

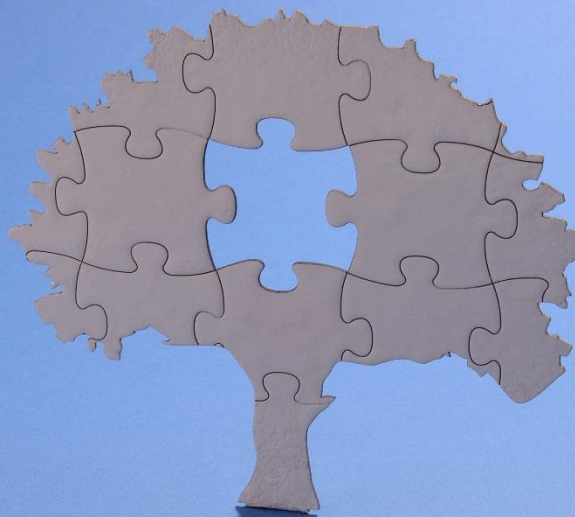


POLICY POSITION ON THE INTERNALISATION OF EXTERNAL COSTS

MOBILITY

SAFETY

ENVIRONMENT



Executive Summary

External costs are currently defined as social costs arising from economic activities that are a burden on society. The internalisation of external costs seeks to integrate social costs into the sectoral or microeconomic cost calculation. It is not about compensating the damaged party directly.

It is undeniable that road traffic has downsides. A sustainable development of transport should look into the costs of each transport mode, as compared to its benefits for society. In this respect, the direct and indirect government subsidies on transport (costs not covered by users) should be taken into account in a full and fair assessment.

Economic instruments such as road charging have an uncertain impact on behaviour. They shift money, but do not create additional value. Given the strain on States' budgets, additional charges are unlikely to be spent to combat the above indicated traffic externalities. FIA Region I supports the intelligent use of a set of alternative policies to counter-balance the negative effects of road transport.

Legislative Background

Without appropriate mobility, full participation in social and economic life is not possible

Without appropriate access to mobility, full participation in social and economic life is not possible. For most people, owning a car is primarily a means to get to work, run errands, to effectively combine family life and a job. The car is not a status symbol, but a useful tool for

the majority of car owners. There is often no alternative to the car, especially in rural and suburban areas. More than 50% of vehicle distance travelled in the EU 28 is job-related. Consequently, ensuring appropriate access mobility, including car mobility, is an important service of general benefit from road transport¹. European transport policy increasingly seeks to apply the principle of the internalisation of external costs, in order to display the “real price” of a given transport choice. In 2011, the Eurovignette Directive² enabled national governments to include external effects from heavy goods vehicle transport, in national tolling schemes for the first time.

The European Commission plans to put forward a proposal outlining guidelines for pricing schemes³ for both heavy goods vehicles and passenger cars, based, to a significant degree, on externalities.

Review of typical external costs

Congestion costs

Congestion costs in terms of time loss or uncertainty (arrival time) are not to be considered as external costs, as they are internal to the transport system. With increasing traffic density, there is a mutual hindrance between motorists. Each

Congestion costs in terms of time loss or uncertainty are not to be considered as external costs, as they are internal to the transport system

motorist contributes the same level of congestion as he or she suffers through other motorists. Thus every motorist constitutes a burden to the collective of other motorists and at the same time is burdened by this collective. Motorists take congestion into account in their transport decisions. Charging for congestion is equivalent to a triple counting; motorists stuck in traffic, having already paid their taxes and further suffering from a lack of investment.

¹ ADAC (2015), Benefits of passenger car travel in Europe.

² Directive 2011/76/EU of the European Parliament and of the Council of 27 September 2011 amends Directive 1999/62/EC on the charging of heavy goods vehicles for the use of certain infrastructures.

³ Tolling is a tool for funding infrastructure development and maintenance, while pricing is a tool for incentivising transport and mobility behaviour.

Limiting congestion charging to the main network would divert traffic to secondary roads, potentially leading to a simple shift of congestion, increased harm in residential areas and higher traffic on less safe secondary roads.

Recommendations:

- Work times, for instance through flexible working hours or school holiday periods, should be spread out
- Town and country planning and transport development, including mixed-use new development (housing, work, shopping, leisure), should be integrated
- Bottlenecks of the transport network should be removed
- Appropriate and efficient public transport offers should be developed, walking and cycling, multimodality and eco-driving should be promoted, traffic, parking management, and city logistics should be optimised

Accident costs

Accident costs are calculated in different ways in European countries and lead to extremely divergent results. Accident costs comprise material costs, health service costs, and the impact of injury. Accident costs often include the “Value of a Statistical Life” (VSL). The VSL is the effort to quantify the value of human life⁴, which exceeds the capabilities of a pure economic analysis. The valuation is not derived objectively from the factual damage caused by an accident, but is subjectively valued based on interrogations (“willingness to pay”).

Expressing a willingness to pay is one thing; actually having to pay is another. Even on the question of human life, it is necessary to be aware of the danger that hypothetical and actual willingness to pay differ. The factual welfare losses cannot be deduced from a subjective valuation, but only from objective costs incurred by society. These costs can be approximated objectively from compensative payments for non-monetary damages to the accident victim. Thus, estimated cost rates are considerably lower than the subjectively determined value of a statistical life.

Accident costs are already mostly internalised, as insurance schemes cover most of the monetary accidents costs (third-party liability insurance, general health insurance). Further compensation for non-monetary costs is regulated by victim compensation rules (compensation for damages for pain and suffering). Studies conclude that between 59% and 76% of accident costs are internalised⁵. It would lack consistency to persevere on aiming at further internalising road accident costs, without aiming at internalising costs of other accidents related to risky behaviours.

⁴ The value of a statistical life is of the order of 1-3 million euro.

⁵ Herbert Baum (2008), External Costs in the Transport Sector – A Critical Review of the EC Internalisation Policy, Zeitschrift für Verkehrswissenschaft, year 79, book 2, page 110.

Recommendations:

- Road traffic casualties should be reduced through accident prevention and mitigation, further improving the active and passive vehicle safety, raise road user awareness for safe behaviour, build safer cars and improve infrastructure safety
- No-claims bonus schemes should be promoted as to incentivising road users to avoid accidents
- A multi-phase retraining system should be mandated, whereby novice drivers should acquire higher order skills such as traffic insight, self-assessment, hazard perception, and risk awareness in order to validate their licence


Air pollution, soil and water pollution, and climate change costs

Motorists are already incentivised to save fuel through high fuel taxes. Consumers have demonstrated they are ready to shift to greener engines and have embraced financial incentives, when available, like lower registration and circulation taxes, and now have more fuel efficient vehicles.

The estimation of environmental externalities is undermined by substantial uncertainties and speculative elements. Relatively higher taxation of environmental externalities in transport bears the risk of distorting the proper functioning of the market.

Negative externalities for the environment should be tackled at the source, through setting challenging limits and robust regulations for vehicle emissions, the promotion of

The estimation of environmental externalities is undermined by substantial uncertainties and speculative elements



low emission technologies and clean vehicles, eco-driving as well as effective traffic management, also through using the full potential of Intelligent Transport Systems (ITS).

The compliance with existing legislation, e.g. Euro norms, through more stringent market surveillance, will already help to reduce pollution from motorised traffic substantially.

Recommendations:

- The European Commission should enhance the market surveillance, as proposed in the revision of the type approval legislation
- Demonstration programmes, as promoted by FIA Region I, should increase the awareness of available alternatives
- Environmental taxation should further be based on realistic emissions testing, but without increasing the tax burden
- Any change in taxation or charging should however not be punitive to motorists for decisions taken in the past in good faith, on the basis of a governmental incentive framework

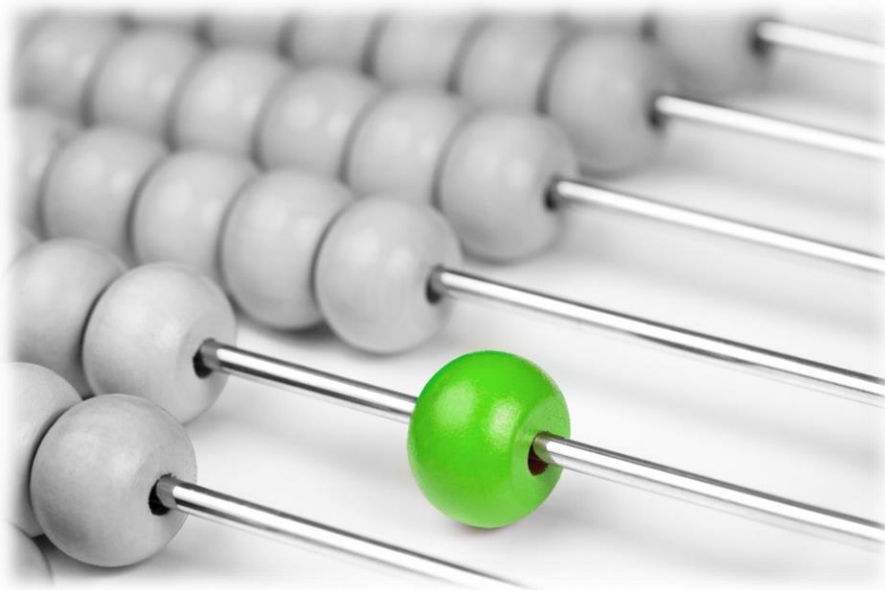
Noise costs

An increase in value is given due to the development of real estate with good traffic access, leading to a reduction of the external costs.

Noise from vehicles has also significantly diminished, due to improvements in vehicle technology.

Recommendations:

- Structural measures (quiet surfacing, noise barriers), as well as traffic management measures enhancing traffic flow, should be taken to contribute to reducing traffic related noise
- Further improvement with regard to vehicle-related noise should be sought



Costs for nature and landscape

Aesthetic intrusions, which are not reflected in a reduction of the gross domestic product, cannot be considered as external costs. These costs are intangibles. They should be mentioned as a disadvantage, but not as quantifiable external costs.

Costs of oil dependency and depletion

The dependency and scarcity of oil leads to higher prices, which are borne by consumers. Thus, the dependency of oil is internalised by higher prices. The efficient exploitation of a non-renewable and non-augmentable resource leads, under otherwise stable economic conditions, to its depletion.



Conclusion


As external costs cannot be found in a balance sheet, quantifying costs on the basis of assumptions, runs the risk of being at best imprecise, at worst unrealistic. Errors in their assessment and in their internalisation can cause higher economic harm than the actual externality. Externalities are often considered individually, instead of in conjunction with one another, leading to exaggerated cost estimations. It is therefore questionable to apply an economic concept based on uncertain assumptions. The internalisation of external costs can thus lead to the setting of 'political' prizes under the guise of economic theory. This is not a desirable solution.

Mechanisms such as taxes, insurance schemes and prosecution are already in place, internalising some of the externalities in road transport. But if externalities are not or even cannot be combatted effectively, governments have no interest to reduce the external effect as it represents a further source of governmental funding. Recent research⁶ suggests that, in most countries, road transport accounts for a higher degree of cost coverage from users, compared to the other modes of transport. Moreover, costs generated by some transport users upon other users of transport such as congestion, can be considered to be compensated already.

Welfare gains to be obtained through an internalisation of external costs are in most cases smaller than the external costs, as their internalisation induces abatement costs.

A more holistic perception of the benefits of road transport for society and the economy should be the basis for discussion⁷. If costs are to be internalised, then it should be done across all transport modes and all sectors, on the basis of equitable criteria.

If costs are to be internalised, then it should be done across all transport modes and all sectors, on the basis of equitable criteria



⁶ Bundesamt für Statistik (2015), Kosten und Finanzierung des Verkehrs – Jahr 2010, pages 55-57.

⁷ Bundesamt für Raumentwicklung, Bundesamt für Strassen (2006), Die Nutzen des Verkehrs - Teilprojekt 2: Beitrag des Verkehrs zur Wertschöpfung in der Schweiz, pages 6-11.



Fédération Internationale de l'Automobile (FIA) Region I office

FIA Region I is a consumer body representing 112 Motoring and Touring Clubs and their 37 million members from across Europe, the Middle East and Africa. The FIA represents the interests of our members as motorists, riders, pedestrians and passengers. FIA Region I is working to ensure safe, affordable, clean and efficient mobility for all.

Learn more at www.fiaregion1.com