

Internalisation of external costs

GENERAL INFORMATION

Your profile	Organisation
Organisation name	
Clean Air Action Group (www.levego.hu)	
Organisation type	Associations/non-governmental organisations
Main field of activity	Other
Which other type of activity?	
environment, transport, financial instruments	
Which mode of transport do you represent?	Air transport
	Rail transport
	Road transport
	Urban transport
Region	European Union
Which European Union country?	Hungary

1. EXTERNAL COSTS

1.1. In your opinion, do you think that road transport imposes nuisances on other transport users and society? Yes

Road	
Congestion	1
Accident	3
Noise	2
Air pollution	4
Climate Change	5

Comments (if any) on road external costs (maximum 4000 characters)

Land occupation is another important element which should be taken into account when determining external costs. For example, in cities parking fees often do not cover the costs of the occupation of extremely expensive land by motor vehicles. In the countryside the destruction and fragmentation of natural areas imposes substantial cost on society. All this is a huge hidden subsidy to road transport. Concerning health costs, the lack of physical activities should be also taken into account. According to WHO this is the second most important health risk factor in Europe (smoking is the first). Lack of walking and other physical activities is largely due to motorised road transport, and especially the use of cars.

1.2. In your opinion, do you think that rail transport imposes nuisances on other transport users and society? Yes

Rail	
Congestion	1
Accident	2
Noise	3
Air pollution	5
Climate Change	4

Comments (if any) on rail external costs (maximum 4000 characters)

The nuisances from rail are relatively small compared with road transport.

1.3. In your opinion, do you think that air transport imposes nuisances on other transport users and society? Yes

Air Transport	
Congestion	1
Accident	2
Noise	3

Air pollution	4
Climate change	5
Comments (if any) on air transport external costs (maximum 4000 characters)	

1.4. In your opinion, do you think that maritime transport imposes nuisances on other transport users and society? Yes

Maritime	
Congestion	1
Accident	3
Noise	2
Air pollution	4
Climate change	5
Comments (if any) on maritime external costs (maximum 4000 characters)	

1.5. In your opinion, do you think that inland waterways transport imposes nuisances on other transport users and society? Yes

Inland waterway	
Congestion	1
Accident	2
Noise	3
Air pollution	4
Climate change	5
Comments (if any) on inland waterways external costs (maximum 4000 characters)	

2. INTERNALISATION OF COSTS

2.1. Do you agree that it is important to internalise the external costs generated by transport? Strongly agree

Advantages/disadvantages expectation

2.2. What are the main advantages/disadvantages you expect on the economy? (maximum 4000 characters)

For the economy on national and EU level there would be much more advantages than disadvantages. Not paying the full cost of an economic activity means that the society is subsidising that activity. Such subsidies generally seriously distort the prices and thus the market, unduly giving preference to some actors in the economy and disadvantaging others. This might greatly reduce the competitiveness of the whole economy: it leads to wrong decisions on all levels. Therefore eliminating these subsidies by internalising the external costs will greatly benefit the economy. Such hidden subsidies also stimulate companies to make various highly questionable efforts, like unfair lobbying, influencing the politicians and officials, in order to get more of such “free ride” instead of improving their own performance on the market. Therefore internalisation will have a very positive effect on the behaviour of companies. It will give a signal to all stakeholders in the economy that unfair practices should be stopped. The internalisation will lead to better organisation of transport (e.g. less empty trucks on). The internalisation would greatly stimulate innovation. It will lead to increasing the added value in transportation. (This could primarily be achieved by extending the quantity and improving the quality of various logistics services.) Transport needs will be reduced, therefore less money will be needed for the construction and maintenance of transport infrastructure, and the money thus saved can be used for other purposes. The state revenues from internalisation can be used to reduce taxes on labour, thus improving competitiveness and maybe also increasing employment. The internalisation will make railways and public transport much more competitive. This means also that less state aid will have to be given to railway transport and public transport. This will be beneficial for the state budget. The energy dependence of the economy will be reduced. The economy will become more resource efficient. A lot of costs will be avoided (there will be less climate change costs, environmental and health costs, accident costs). The disadvantages will be on the level of some companies and individuals. This can mostly be dealt with by appropriate training and social help.

2.3. What are the main advantages/disadvantages you expect on the social situation? (maximum 4000 characters)

As mentioned above, not internalising the external costs is in fact a subsidy to certain groups in the economy. The rich practically always get a much larger part of such subsidy than the poor. Therefore the elimination of this subsidy will greatly contribute to social justice. Environmental problems generally hurt poor people much more than rich ones. Therefore improving the environment by internalisation means improving the environment especially (but not only) for poor people. The increased revenue due to internalisation can and should be used to stimulate employment (e.g. by reducing the taxes on labour and/or giving more support for public transport). If the revenue is used also for public transport, this could improve access for socially disadvantaged people.

2.4. What are the main advantages/disadvantages you expect on the environment? (maximum 4000 characters)

The negative environmental impact of transport will be reduced.

2.5. In your opinion, how could the negative effects of congestion, accidents and environmental nuisances be reduced? (maximum 4000 characters)

Completely internalising external environmental costs, making the users pay for the full cost of infrastructure use, appropriate legislation, control and punishment of the breaching of regulations, proper infrastructure development as well as public awareness raising. Among these the use of market-based instruments is an extremely powerful tool.

3. POLICY OPTIONS

3.1. CONGESTION COSTS

3.1.1. In general, which instrument would you favour Charge to tackle congestion costs?

3.1.2. In road transport which actions would you favour to tackle congestion cost? Congestion charges for freight + passenger (including cars)

3.1.3. In rail transport which actions would you favour to tackle congestion cost? Scarcity charge

3.1.4. In air transport which actions would you favour to tackle congestion cost? Scarcity charge

3.1.5. In maritime transport which actions would you favour to tackle congestion cost? Congestion charge

3.1.6. In inland waterway transport which actions would you favour to tackle congestion cost? Congestion charge

3.1.7. Do you think the EU should do something in the field of internalisation of congestion costs? Strongly agree

Comments (if any) on congestion cost (maximum 4000 characters)

3.2. ACCIDENT COSTS

3.2.1. Do you agree that accidents costs should be internalised only for road transport? Strongly agree

3.2.2. Should accident costs also be internalised in rail transport? Strongly agree

3.2.3. Should accident costs also be internalised in aviation? Strongly agree

3.2.4. Should accident costs also be internalised in maritime transport? Strongly agree

3.2.5. Should accident costs also be internalised in inland waterway transport? Strongly agree

3.2.6. Which action would you favour for accidents in road transport? Liability insurance

3.2.7. Do you think the EU should do something in the field of internalisation of external accident costs in road transport? Strongly agree

Comments (if any) on accident cost (maximum 4000 characters)

All costs of accidents must be paid by the liability insurance. When calculating the cost of accidents, it must be taken into consideration that accidents might cause material damage not only to other vehicles but also to infrastructure, buildings etc. For example, recently a heavy truck ran into an electric installation in Budapest and caused a blackout in large part of the city. Maybe this is an extreme example, but there are

many other examples, although of smaller scale.

3.3. NOISE COSTS

3.3.1. In general, which instrument would you favour Differentiated charge to tackle noise costs?

3.3.2. Which action would you favour to tackle noise Differentiated charge costs in road transport?

3.3.3. Which action would you favour to tackle noise Differentiated charge costs in rail transport?

3.3.4. Which action would you favour to tackle noise Differentiated charge costs in air transport?

3.3.5. Do you think the EU should do something in Strongly agree the field of internalisation of noise costs?

Comments (if any) on noise cost? (maximum 4000 characters)

3.4. AIR POLLUTION COSTS

3.4.1. In general, which instrument would you favour Differentiated charge to tackle air pollution costs?

3.4.2. In road transport, which action would you Differentiated charge favour to tackle air pollution costs

3.4.3. In rail transport, which action would you Differentiated charge favour to tackle air pollution costs?

3.4.4. In air transport, which action would you favour Differentiated charge to tackle air pollution costs?

3.4.5. In maritime transport, which action would you Differentiated charge favour to tackle air pollution costs?

3.4.6. In inland waterways transport, which action Differentiated charge would you favour to tackle air pollution costs?

3.4.7. Do you think the EU should do something in Strongly agree the field of internalisation of air pollution costs?

Comments (if any) on air pollution cost (maximum 4000 characters)

3.5. CLIMATE CHANGE COSTS

3.5.1. In general, which instrument would you favour Other to tackle climate change costs?

Which other instrument? (maximum 4000 characters)

Taxes and differentiated charges.

3.5.2. In road transport, which action would you Tax favour to tackle climate change costs?

3.5.3. In rail transport, which action would you Tax favour to tackle climate change costs?

3.5.4. In air transport, which action would you favour Tax to tackle climate change costs?

3.5.5. In maritime transport, which action would you Tax favour to tackle climate change costs?

3.5.6. In inland waterway transport, which action Tax would you favour to tackle climate change costs?

4.5.7. Do you think the EU should do something in Strongly agree the field of internalisation of climate change costs?

Comments (if any) on climate change costs (maximum 4000 characters)

The Action Plan for Energy Efficiency: Realising the Potential (Communication from the Commission. COM(2006)545 final, Brussels, 19.10.2006.) states the following: „For transport, a similar full savings potential of 26 % [until 2020] is estimated, a figure which includes a significant impact from shifting to other modes of traffic, in line with the Mid-term review of the White Paper on transport.” The taxes and charges on transport should be high enough to achieve this aim.

3.6. INTEGRATED CHARGING

3.6.1. Would you favour electronic charging in road transport? Strongly agree

3.6.2. Are there other policy options you would suggest? (maximum 4000 characters)

The taxation of road transport and its anomalies in the various countries should also be taken into account. For example, in Hungary the state loses revenues of more than HUF 700 billion (EUR 2.8 billion) annually from personal income tax and social security contribution because the private use of cars is often illegally accounted for tax purposes as company use. This amount corresponds to 3 per cent of Hungary's GDP.

3.6.3. Are there other pricing instruments you would suggest for congestion, noise, accidents, air pollution or climate change? (maximum 4000 characters)

Congestion charging (like in London), parking fees, differentiation in vehicle taxes and charges depending on the environmental characteristics of the vehicle.

3.6.4. Are there other non-pricing instruments you would suggest for congestion, noise, accidents, air pollution, climate change? (maximum 4000 characters)

Strict regulation and control, proper punishment of the breaching of regulations, proper infrastructure development, EU-wide public awareness raising.

Comments (if any) on integrated charging (maximum 4000 characters)

4. USE OF REVENUES

4.1. In your opinion, revenues from external costs should go to... The general public budget

4.2. In your opinion, revenues from external costs should be used to compensate the victims of the negative effects Agree

4.3. In your opinion, revenues from external costs should be used to reduce external costs Agree

Comments (if any) on the use of revenues (maximum 4000 characters)

The revenues should be used partly to reduce taxes on labour, and partly to mitigate the negative environmental and social effects of transport (e.g. by supporting public transport, cycling and walking). The revenues from internalising external costs must in no case be used to finance the infrastructure of the modes from which these revenues come from, because then there would be in fact no internalisation of external costs but only payment for the infrastructure costs. For the same reason the revenues from internalising external costs must not be used for financing in any other way the modes from where these revenues come from. Internalisation means that those who cause environmental, health and similar costs are paying these costs. Therefore this money must not be given back to them but should be used in the most efficient way for the good of the whole society and for compensating those who suffer the damage (e.g. paying compensation for health damages or damages to buildings). Therefore these revenues must go to the state budget (or the budget of the local governments in cases like congestion charging or parking fees in cities). It cannot be accepted that any part of these revenues be used for "improving the environmental performance of the road and air sector". Such improvements should be paid by these sectors themselves, and should be stimulated by proper regulations by the EU, member states and local municipalities.

5. INFRASTRUCTURE

5.1. The construction of infrastructure should be paid by the user

Comments (if any) on the infrastructure (maximum 4000 characters)

To determine the external costs and prepare appropriate internalization scenarios one needs to know also the expenditures for infrastructure. If this is not taken properly into account, then in the end it might even happen that by increasing taxes and charges on transport (allegedly to internalise external costs), no internalisation will take place at all, but the new revenue will be simply used for building new transport infrastructure, thus even aggravating the problem. This issue is especially important as the EU is planning to provide in the next 7 years enormous subsidies to road infrastructure construction in the new member states. The Table at the end of Annex III of Directive 2006/38/EC should be revised on the basis of the up-to-date scientific evidence. The difference between vehicle classes seem too small for the structural repairs. Also, it is clear that the investments and annual repair costs are not the same for all vehicle classes, as stated in the Table, but they are much higher for the heaviest trucks than, for example, 3,5-ton trucks.

6. GENERAL COMMENTS

Are there other comments that you would like to make on the "Internalisation of external costs" topic not covered by the above questions? (maximum 8000 characters)

1. The damages to roads etc. caused by the vibration resulting from vehicles is an important factor which

should be taken into account. This is to a large extent an internal cost of transport, but largely not internal for certain transport modes (i.e. there is probably a substantial cross-financing between transport modes). The damage to the roads depends on the fourth or fifth factor of the axle weight. So, heavy trucks damage roads much more than cars. Besides, the damage is caused not only to roads, but also to the utilities under the roads and the buildings along the roads. This is especially important in the new member states, where heavy trucks use roads in built-in areas (towns, villages) much more than in the old member states. Furthermore, huge damages are caused to vehicles due to bad roads which constitutes a main part of the cross-financing between transport modes (i.e. if heavy trucks ruin roads, cars will suffer a lot of damage). "Every dollar saved by not keeping in good condition a road which carries 500 vehicles a day, increases the costs of motorists using that road by 3.4 to 6.1 dollars yearly." (Sustainable Transport. Priorities for Policy Reform. The World Bank., Washington, 1996. p.26 - my translation from the Hungarian version) The White Paper on EU Transport Policy published in 2001 states the following: "motorway maintenance would cost six times less if cars were the only vehicles to use the motorways. This benefit is not offset by any corresponding differential between the charges paid by heavy goods vehicles and by private cars." Taking account of the above, internalisation should aim also at eliminating such cross-financing between different transport modes. 2. The external costs of up- and downstream processes should be taken into account. According to some sources the energy use for these processes equals to about 70% of the energy use of motor vehicles. Of course, external costs are not directly proportional to the energy use, however there is a certain correlation. 3. The calculations in all studies are always made for the external costs of only one year. However the unpaid costs have been accumulating from year to year already for a long time. This accumulation should also be taken into consideration and dealt with somehow.

Meta Informations

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