



Pricing-Workshop

12 - 13 September 2002 Berne, Switzerland

International Road Federation



Ansgar Kauf, Director of Programmes

Panel Discussion

***"The Use of Revenues from Road Pricing
and the Possibilities for Cross Financing"***

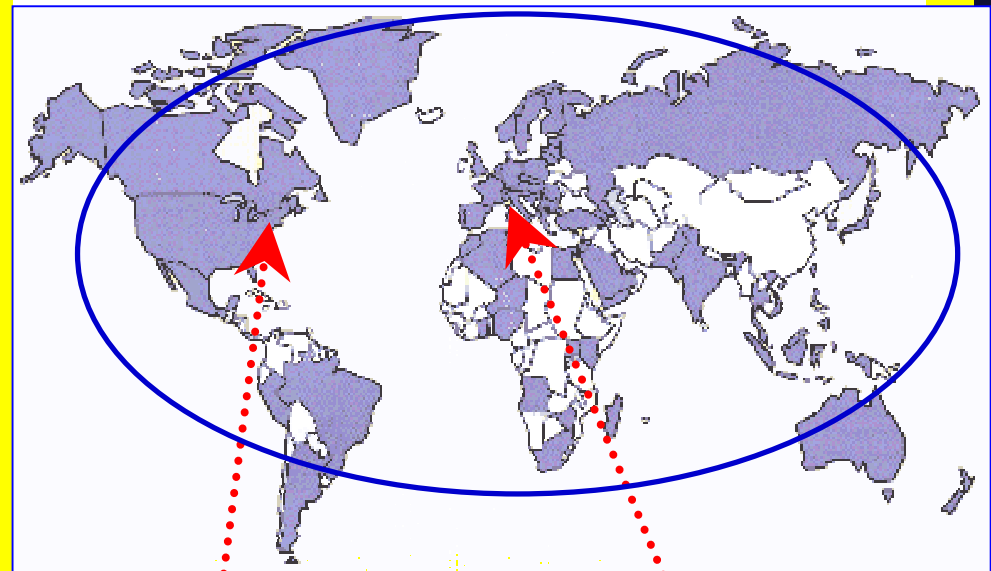
International Road Federation



IRF: Non-Governmental, Organisation*, (non-profit)

- **mission:** promoting *sustainable road infrastructure development* world-wide: good, safe and efficient roads that suit needs of society and economy

- **members** in
> 70 countries from
public & private sector



*Programme centers in

Washington & Geneva

I. Sustainable *Transport Policy*



IRF approaches roads within an **integrated transport sector** (rail, road, air, water)

What is **Sustainable *Transport Policy*** ?

- > **not dirigiste, central planning**, but a **rational policy, regulation** respecting the **choice of the citizen-user** and importance of **market forces**
- > **Same principles** for **all transport modes**

I. Sustainable *Transport Policy*



Sustainable *as to*

1) external (/ indirect)

- **cost** (environment, safety,..) -> include in project cost
- and **benefits** (contribution to GDP, social, ...)

2) direct

- **cost and benefits** (= for users)
- > mainly **self-sustaining projects** (financially)
- > **subsidies rather an exception** (within same transport mode, network completion, macro-econ. considerations)

II. The policy of cross-subsidizing rail by new road pricing



neither realistic nor sustainable

Based on the **assumption that road transport does not pay for its external costs = fallacious,**

- **ignores 2/3 of road user charges siphoned off**
 - **ignores external or indirect benefits of roads,** i.e. the net contribution of road transport to GDP.
- > June 2001: **Swiss Parliament rejected principle of internalisation of external costs** ("Initiative Bundi") after a study showed that **external benefits of road transport** (in monetary terms) were **three times higher than its external costs.** (H.BAUM, J.KURTE, Köln 2000.)



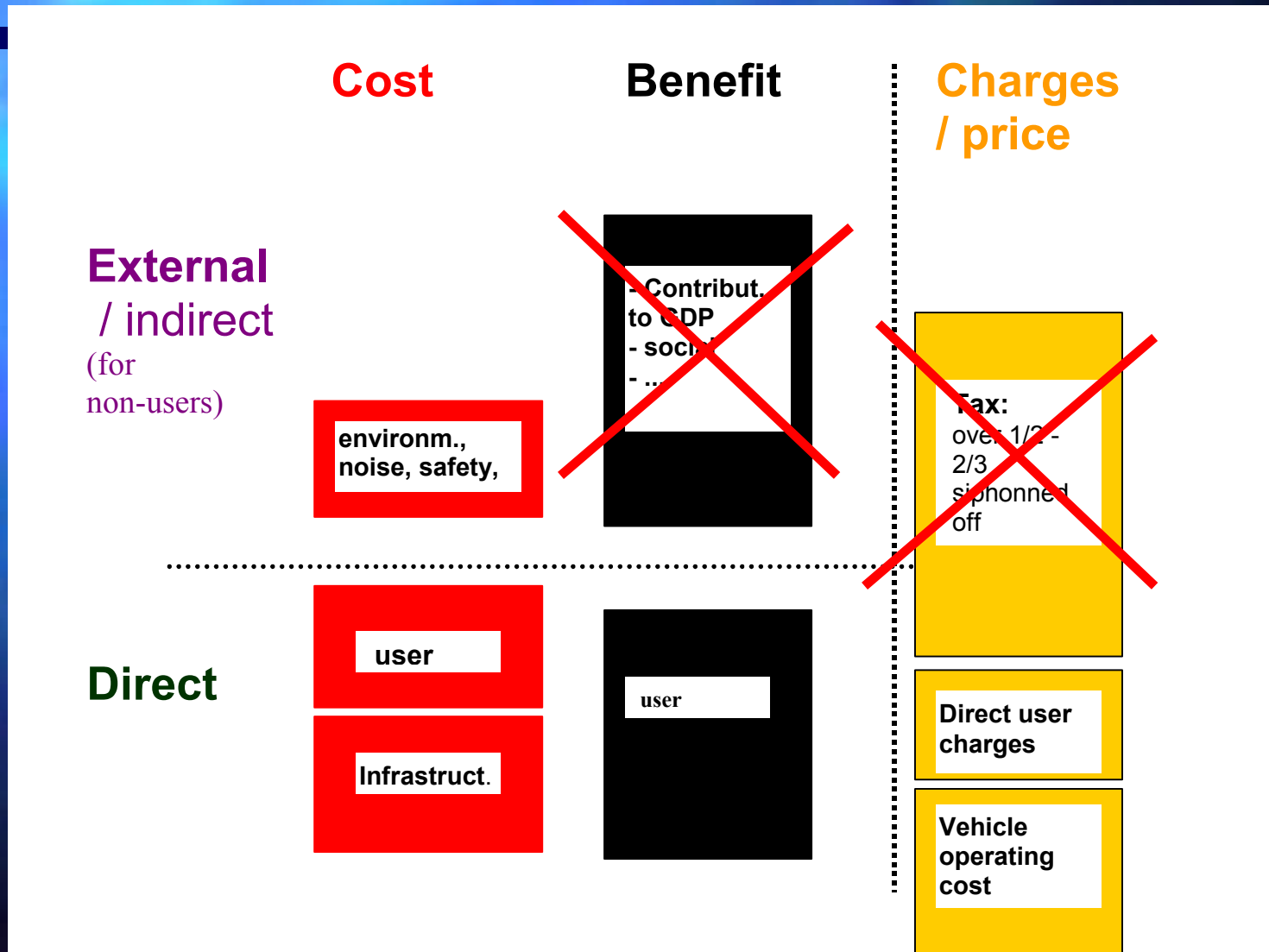
II. Policy of cross-subsidizing ...

After a comprehensive analysis of economic and transport data from 1980 to 1995, the **study found** that

- in 1995 **external cost of road** transport amounted to **7 bn** CHF, whereas **external benefits** amounted to **27 bn** CHF, resulting in a **net external benefit of 20 bn** CHF, which represents **7-8 % of GDP**.
- > **Similar scientific studies needed for 15 EU member countries**



II. Policy of cross-subsidizing ...





II. Policy of cross-subsidizing ...

- Policy of modal shift to rail = soviet-style central planning;**
inappropriate in democracy and market economy (need to respect the **choice of the voters**, i.e. the **citizen-users**)
- implies **state intervention** in terms of **road pricing** levied by state authorities (source of cross subsidies) and being **against necessary upgrades** of bottlenecks - overestimates the predictable use of pricing policies
 - **addresses the symptoms** (externalities) and **neglects the causes**, i.e. social, economic and spatial contingencies that generate road transport demand and make it price-inelastic



II. Policy of cross-subsidizing ...

-> likely results:

- a) artificial increase of road user charges, **produces economic losses**
- b) **failure to produce modal** shift, increase of **congestion**

Necessity to increase rail's share: by making it **attractive for users**, not by subsidizing an inflexible state enterprise, but by **private sector incentives increasing productivity,**

-> Cross-subsidies as a principle are the wrong incentive

III. IRF's recommendations



In view of **considerable external** ("indirect") **benefits**

- **external costs** should not be added as overall and largely artificial charges to transport tariffs;

should be included in project cost in the form of measures necessary for meeting environmental, safety and other standards.

- **most efficient solution** amongst competing transport modes has to be selected on the basis of **rationality**.
- **Key policy:** foster **economically** and **financially self-sustaining** transport modes.