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ALP-NET Workshop on
Pricing and Financing of Trans-Alpine Transport Infrastructure:

**Main conclusions and policy recommendations
(short version)**

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Contents

	Introduction.....	3
1	Multiple objectives - multiple instruments.....	3
2	The role of social marginal cost pricing	4
3	The Alps as a sensitive area	4
4	Cross Financing	5
5	Interoperability of pricing schemes.....	6
6	Harmonisation of pricing systems	6
7	The new EU framework directive: A window of opportunity	8
8	Co-operation among Alpine countries	8

Introduction

This document gives an overview on the main conclusions and policy recommendations from the **4th ALP-NET workshop** on pricing and financing of Alpine transport infrastructure.

The workshop took place on **12/13. September 2002 in Berne/Switzerland** and was attended by about 60 policy makers, scientists, experts and representatives of NGOs. Sessions were chaired by *Anna Panagopoulou (European Commission, DG TREN)*, *José Viegas (TIS)*, *Felix Walter (Ecoplan)*, while the following rapporteurs contributed to this document: *Claus Doll (IWW)*, *Florian Gubler (Ecoplan)*, *André da Palma (adpC)*, *Michael Schmidt (ICCR)*.

The first three sessions of the workshops dealt with **pricing schemes, use of revenues, legal framework and implementation issues**. In session four, the participants discussed a list of ten provocative recommendations to policy makers.

To be as concisely as possible, this summary of the discussions is structured according to the main issues and not to sessions. Under each heading, *short descriptions of the initial situation and the problem (in italics)* are followed by the recommendations of the participants of the workshop.¹

1 Multiple objectives - multiple instruments

In Alpine transport policy there are multiple objectives and a variety of instruments. Objectives have to be set in a political process.

It is important that the European Commission as well as the Member States clearly define their objectives with regard to trans-Alpine transport. In order to achieve these objectives, appropriate instruments should be selected.

Pricing and financing mechanisms are effective tools but they will not solve all problems.

Other measures, including rules, regulations and technology, should form a vital part of the national and European transport policies. The main criterion should be the effectiveness of transport policy independent of the combination of measures used. Moreover, pricing may not always be the most effective measure to use as high transport prices could have negative effects in some cases.

¹ The statements and opinions presented in this document do not necessarily represent a consensus among all workshop participants and may therefore differ in some instances from the opinions of single participants or participating institutions.

2 The role of social marginal cost pricing

Pure Social Marginal Cost Pricing only works in economic theory but does not live up to the challenges of a complex real world pricing system. SMCP cannot be realistically implemented; it often sends the wrong signals and can even be counter-productive in some instances. At the workshop, the concept of SMCP was even compared with the magical, non-existing animal called "Eierlegende Wollmilchsau" in German: Just as you cannot get eggs, wool, milk and pork from one single animal, you cannot reach multiple objectives with one single instrument. In its more recent proposals the Commission is not insisting on the implementation of a pure SMCP system but is rather emphasising the practicability and effectiveness of the system. Currently the EU seems to be proposing a linear pricing system.

Instead, a multiple pricing system should be considered that allows a more differentiated and targeted approach to the specific problems at hand. Full cost recovery may be preferable if one has to adhere to the "user pays principle". The territoriality principle ("pay where you use the infrastructure") should have a more important role than today. Above all, flat taxes should be replaced by mileage related taxes in order to increase incentive effects. Hereby, it is widely recognized that the following costs should be reflected in any transport pricing scheme:

- infrastructure costs (=producer costs)
- congestion costs (=user costs)
- external costs (air pollution, traffic noise, accidents, health costs).

There is a danger that differentiated pricing systems cause (new) distortions between countries and within countries (detour traffic).

In order to avoid distortions, any road pricing scheme should include all motor vehicles and at least the highway and main road network. In order to improve acceptability of the pricing schemes, it is possible not to include passenger cars in a first stage.

3 The Alps as a sensitive area

Since the Alps are a sensitive area with regard to the impacts of transport, it is dangerous to apply cost calculations of 'normal' interurban roads to Alpine corridors.

Therefore, setting certain limits with regard to capacity and ecological burden should be taken into consideration. In general, it was recommended that the EU and the Alpine states should aim at a transport policy as outlined also in the Transport Protocol of the Alpine Convention.

Demarcation problems with regard to the Alpine area could arise in future pricing discussions.

The definition of the Alpine area given by the Alpine Convention should be adopted by all involved partners.

It is not clear how the European Union plans to define sensitive areas in general and how it intends to apply this concept in the pricing debate.

The participants of the workshop demanded from the European Commission to present its ideas on how to identify sensitive areas in general and how to make use of this concept in the ongoing charging debate.

4 Cross Financing

Cross financing from road to rail and combined transport can be very useful for the Alpine region, since railways and combined transport are vital elements in a sustainable Alpine transport system. But the examples of Switzerland and Brenner show that user charges for new railway tunnels will cover only a small part of the investment and operation costs. These projects need large amounts of funds from other sources (state and/or cross finance). From an economic point of view, welfare differences between various financing scenarios (including cross financing) are rather small.

The participants of the workshop discussed different possibilities for the use of revenues from road pricing schemes, cross financing from road to rail just being one of them:

- It is recommended to consider the possibility to earmark revenues to projects for environmental improvements or for compensations for inhabitants or regions suffering from transport externalities.
- According to the subsidiarity principle the use of revenues from road pricing should be entirely up to the Member States. This includes cross financing across regions and modes.
- Revenue from road pricing should not be exclusively earmarked to the transport sector. It might be also wise to reduce other taxes such as non-wage labour costs.

If cross financing across modes should be allowed, it is important that funds are directed only to those projects that help so solve transport problems in an efficient and effective way.

In this context, the participants recommend the following preconditions for cross financing:

- Cross financing must not be regarded as a substitute for a railway reform in Europe. On the contrary, the realisation of the reform process should be a precondition for cross financing to rail.
- The Alpine countries should be aware of the risk of creating overcapacities in rail freight transport, if each country independently builds new infrastructure.
- The ear-marking of transport pricing revenues to other transport modes, different locations or other economic sectors should be limited in time and the rationale behind the earmarking must be verified regularly.
- Cross financing should be dedicated to specified and effective projects. The goals and conditions should be specified and communicated to those who pay.

- In the 2001 White Paper on the Common Transport Policy, the suggestions for cross subsidies are largely limited to sensitive areas. However, this restriction may be under discussion in the new Commission proposals for the new Framework Directive.

5 Interoperability of pricing schemes

Many countries are on the way of introducing new forms of road pricing. However, it is neither useful nor efficient if these countries apply different techniques that are not interoperable among each other.

In this context, it is recommended to design the debit system such that a **dual charging system** is possible:

- Individual pricing of different areas or types of area
- Individual charging of different user types.

Considering other technical systems with different co-existing standards (e.g. the mobile telephone market) it is expected that industries will develop **multi-functional On Board Units** that are able to cope with various technical standards in different countries. Thus, the necessity to pre-define a single European standard is not seen.

6 Harmonisation of pricing systems

Distortion and discrimination are key factors to be avoided within a territory/region and within specifically defined groups of operators, consumers, etc. Across various territories or groups, non-discrimination or distortion of competition is usually less important (e.g. reasonable differences in charges for heavy goods vehicle in Spain and Germany will not lead to any distortion in competition).

In order to ensure non-discrimination, the EU Member States should agree on a common methodology for the calculation of prices. However, the argument of harmonisation (methodology and technical) should not be used to delay the introduction road pricing systems. All necessary information is already available to proceed with the implementation phase now. Finally, the EU should try to achieve harmonisation of the institutional settings for price fixing / regulation and for the allocation of revenues.

It is quite clear that high charges for the use of roads in the Alpine areas alone will not have a significant impact on transport flows.

Therefore it is crucial what happens to prices outside the Alpine areas, from Northern Germany, the Benelux and Scandinavia all the way to Italy and France. These pricing strategies across the countries have to be part of a larger strategic effort.

With regard to the mentioned common methodology for the calculation of prices, different aspects of harmonisation have been discussed by the participants. The most contentious issues included the setting of lower and upper boundaries for road user charges, the question of cost recovery and the calculation of external costs.

- The issue of lower and upper boundaries for road user charges set by the EU was discussed with some ambivalence on part of the participants. Generally, pricing is seen as an instrument for certain politically defined objectives. A majority of the participants agreed that lower and upper boundaries would unnecessarily limit the scope for policy making to use pricing as an effective instrument. However, this presupposes a well functioning multi-level democratic system on the European level that will prevent the promotion of certain local/regional/national interests through pricing policy. Without such a system of consensus and co-ordination, competition could be grossly distorted by countries essentially subsidising certain routes or modes of transport (e.g. as to make their favourite seaport more attractive) or blocking certain routes (e.g. Alpine crossings).
- The question of cost recovery is not just a political one but also an economic one. The aim has to be to set prices that act as a steering instrument through the right incentives. As a generally non-congested area, the Alpine region would suffer from a major deficit if applying pure short-run marginal cost prices. Thus, the necessity for a pricing scheme that guarantees full cost recovery was emphasised by some participants. In general the harmonisation of prices / revenues according to full cost recovery in Europe is seen as feasible (but not necessary). Hereby, the inclusion of external costs should be allowed. Others argued that peripheral regions could never achieve the same magnitude of cost recovery as densely populated areas in the centre of Europe without further marginalizing themselves.
- The precise calculation of external costs will only play a limited role in the implementation of pricing schemes. In the Swiss case, external costs are still an important consideration but on the whole the system mostly responds to politically defined objectives. Rather than dealing with externalities only by pricing variable factors, like the km travelled, pricing should also encompass fixed factors like the technology used. In addition, there should be specific commitments like common pollution standards and targets for CO2 reduction.

A harmonisation of rail infrastructure charges in Europe will be required. At the moment, this harmonisation is still a long way off, but the European association of rail track managers is currently working on harmonising the structure of the charges (e.g. how different train configurations are charged differently).

Immediate action in the rail sector is not quite as important as in the road sector because for rail a charging directive already exists. For the Alpine areas, it is important to differentiate according to the noise levels caused by the railways. Currently mark-ups on rail infrastructure charges are only allowed in exceptional cases. However, in order to achieve full cost recovery, mark-ups sometimes have to be as much as ten times of the marginal costs, but full cost recovery should be the rule rather than the exception. Applying the principles of Social Marginal Cost Pricing, only a small fraction of the rail infrastructure cost will be covered.

7 The new EU framework directive: A window of opportunity

At the moment, many countries are about to introduce new forms of road pricing (Germany, Austria and others). Therefore, the intention of the European Union to set up a new framework directive on pricing is a limited-period opportunity to influence the future of road pricing in Europe. The Commission document to be published in October 2002 will be considered as a discussion paper and will therefore contain a number of open questions rather than answers to all questions.

The participants of the workshop recommended that any new pricing regime should be accompanied by certain adjustments in other fiscal measures. The new proposal should also open the debate with the Member States on the types of vehicles to be charged and the types of roads to include in the system. As the European Union as such is not able to act independently, the Member States should show a strong will to come to a common solution with regard to pricing and financing of transport infrastructure. On the other hand, it was demanded that the new Directive should be pro-active in that sense that it should not just refer to the Member States' requirements.

8 Co-operation among Alpine countries

After the accident in the Gotthard tunnel, a meeting of the transport ministers of the Alpine countries and the EU Commissioner was held in Zurich. They set up a "steering committee on transport safety and mobility in the Alpine area".

This kind of co-operation should be further developed. A high level group on pricing and financing should be established. However, the participants disagreed on the nature and the composition of such a body. It could either consist of national representatives (high ranking government officials) or of politically appointed researchers/scientists. Some participants expressed the opinion that such a body should also include representatives of regional governments and non-governmental organisations.

The task of ex-ante appraisal of projects and policies which is an important basis for co-operation and decision-making is still treated very differently in the Alpine countries.

The scientific community should improve the ex-ante appraisal of projects and policies (including various pricing and financing schemes) and hereby improve the knowledge on pros and cons of projects and policies, including step-by-step implementation scenarios. A monitoring of the effects of recent events (closing of Mont-Blanc and Gotthard, introduction of the new regime in Switzerland) should be used to calibrate and improve existing models and methods.