CLECAT
european association for forwarding, transport, logistic and customs services

Position Paper

The European Voice of Freight Logistics and Customs Representatives

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Brussels, April 10th 2007

RE: CLECAT contribution to the ongoing study on internalisation of external costs

During the debate on the revision of the Eurovignette Directive, CLECAT stressed that "*a road charging policy should eventually be part of a whole infrastructure charging system: a uniform system integrating and charging the external costs of all transport modes, as part of general mobility policy*"[1]. The ongoing process is therefore welcome insofar as it is an important element of fair intermodal competition.

In light of the workshop that took place on March 15th 2007 and the interim report issued by the consulting firm *CE*, CLECAT believes that a few key principles ought to be reminded.

1- A comprehensive methodology to calculate and internalise external costs should include all forms of transport: commercial & non commercial movements (including private cars), as well as freight and passengers transport

If the European Union is to set up a consistent charging system, one cannot imagine that only a fraction of externalities producers find themselves paying for costs that they only partly produce. At the time of the revision of the Eurovignette Directive, CLECAT regretted the exclusion of private cars from the Directive's scope. Such decision may have appeared politically convenient at the time. However, we are now talking about a general and comprehensive internalisation scheme that would apply across modes. The consistency of the overall system as well as fiscal justice command that such scheme does not exclude any cost producer.

One could argue that private vehicles already pay a high contribution to common fiscal revenues in various forms, but the same is true for commercial and professional vehicles. In addition congestion and environmental concern have entered the political agenda as key issues and pricing has been identified as a strategy to address the problem. In this light one must observe that the entire audience of users must be object of possible measures, if there ought to be measures at all. Putting the charge on a part of the users only would simply make room for less efficient use of infrastructure to the detriment of professional users.

2- An internalisation system must take account of existing fiscal burdens on transport users

Although external costs are considered as those not yet paid by users, it would be very dangerous to adopt a narrow-minded attitude and not consider existing taxes and charges on users when setting up an internalisation system. Indeed, first, *competitiveness* would be hindered by a simple increase of the overall tax burden that would result in a sudden and

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[1] http://www.clecat.org/dmdocuments/PPRdChargingEN.pdf

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substantial price increase. Second, one has to consider *public acceptance* of a brand new charging scheme. Users will find it difficult to accept that there is no mitigating measure to balance this new charge. In order to meet public acceptance and safeguard competitiveness - two necessary conditions for the success of a charging system - many consider that a new charging scheme should be *revenue neutral* (in Member States' budget). This means that the introduction of a new charge should be compensated with the decrease of other taxes[2].

3- Revenues must be earmarked

The use of revenues certainly is among the most controversial issues within the discussions on internalisation of external costs. Some have therefore argued that it should be taken off the discussions at this stage and left to a political decision afterwards. CLECAT believes that such solution would not be satisfactory. Indeed, because charges create revenues, the latter and their use can simply not be ignored. One could also add some more pragmatic reasons:

- *Fairness and public acceptance*: users will find it hard to accept that they may finance national budget debts or pension schemes.

- *Need for funds to finance infrastructure projects*: a substantial part of externalities (or at least of their volumes) stems from the lack of or insufficiently maintained/developed infrastructure. Many EU infrastructure projects of key importance are on the table but the lack of funds jeopardises their implementation. The Commission has always identified revenues from charges as one of the financing sources (see the original proposal for a revision of the Eurovignette Directive) and we believe that this is the right approach.

- *Use of revenues to decrease externalities*: Making users pay for externalities they produce without working on the reduction of these externalities would be counterproductive. 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 regulations, infrastructure planning or technological development and upgrading. Charging systems must also play a financing role for these instruments. This is what some call the "double dividend" of environmental taxes: by charging, one may discourage environmentally damaging behaviours or hit inefficient equipments while promoting environmentally friendly behaviours or equipments.

From a more specific point of view, CLECAT believes that revenues should be earmarked on the infrastructure or transport sector on which they are levied. Indeed, if all transport modes are to pay for the external costs they generate, it is just fair (in particular from an intermodal competition point of view) to use these revenues to decrease their own externalities.

As a last observation CLECAT feels it is high time our institutions recognised the extra toll that EU businesses and citizens at large are obliged to invisibly pay. Congestion is a real toll on businesses and citizens alike. It is one of the most important agents of environmental damage. That is to say a very expensive bill we all face already. The reasons why we find ourselves in this situation are complex and not all of them can be addressed with simple action, but the lack of investment in infrastructure and poor maintenance of existing infrastructure are among the most obvious and most clearly identified reasons. With very few exceptions, this attitude has been going on for decades with results which are before our eyes, yet European governments do not seem to take notice that colossal investments are necessary and colossal investments are top priorities of the political agenda of our competitors in Asia and in other continents. Investments in infrastructure are main drivers of future competitiveness and there is no way EU will remain competitive if our governments are not ready to invest in the future of our continent.

[2] This idea was largely discussed and globally accepted at the Tax Forum 2007 held on March 19th-20th 2007 in Brussels