

The European Voice of Freight Logistics and Customs Representatives

Brussels, 18th December 2007

RE: Public consultation on the "*Preparation of an Impact Assessment on the Internalisation of External Costs*"

CLECAT, the European Association for Forwarding, Transport, Logistic and Customs Services, has been closely involved in the debate that led to the approval of the Eurovignette directive and has a direct interest in the process that will lead to the proposal on the internalisation of external costs, both as transport service users and as transport related service providers.

In view of this direct interest CLECAT took some time to consider the issue from several points of view and the following replies to the Commission's questionnaire should be considered no more than the initial observations of the logistics sector. In this process, CLECAT will do its best to provide 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 on the performance of logistics services.

We feel it is appropriate to send a message aiming at some better understanding of the conditions that lead us to contemplate the possibility of accepting charges and taxes.

At first, one should concentrate on the relevant carriers' direct costs (depreciation, capital costs, interest on capital, maintenance). For example, whilst in road haulage direct costs are in general overcompensated by an excess coverage, rail transport or internal waterways register negative compensation values.

In addition, there is sufficient evidence that infrastructural investments and goods transportation create considerable external benefits by opening-up new areas of economic activity.

Another element that must be considered is the following: the reduction of externalities may come by restrictive monetary measures, but it may come more significantly from technological innovation. The technological progresses in HGV propulsion systems have created considerable reductions in emissions and pollution.

Lastly, but not at all of least importance, 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. A considerable part of energy consumption is caused by congestion and congestion itself is a cost for society.

CLECAT, aisbl (n° 0408301209)

Rue du Commerce, 77
1040 Bruxelles - BELGIUM
Tel: +32 (2) 503 47 05
Fax: +32 (2) 503 47 52
E-mail: info@clecat.org

Congestion is not an "act of god" but the consequence of insufficient public planning and/or lack of resources. One can however not forget that our society has found itself, perhaps for the first time in the history of mankind, in the enviable position – after World War II – to detain the necessary knowledge instruments and resources to plan its future in order to address the problem of congestion before it emerged. All the processes and events that led to the present situation were known and expected for decades and best advice was timely provided. Our sector has been rather active in this exercise and its advice was regularly ignored by governments, with a few exceptions, for example in Scandinavia, Switzerland and, to some extent, France.

There is much grounds for doubt that the costs of traffic congestion, i.e. represented by loss of time, may be internalised at all, because a considerable part of such costs are already borne by users, and are thus already internalised.

This kind of observation has probably a worldwide scope, but it is all the more sensitive in highly developed areas such as Europe and North America.

We just sent the following message to the Commission, in replying to the consultation on logistics: *"The main hard core of logistics depends on infrastructure. Today some European countries spend, for freight infrastructure, even less than they did in past years. For these reasons and in view of the fact that we observe dramatic underinvestment today, EU logistics need a real public commitment to invest in better freight infrastructure for all modes of transport."*

In other words, if we keep in mind the findings on population growth and economic development that have been available all along, not only did Europe under-invest for several decades, but it shows an alarming tendency to continue under-investing. At the same time the EU seems to contemplate a plan to penalise users with severe taxes and charges that appear justifiable only because the most unfair conditions were created.

We continued in our message by saying *"especially considering the concurring factors of, taxation of, and lack of infrastructure, we are of the opinion that transport and logistics costs in Europe are destined to climb at least until the moment our infrastructure planning capacity will catch up again with the evolution of our markets."*

For the above reasons our opinion is that charges connected with the internalisation of external costs should follow two imperative principles: on the one hand they should avoid penalising users for previous infrastructure planning shortcomings and on the other they should make sure that the revenues generated are strictly earmarked, ready to be used first and foremost to address the externalities that create the charge, especially if connected with congestion.

In addition the internalisation of external costs should not be misused for top-down measures in transport markets aiming at introducing forced changes in the modal split.

Once these observations are kept well centred in the picture, it becomes much easier to distinguish between true externalities and those which have nothing to do with the activity itself and are instead generated by less than efficient previous (or present) administration. If true externalities are addressed by this exercise, 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 for boosting governments' revenues, without any hope for better conditions in future.

Whilst we feel it will be necessary to come back on the above concepts again, we shall try to preliminarily address the questions raised by the Commission hereunder:

1- EXTERNAL COSTS

1.1- Does road transport impose nuisances on other transport users and society?

Yes / 2.1.2.1.1

It is undeniable that road transport imposes nuisances on other transport users and society. In order to be fully accurate, one should however speak of road traffic. Indeed, freight transport vehicles only account for a part of the external costs produced by road traffic, the biggest part stemming from private vehicles. In addition, it should be stressed the share of road transport's external costs is proportional to the road's share in freight and passenger transport in Europe, which is predominant today.

Finally, one should not forget that road transport may impose nuisances but it also brings consistent benefits, both directly in the service it provides and indirectly in a number of taxes and charges that are regularly levied on road transport operators and users.

For evident reasons the larger the capacity of a vehicle is (truck, train, vessel, aircraft, etc.), the smaller the emission rate per unit load carried (e.g. tons) will be. This is a general rule that applies to each mode of transport. Consequently bottlenecks in greater capacity might adversely affect all efforts deployed to achieve lower emissions. In the case of road haulage it is doubtful whether tkm's are the appropriate measure unit to ascertain the impact of road transport on the environment.

1.2- Does rail transport impose nuisances on other transport users and society?

Yes / 1.1.3.2.2

Rail is often said to be more environmentally friendly than road as regards air pollution and climate change. This is true if one looks at the CO₂ emissions from a running train, though there are still a lot of old diesel locomotives in service.

In addition a dimensional factor must be brought into the scheme. A train formed by e.g. only three wagons would have substantially the same environmental impact as if the load were carried by road.

Additionally, the picture is slightly different if one takes into account the primary source of energy (i.e. electricity) and its impact in terms of CO₂ emissions (and other pollutants). There, the situation differs from one Member State to the other depending on whether the electricity is produced in nuclear plants (no or little CO₂ emissions) or, for instance, in coal burning plants.

CLECAT believes that these factors ought to be included into the assessment of external costs.

A number of other externalities are connected with the rail service (e.g. noise) and with rail infrastructure, which – unless it runs in tunnels – often has a greater impact on the landscape than the road.

1.3- Does air transport impose nuisances on other transport users and society?

Yes / 1.1.3.3.2

Whilst air transport still accounts for a rather small percentage in emissions, if compared to other modes of transport, it is still useful to aim at better performance in general, without forgetting the global nature of the impact of air transport. It is also undeniable that its ground infrastructure has serious impact on the living conditions of neighbouring areas. It is also fair to

say though that the noise emission of air traffic has been noticeably reduced through optimised flight paths and improved aircraft engine technology.

1.4- *Does maritime transport impose nuisances on other transport users and society?*

Yes / 1.1.1.3.2

Air pollution generated by maritime traffic can be considered as quite high in terms of overall volumes of emissions. However, as mentioned for road transport, the volume of maritime emissions per se cannot be taken as a valuable factor since maritime accounts for the majority of freight transport worldwide. In order to have an accurate picture, CLECAT would therefore recommend taking into account the emissions level per tonne/distance. In order to avoid distorted interpretations, a common measure unit should be used for comparison, e.g. carried taxable tonnes as calculated by using conventional weight/measure conversion rates (1 cubic metre= 1 ton).

One cannot forget that the pollution caused by ship's engines is mostly felt in seaports. Bringing maritime transport within the scope of the containment of emissions rulemaking might prove an opportunity to contain ships' emissions, whilst stimulating innovation, as we have seen in the road transport sector.

Again, maritime infrastructure also has a big impact on the landscape, environment and living conditions of neighbouring inhabitants.

1.5- *Does inland waterway transport impose nuisances on other transport users and society?*

Yes / 1.1.1.2.2

Inland navigation is considered as the most environmentally friendly mode of transport. The NAIADES Programme however recognises the need to '*further reduce (...) harmful emissions from new and existing vessels*'.

In particular for inland navigation one cannot forget that this mode of transport is inevitably connected with delicate environmental surroundings: rivers, estuaries, central city areas, etc. As well as we stated in case of maritime transport, bringing inland navigation within the scope of the containment of emissions rulemaking might prove an opportunity to contain vessels' emissions, whilst stimulating innovation, as we have seen in other sectors.

2- INTERNALISATION OF COSTS

2.1- *It is important to internalise external costs generated by transport*

We agree, as long as the externalities induced by insufficient infrastructure are singled out and dealt with separately.

We suggest a double-tier approach whereby externalities induced by insufficient or insufficiently maintained infrastructure are benefiting from a combined action able to attract revenues from outside of the transport sector. Charging the transport sector alone cannot compensate for the dramatic underinvestment registered in the last three decades (at least). Other externalities may not need such an ambitious objective.

2.2- Main advantages/disadvantages on the economy

As expressed during the discussions on the Eurovignette Directive, CLECAT has nothing against setting up "*a uniform system integrating and charging the external costs of all transport modes, as part of general mobility policy*". It is however regrettable that the exercise started with road freight transport, thus putting the latter at a competitive disadvantage with other modes.

It must also be recognised that carriers first have to bear their respective direct costs (depreciation, capital costs, interest on capital, maintenance, etc.) on equal footing, before considering internalisation. This has probably not always been the case in the past.

As regards the effect on the economy of an internalisation scheme, one could argue that if all external costs were internalised in all transport modes everywhere in the world, the effect on the economy would be neutral, since all users would bear these costs instead of the society at large.

CLECAT would however like to point out that transport is not an independent variable but an element of the value chain. Any additional cost in transport means increasing 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, 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 by decreasing other taxes. We strongly support this principle.

We additionally observe that the exercise of internalising external costs could also be used to induce a degree of increased efficiency. In other words, smart charging and proper explanation of the factors which determine the charge might in the end influence the market to avoid ill-informed choices.

2.3- Main advantages/disadvantages on the social situation

Ideally, an internalisation process should have no effect on the social situation. However, should such process lead to inflation, it would then definitely impact on the social situation in general. In addition, increased costs in Europe alone would simply make Europe even less competitive in global markets.

In addition, transport cost increases can adversely affect the process of integration of peripheral areas; these adverse effects could be exacerbated by unavoidable economic factors, if there are no alternatives other than road haulage.

2.4- Main advantages/disadvantages on the environment

The impact on the environment ought to be positive. Bearing in mind that congestion, air pollution and climate change are harmful to the environment; an internalisation policy must enable transport actors to decrease the external costs they produce. Indeed, the objective of an internalisation policy must not only be economic/commercial (fair competition between transport modes through proper accounting and payment of respective external costs) but also environmental. This aspect will be further developed under point 2.5 and in the section dedicated to the use of revenues.

2.5- how could the negative effects of congestion, accidents and environmental nuisances be reduced?

As far as internalisation policies are concerned, CLECAT believes that the answer to this question is mainly to be found in the use of revenues from charges. Those who pay for the external costs they produce must be the same who, in return, can work on the reduction of these costs. An 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 – an important aspect of fiscal policies.

One might be tempted to observe that using revenues for addressing the problem would eventually reduce the overall generated revenues. We are however adamant that this exercise should not be intended to generate additional revenues for governments, but to create solutions to the problems.

3- POLICY OPTIONS

3.1 Congestion costs

3.1.1- Most suitable instrument in general:

⇒ Improvement of the infrastructure, smart telematic systems, charging systems

3.1.2- Most suitable instrument in road transport:

⇒ Congestion charges for all users (freight + passengers, including private cars), where applicable, if earmarked for improvement of infrastructure. First empirical experiences show that charging has greater effects on individual private transport, than on public and/or commercial traffic

3.1.3/4- Most suitable instrument in rail and air transport:

⇒ charge, to improve infrastructure & improved air traffic control systems, like Single Sky

3.1.5/6- Most suitable instrument in maritime and inland waterway transport:

⇒ Congestion charge, to improve infrastructure. Congestion occurs mainly in ports and in canal sluices

3.1.7- Should the EU act in the field of congestion costs?

⇒ Agree

COMMENTS

Congestion may be addressed by internalisation policies, but this will not solve the problem. One should not forget that congestion is a real toll on businesses and citizens alike. It is also one of the most important agents of environmental damage. Charging for congestion may have some effects in terms of optimisation of infrastructure use but it will not make up for the current and long-lasting lack of transport infrastructure in the European Union. The latter is directly impeding the EU industry and its competitiveness, not to mention the complete incoherence with the Lisbon Strategy. It is therefore high time that our governments took on their responsibilities and made the necessary investments.

From a more specific point of view and as rightfully pointed out in the accompanying consultation paper, internalisation of congestion costs ought to allow for a certain degree of differentiation according to parameters such as time, location, urban/non-urban areas... This is necessary not only to accurately fix the charge but as an incentive to optimise infrastructure use.

CLECAT believes it is possible to accept congestion charges only in as much as the entire revenue is used to improve infrastructure and an additional equal amount (obtained through usual fiscal instruments) is regularly budgeted and spent by national governments in order to address the under-investment of the last three decades.

3.2 Accidents costs

3.2.1/5- Should accident costs be internalised in road, rail, air and maritime transport?

⇒ Disagree. The internalisation of such costs should be covered by Europe-wide insurance standards (liability, compensation, etc.).

3.2.6- Which action for accidents in road transport?

⇒ No new action

3.2.7- Should the EU do something in the field of internalisation of accident costs?

⇒ Agree, the EU should prescribe insurance standards aiming at securing the harmonisation of internalisation of accidents' costs all over the EU

COMMENTS

CLECAT is not happy to be obliged to disagree with this proposal, but we feel it is impossible to agree for the following reasons.

On the one hand the internalisation of external costs due to accidents is a matter for insurance, insurance being by far the most efficient way to internalise these external costs, in our opinion. On the other hand, the possible externalities left would invariably fall under other chapters of this document: congestion, emissions, noise etc.

The former measure should be amply sufficient to deal with direct damages against any third party; if not, the way insurance is designed need be reviewed.

The latter is being dealt with in this very exercise more efficiently with individual focus on each item.

Indeed, risk oriented insurance premiums do not cover accident costs uniformly across the entire EU, but as we said this is an insurance matter and should find a proper forum for discussion if need be.

CLECAT also believes that there is uncertainty regarding the assessment of external costs of accidents. CLECAT appreciates the fact that such calculation may be very complex, but the risk of it not being sufficiently accurate implies a degree of uncertainty that is simply too substantial.

The risk is to build an artificial internalisation scheme, which would cut deep into our business practices without any tangible or visible trade-off. In other words tackling the marginal externality left open after insurance and other internalisation measures would look like killing a fly with an atom bomb. The fly might die, but the resulting collateral damages would be born for generations.

3.3 Noise costs

3.3.1/4- Most suitable instrument in general and for road, rail and air transport:

⇒ Differentiated charges could be an instrument

3.3.5- Should the EU act in the field of noise costs?

⇒ Agree

The noise charge applicable to road, rail and air transport should be differentiated according to noise level, time and location. The revenue should then be used to support measures aimed at reducing the noise produced. Noise reduction should be supported through standardised technological improvements.

3.4 Air pollution costs

3.4.1/6- Most suitable instrument in general and for road, rail, air, maritime and inland waterways transport:

⇒ Differentiated charges

3.4.7- Should the EU do something in the field of internalisation of air pollution costs?

⇒ Agree

COMMENTS

A differentiated charge would combine the advantages of integrating several factors (engine emission performance, fuel type, time & location...) while acting as an incentive to purchase less polluting vehicles/vessels or upgrade existing ones. Such incentive may stem from both the level of charge and the use of the revenue generated as a supporting financial tool.

As pointed out in the consultation document, the charging system ought to take into account those air pollution costs that are internalised already, for instance through annual vehicle registration tax in road transport and taxation on fuel.

The difficulty of the exercise will stem from existing and sometimes differing national practices (e.g. tax vs. charge). Whereas the best solution would surely consist in setting a uniform, EU harmonised system for air pollution costs, Member States may prove reluctant to abandon their existing specific system. On the other hand, keeping national schemes and adding them to a new EU-wide one would lead to an administrative nightmare in terms of compliance and compatibility, let alone additional costs.

3.5 Climate change costs

3.5.1- Most suitable instrument in general:

⇒ Other

3.5.2/6- Action favoured in road, rail, air, maritime and inland waterways transport:

⇒ CLECAT would favour an action aimed at establishing clear and simple relational tools to compare the impacts of concepts such as: climate change, emissions, pollution, human and economic activities.

4.5.7- Should the EU do something in the field of internalisation of climate change costs?

⇒ Agree

COMMENTS

CLECAT would not favour the stand alone internalisation of climate change costs for several reasons. The first one simply lies in the great uncertainty surrounding the assessment of climate change costs. Given the variety of effects and 'victims' of climate change, it is really difficult to identify fairly and accurately which costs are to be included. Moreover, we are talking about an issue on which scientific knowledge is in constant evolution.

Second, whereas congestion, accidents, noise and even most of air pollution costs have local/regional characteristics, climate change costs have a global nature. An EU-level action would not only have little effect (all the more if restricted to transport, which is but one of the many contributors to climate change) on climate change itself, but it would also affect the competitiveness of EU operators.

Finally, we believe that within the internalisation exercise, the issue of climate change is rather interdisciplinary and the best option is to reach an agreement on terminology, methodology and provide a simple tool with which companies can operate best practise choices. This is a topic that must be dealt with in close connection with the air emissions scheme.

CLECAT stresses that not only freight transport contribute to the overall transport emissions. Passenger transport, and especially private cars, do also share a large, if not the main part of the problem, and must consequently be part of the solution.

We are very supportive of EU actions in the international political agenda in order to achieve international coordinated actions, but we are not persuaded that an EU-only approach would be useful. It might even be counterproductive in providing an alibi for other nations and areas, which have a less virtuous approach.

On the other hand a toolkit would be an instrument that can be used by EU companies as well as internationally, once it is identified as an example of best practice.

3.6 Integrated charging

3.6.1- Electronic charging in road transport:

⇒ Strongly agree

3.6.2- Other policy options

CLECAT would like to stress that electronic charging would be the only way of properly implementing differentiation in charging, as well as uniformity of charging methods (which would limit compliance costs) in road transport as well as in any other transport mode. This said, some Member States have their own electronic charging systems already in place (e.g. Germany with Toll Collect for road charging) and an EU system would have to take these into account.

Interoperability of charging systems all over the EU must be an objective.

3.6.3- Other pricing instruments?

⇒ Earmarking (at least partly) of already existing fuel charges, property tax and infrastructure charges to address externalities;

3.6.4- Other non-pricing instruments?

CLECAT believes that a number of non-pricing initiatives would have substantial effects on transports' external costs. In the field of congestion (which induces greater air pollution), one could mention:

- Harmonising weekend and other driving bans and restrictions on the TEN-T
- Enabling a better use of the 24h of the day for deliveries and collections in urban areas
- Allowing energy-efficient and environmentally friendly vehicles to use bus lanes for deliveries and collections in urban areas
- Allowing the use of the modular concept (Eco-Liner) all over the EU.

4- USE OF REVENUE

4.1- Where should the revenue from charges go to?

⇒ To the infrastructure and the mode of transport that has been charged or taxed

A preferential approach should be used for measures addressing externalities with lower costs and direct benefit (infrastructure, telematics, eSafety etc.)

4.2- Should the revenue be used to compensate victims from external costs?

⇒ No opinion

4.3- Should the revenue be used to reduce external costs?

⇒ Strongly agree

COMMENTS

Revenues can be partially used to compensate victims of external nuisances (for instance, 2-3% could be used to create an EU compensation scheme) but only when those victims are clearly identified and can actually gain from compensation. This could be the case for accidents or noise for instance. The creation of a transparent compensation fund could be a practical way of addressing the problem.

However, it seems unachievable to identify and provide valuable compensation to victims of congestion, air pollution or climate change. Therefore, the impact of a charging policy would be much greater if the revenue was used to work on the reduction of the external costs.

Indeed, 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.

5- INFRASTRUCTURE

5.1- Who should pay the construction of infrastructure?

⇒ In general this is the governments' tasks

PPP is also a useful instrument. In both cases appropriate and not excessive charges could provide ROI in time (min. 30 years).

COMMENTS

The construction of infrastructure should be paid for by both the general public budget and the user. Indeed, a substantial part of externalities (or at least of their volumes) stems from the lack of or insufficiently maintained/developed infrastructure. This situation has been going on for decades with direct effects on EU competitiveness. Yet European governments do not seem to take notice that large investments are necessary whereas our competitors in Asia and in other continents are heavily investing.

Many EU infrastructure projects of key importance are on the table, but the lack of funds jeopardises their execution. 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.

However infrastructure charging alone cannot provide the necessary funds and significant public investment must be made available soon. One should not forget that infrastructure building and maintenance is also one of the main drivers of economic development.

6- GENERAL COMMENTS

Internalisation of external costs in transport is a policy with two sides.

From an economic/commercial point of view, the objective is to guarantee fair intermodal competition between transport modes. To this end, all transport modes must be put on an equal footing. Their respective external costs must be correctly assessed and internalised whilst taking account of the costs that are internalised already through existing taxes and charges. Intervening social benefits should be taken into account on an equal footing as well.

From an environmental point of view, the aim is to decrease the external costs insofar as these reflect nuisances on the environment. There, we believe that the key is to develop a comprehensive methodology to calculate and internalise external costs and include all forms of transport: commercial and non commercial movements (including private cars), as well as freight and passengers' transport.

In addition, we stand firmly on the point that precise differentiation should be made between "own" externalities and externalities induced by inadequate planning in infrastructure improvement.

Through this whole process, CLECAT is of the opinion that a few key principles should be respected:

- During the assessment process, energy production sources should be taken into account when assessing air pollution costs;

- During the internalisation process, double taxation should be avoided by taking into account those costs that are already (fully or partly) internalised through existing taxes or charges;
- Revenues from charges should be earmarked to the transport mode that has generated them and used to decrease external costs through infrastructure construction/upgrading and technological innovation;

As soon as more precise proposals are on the table we shall be pleased to debate them, but we are certainly available to discuss these principles with policymakers even before this happens.

Brussels, 18th December 2007