiating a comprehensive package of transport agreements with the EU including the level of road charges levied on transit traffic. Individual EU members states had strong positions on these charges due to the potentially large influences on traffic volumes they would have as trucks diverted to avoid passing through Switzerland. EU Member States thus adopted the rather strange position of on the one hand agreeing with the internalisation of external costs in principle and on the other not merely refusing to implement the principle in their own country, but undermining its application in a neighbouring State.

Unfortunately the stance adopted by the EU Member States in the negotiations with Switzerland not only undermined the application of internalisation policies in Switzerland but also hampered efforts within the EU to begin internalisation. The heavy goods vehicle road taxation framework - the Eurovignette - had to be reviewed in the light of a legal action relating to the previous regime. The European Commission proposed a system that would entail an element of variable costs in determining the final level of the charge. The amount that this represented an implementation of the principle of internalisation was minimal. Nevertheless, it was a first step and the Council consistently refused to adopt the measure seemingly because of inclusion of this element to which all of the ministers had supposedly signed up to in principle. The final agreement with the Swiss is linked to an agreement on the Eurovignette which has retained an element of charge variability. Policy making in the Transport Council continues to fall a considerable way short of the principles upon which it is supposed to rest. It can only be hoped that the strengthened provisions in the Amsterdam treaty placing environmental considerations at the heart of all community decision making will begin to erode this obstacle to progress.

4.6 Summary

We have seen in this chapter that the debate on internalisation has now reached the stage when it is the minutia of the issue that are the focus rather than any broader big picture. The principle of internalisation has been accepted by an extremely wide range of actors, the knowledge now developed on individual costs has progressed greatly, technology has developed to allow electronic pricing policies to be elaborated, and some small steps forward have demonstrated the potential for internalisation policies to make transport more efficient, fairer and more sustainable.

What has been lacking thus far is effective political will to enable implementation to commence. EU government heads have effectively signalled their impatience with the conservative approach of their transport colleagues so far in the integration process. The Commission too has appeared to feel that the transport council has acted somewhat as a break on policy development in the past. The question is therefore, has the Commission used their exclusive right of initiative strongly enough in the content of the White Paper to allow the transport ministers to cross the Rubicon and agree internalisation policies?

5. The Infrastructure White Paper.

Absent from the White Paper is any reference to internalisation for infrastructure pricing of transports external costs as a policy goal in-itself. The increase in the fairness and efficiency that internalisation brings about is of course continually referenced, and so implicit is the desire for internalisation to proceed. It remains important however, to make this link explicit and to set as a policy goal the internalisation of transport's external costs. The Commission could, and should, have linked the potential of internalisation policies with the requirements for integrating environmental considerations into transport policy. This "missing link" in policy is helping to stifle development of the political will necessary to translate the agreed internalisation principle into practice.

In addition to the need for internalisation to be set as an objective, several other issues will need to be addressed by the debate following publication of the White Paper. This is of course particularly true for those issues that the White Paper identified as requiring further discussion.

Points that need to be made:

- Adopting social marginal costs as a basis for fair and efficient pricing is theoretically the best way to optimise the use of existing infrastructure. Yet it is also obvious that in practice it is impossible to fully capture all relevant external costs and reach complete agreement on both the structure and level of costs with this approach. Marginal disagreements and gaps of knowledge are, however, no excuse for postponing or regretting the establishment of efficient pricing mechanisms. Finalisation of social marginal cost methodology should not be used as a bottleneck for progress. It is better to be almost right than completely wrong.
- The White Paper explicitly limits discussion to freight rather than passenger transport. This approach is taken as regulation of international freight transport clearly has a component of Community competence. T&E agrees that in the short perspective the main focus ought to be freight transport. A pre-requisite for Member States to reduce or abolish the present hidden and open subsidies to the freight transport sector and introduce fair pricing systems in general, is an EU-wide technical harmonisation of estimations of the external costs all heavy vehicles cause.
- A corresponding technical harmonisation on passenger cars, however, is not necessary to enable local authorities or national governments to introduce efficient road pricing schemes. The adoption by the Commission in early 1999 of a proposal aimed at harmonisation of electronic road pricing technologies demonstrates however that there remains an area of Community competence even in the issue of passenger car internalisation policies. The White Paper should have at least elaborated how the policies at a Community level aimed at passenger car cost internalisation will dovetail both with policies at a more local level e.g. urban road pricing schemes, and with the general framework for infrastructure pricing outlined in the rest of the White Paper.
- The White Paper on several occasions states that the overall cost levels for transport need not increase with a social marginal cost approach to pricing. This necessarily pre-judges the level at which social marginal costs will be assessed - even prior to a methodology being identified for their calculation. Moreover maintaining transport's total costs at current levels is not - as has been demonstrated in numerous studies - consistent with an approach of cost internalisation. Revenue neutrality for the government may be defined as an overall limitation for fiscal policies, rather than maintaining revenue totals from any one sector. The reason for internalising external costs is to improve general efficiency in the economy, not to reach a specific fiscal

goal. Any increase in revenue from a single sector resulting from external cost internalisation should preferably be used to decrease tax burdens on employment in order to increase competitiveness and employment.

- Whilst the timetable for future actions elaborated in the Annex of the White Paper is welcomed the sequence it details for actions is not.. Elaboration of a methodology for determining externalities followed by their calculation should be a priority rather than a task to be undertaken at the end of a process. Furthermore, there is an imbalance in the order of activities in favour of road rather than rail. If there is to be any imbalance, and it would be better were there none, it should be the other way round to redress the historical imbalance against rail.
- The White Paper also indicates that charging regimes need to be structured to allow for investments in additional infrastructure. Pricing according to marginal social costs should primarily be a tool to improve the efficiency of the use of existing infrastructure and thereby reduce the need for further investments (thereby reducing the costs for society and avoiding future conflicts related to further intrusions into valuable environments) rather than earmarking revenues for the transport sector, no matter whether further investments in the sector are sensible or not. Past experience has demonstrated the inadequacy and undesirability of letting demand trends define infrastructure investments. Indeed it is now clear that not only does infrastructure construction increase demand, but that restrictions of infrastructure use can lead to demand reductions. Clearly the pricing framework needs to ensure new infrastructure projects can be undertaken. But the pricing framework itself should not be structured with a view to promoting infrastructure projects.
- The White Paper correctly identifies the need for coherence between Community action and the activities of international fora such as the International Maritime Organisation (IMO) or the International Civil Aviation Organisation (ICAO). Nonetheless there is a real need in these institutions for the EC to take a lead in a similar way to the lead that has been taken in the Climate Change Convention. Action taken at Community level should be used as a spur for these institutions rather than allowing progress at a regional level to be stymied by cumbersome global monoliths.
- The White Paper does not elaborate in sufficient detail the opportunities electronic charging technology now present to policy makers. The development of the technology over the relatively recent past has meant that policy options either unavailable or prohibitively expensive are now possible and rather inexpensive. Unfortunately, this is not widely known or accepted by policy makers so the White Paper should have addressed this information gap and stated in the simplest of terms possible that the technology is proven, cheap and far from cutting edge.

6. Conclusions and Recommendations

6.1 Conclusions

- The white paper is welcomed as it lays out a timetable committing the EC to action to implement the internalisation principle.
- However the timetable elaborated is too long-winded, particularly as regards the completion of methodologies for the internalisation of costs which should receive greater priority rather than being left to the end.
- The absence in the White Paper of a statement placing internalisation as a policy goal in itself, as well as its cursory coverage of how policies for pricing passenger cars, are also serious weaknesses.
- Furthermore, the overall goal of the White Paper could be construed as providing a framework that enables new infrastructure projects, rather than one that promotes greater efficiency of the current system. Internalisation is a tool to improve the efficiency of the transport system rather than a means of funding new infrastructure. Earmarking revenues of a fair pricing system to infrastructure investments could severely undermine the efficiency and effectiveness of the entire approach.
- There still is a large gap between acceptance of the principle and implementation of the policies that would apply it. This is the reason for the conservative approach adopted by the White Paper. There needs to be something that will push forward policies such as urban road pricing. Two initiatives at a community level that could assist development of such a momentum are the air quality legislation and the Integration process. At a local level the actions taken to comply with the Air Quality Directives will mean that local actions including urban road pricing will have to be implemented in order to comply with the directives.
- The change that is now necessary for sustainable transport is a realisation that growth in both transport and its infrastructure may well be an obstacle to improved welfare - even when this is measured using conventional GDP per capita.

6.2 Recommendations

When drafting their report on the White Paper the European Parliament needs to take account of the interests of Europe's citizens and the environment rather than the lobby groups from the transport sector.

The final pricing system adopted should not be designed either to recycle money into the transport sector or promote infrastructure construction. Internalisation of external costs needs to be placed as a priority policy goal. After all the large scale external costs that currently burden the economy are a major cause of inefficiency and inequity.

The key recommendations outlined at the start of this report form the basis for a response to the White Paper that will serve Europe's economy, its citizens and the environment. These recommendations are reproduced below with additional suggested text (in ***Bold / Italics***) for inclusion in the report.

- A) Internalisation of external costs needs to be adopted as a priority policy goal. Only when this goal has been achieved will Europe's transport system operate efficiently within a pricing system that is fair.

The primary goal for the EU common transport infrastructure charging framework will be to internalise the external costs that currently prevent efficiency and are a wasteful burden on the economy.

- B) Continued work on methodologies for assessing social marginal costs should not prevent the implementation of policies internalising transports external costs now. It is better to be almost right than completely wrong.

Work to enhance the understanding of external costs and in particular on defining more precise methodologies to estimate social marginal cost levels will not prevent early implementation of policies to internalise transport's external costs.

- C) The start made by the White Paper on freight transport now needs to be replicated in passenger transport. The initiatives taken both by the Commission and Member States need to dovetail with the policies on freight. Here again, however, requirements for further community initiatives should not prevent implementation now.

The EU common transport infrastructure charging framework for freight will not prevent the development and implementation of policies to internalise external costs in passenger transport at local, national or European levels.

- D) The transport sector will have additional costs if internalisation is genuine, but the increase in the fairness of the pricing system and efficiency of the transport sector will benefit the economy. The pricing structure for transport infrastructure in Europe should serve the European economy rather than any one sector. Instead of seeking revenue neutrality with respect to the transport sector, wider reforms should seek revenue neutrality for governments - thus offering the possibility of general reductions of other taxes e.g. on labour.

Any increase in government revenues from the transport sector accruing from the common transport infrastructure charging framework will not by necessity be allocated to the transport sector but utilised for the benefit of the economy as a whole.

- E) The timetable elaborated by the White Paper for further action is too long-winded. The only barrier to implementation is a lack of political will to strengthen Europe's economy by improving the transport system in ways that threaten strong lobby groups. There is no necessity for long-winded technical debate prior to policy action.

Policies to implement the common transport infrastructure charging framework for the EU shall be implemented with the utmost urgency.

- F) The pricing system should not be used as an instrument for raising revenue for further infrastructure construction. Indeed, social marginal cost pricing is a tool to improve the efficiency of use of existing infrastructure and thereby reduce the need for further investments.

The common transport infrastructure charging framework shall not be designed with the aim of promoting new infrastructure construction. Rather it will ensure the increased efficiency of use of existing infrastructure.

- G) Instead of waiting for action within international fora to implement internalisation policies, the EU should use unilateral action as a spur to progress within the global fora that regulate shipping and aviation.

Development of a common transport infrastructure charging framework will be no barrier to the implementation of EU policies to internalise external costs in aviation and shipping.

- H) There is an additional need to stress to policy makers that the technology for electronic road pricing is proven, cheap and far from cutting edge. Without this clarity technological obstacles can be perceived rather than actual barriers to implementation.

Electronic road pricing technology now offers a cost effective policy option to implement the common transport infrastructure framework and an important opportunity for the European industrial manufacturing sector.

- I) The expert committees established to follow up the White Paper must have representatives attending from all of the effected Stakeholder groups in order to create a process based on openness and transparency as well as to comply with the spirit of the Convention on Public Participation signed at the Århus Environment Europe conference in 1998.

Stakeholder groups including NGOs will be invited to participate in all of the committees to be established in order to implement the common transport infrastructure framework.

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About this paper

This paper is a response to the European Commission's White Paper on Fair Payment for Infrastructure use : A phased approach to a common transport infrastructure charging framework in the EU. In order to place our comments on this White Paper in a relevant context the report also gives an overview of the ongoing debate on internalisation of external cost in the transport sector.

Whilst T&E has welcomed the White Paper as an important initiative, this report urges that the policies to internalise transport's external costs be delayed no longer. The report advocates that internalisation be a priority objective to ensure an efficient and fair transport system that serves Europe's economy, it's citizens and the environment. The concentration by the White Paper on freight transport is viewed as no impediment to action to internalise the external costs of passenger transport. However these policies should not be delayed by awaiting completion of the lengthy process for freight outlined in the White Paper. The report therefore contains a list of key recommendations that arise not merely as a result of the content of the White Paper but also it's omissions.

About T&E

The European Federation for Transport and Environment (T&E) is Europe's primary non-governmental organisation campaigning on a Europe-wide level for an environmentally responsible approach to transport. The Federation was founded in 1989 as a European umbrella for organisations working in this field. At present T&E has 32 member organisations covering 19 countries. The members are mostly national organisations, including public transport users' groups, environmental organisations and the European environmental transport associations ('Verkehrsclubs'). These organisations in all have several million individual members. Several transnational organisations are associated members.

T&E closely monitors developments in European transport policy and submits responses on all major papers and proposals from the European Commission. T&E frequently publishes reports on important issues in the field of transport and the environment, and also carries out research projects.

The list of T&E publications in the annex provides a picture of recent T&E activities.

T&E member organisations

Aksjon Naermiljo og Traffikk (Norway)	Pro Bahn (Germany)
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Aviation Environment Federation (United Kingdom)	Quercus (Portugal)
Český a Slovenský Dopravní Klub (Czech and Slovak Republics)	Society for Nature Protection and Eco-development (Greece)
Danmarks Naturfredningsforening (Denmark)	Romanian Traffic Club (Romania)
Ecologistas en Acción (Spain)	Stichting Natuur en Milieu (Netherlands)
Environmental Transport Association (UK)	Svenska Naturskyddsföreningen (Sweden)
Estonian Green Movement (Estonia)	TRANSform Scotland (United Kingdom)
Fédération Nationale des Associations d'Usagers de Transports (France)	Transport 2000 (United Kingdom)
GAJA (Slovenia)	Verkehrsclub Deutschland (Germany)
Gröna Bilister (Sweden)	Verkehrsclub Österreich (Austria)
Groupement des Usagers des Transports Intercommunaux Bruxellois (Belgium)	Verkehrsclub der Schweiz (VCS/ATE/ATA) (Switzerland)
Komitee Milieu en Mobiliteit (Belgium)	
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Norges Naturvernforbund (Norway)	Birdlife International
Polish Ecological Club (Poland)	Community of European Railways
	European Cyclists' Federation
	International Union for Public Transport
	Worldwide Fund for Nature