The new Eurovignette directive: Fair pricing or road funding?

In July 2003 the European Commission adopted its long-awaited proposal on charging heavy goods vehicles to use Europe's principal roads, amending the so-called "Eurovignette" directive.[1] The European Federation for Transport and Environment (T&E) has years of expertise in the field of charges, having published the pioneering study "Getting the Prices Right" back in 1993. T&E believes **the proposal to revise the Eurovignette has flaws which could prevent it doing the job it is supposed to.** This paper explains why.

Why is the *Eurovignette* important?

As transport has grown over several decades, so have the problems it has created. These range from congestion and unnecessary journeys resulting from inefficient use of transport, to social and environmental impacts such as accident victims, pollution, noise problems, and emissions of climate-changing gases.

Over the past 10 years, a consensus has been growing among economic and environmental experts that many of transport's problems stem from a false pricing system. When prices of anything are artificially high or low, distorted patterns of economic development emerge, which in turn create their own problems. When prices of transport are artificially high or low, it causes costs to society. These costs should be paid by transport users but are currently paid by European taxpayers. This gives an unfair competitive advantage to those transport modes which do most damage.

The attractiveness of getting the prices right is that it could create the kind of transport that society both needs and can sustain. This is why some governments have begun moves to introduce better charging schemes for use of their roads. Understandably, the European Union is concerned about differences between national schemes which might impair the functioning of the internal market, so Europe's governments have recognised that the EU needs a structure for charging transport users true prices, or in economics-speak "internalising external costs".

- At their summit in Gothenburg in June 2001, the EU heads of government reinforced the need for "the full internalisation of social and environmental costs."
- In the 2001 white paper "European Transport Policy for 2010", the Commission said the aim of Community action should be "gradually to replace existing transport system taxes with more effective instruments for integrating infrastructure costs and external costs".
- In March 2002 EU heads of government asked their ministers and the Commission to implement a pricing system for all transport modes by 2004 that brings prices closer to costs by internalising external costs.

The so-called "Eurovignette" directive, a revision of the 1999 directive (1999/62/EC), is supposed to be the part of this pricing system that relates to charging heavy goods vehicles for use of Europe's road infrastructure. It is therefore vital that it is based on sound economics, or the problems created and experienced by road haulage could continue to grow.

Europe's voice for sustainable transport

[1] For the full text see http://europa.eu.int/comm/transport/infr-charging/library/dir_com_2003_448_en.pdf

The Commission's *proposal*

Among the principal features of the Commission's proposal (COM(2003)448 final) are the following:

- It is intended to establish common rules for the various EU heavy goods vehicles charging systems by formulating a system that can work for the expanded Union of 25 countries
- The annual fixed fee has been carried forward from the existing directive, which effectively sets a maximum limit on the amount of user charges
- User charges and tolls are to be limited to roads on the trans-European transport network; countries can in theory impose charges on roads in direct competition with TEN roads and taking diverted traffic from them, but only with specific Commission permission
- The external costs of accidents may be included, but environmental and congestion costs cannot be charged for.
- Revenues from user charges must be earmarked for the transport sector. The use of this revenue should be supervised by new, independent infrastructure supervision authorities in each member state.

In addition, the explanatory memorandum that accompanied the proposal's publication (IP/03/1097 of 23 July 2003) made two other points which are not explicitly backed up in the text of the proposal but which must nonetheless be considered part of the way the Commission intends the proposal to be interpreted:

- Although the proposal requires that revenue be reserved for the transport sector, the explanatory memorandum makes it clear that money from the charges should generally be used for the sector from which the charge was raised. In other words, the revenue must be reserved for the road sector rather than the transport sector as a whole
- Overall levels of charging are not to increase, only the charging structure should change.

THE FLAWS

The Commission's proposed revision fails, even when measured against its own criterion of assisting 'the proper functioning of the internal market'. It does so according to **economic theory**, and with no apparent reasons in terms of what is **politically feasible**.

Economic theory

The Commission's proposals are full of flaws when subjected to economic theory. Here are just a few:

- Economic theory suggests that infrastructure charges should reflect the social marginal costs using an existing road. This means that charging for all costs caused by road transport that society has to bear (such as congestion, damage to human health, environmental impact, etc) is economically sound. The Commission's proposal takes a different route.
- On the same lines, imposing a maximum amount of user charges is an artificial constraint with no economic justification, indeed it makes it difficult and in many cases impossible to relate the charge to actual costs.
- The idea of a flat "user charge" set out in chapter 3 of the draft revision is not related to the real costs of using a road (even if the revision does differentiate the charges based on the environmental performance of heavy goods vehicles). Such a system is already being phased out in Germany, where it has been realised that a flat user charge can be an incentive to drive greater distances. This is because a flat rate will be seen by truck operators as a "sunk cost", meaning that the more you drive the less you pay per kilometre.
- The idea of "earmarking" the revenues for a given purpose is generally rejected in economic theory, though using some of the revenue from external costs for specific purposes may make the charges politically more acceptable. This could involve compensating those on whom the costs are imposed (e.g. a national medical service), or funding improvements to make alternative transport more attractive. What seems to make no sense is the requirement to plough the revenues back into the road network – this is effectively using external cost pricing to contribute to the development of the cause of the externality!
- The draft directive allows road tolls and user charges to be applied in principle only to roads forming part of the trans-European transport network, but this could well encourage heavy goods traffic onto to non-TEN roads where they can do greater damage. Not only because it provokes extra detour traffic but also because accident risks and pollution potential are also generally higher on non-motorway roads than motorways.

Given that, in the Commission's own words, the revised Eurovignette directive is being carried out "in the interests of the proper functioning of the internal market", such economic flaws cast strong doubt over the current proposal's ability to do what it is supposed to. As such, the revised directive in its current form would do little overall to improve the functioning of the internal market, and might worsen it.

Political *feasibility*

Economic theory is not something politicians feel will win them elections. They believe voters will respond better if they see politicians associated with a prestigious transport infrastructure scheme than speaking eloquently about whether full cost recovery is a better underlying basis for a kilometre charging system than short-term marginal social cost pricing.

No doubt the average person knows little about economic theory, but if voters will judge politicians by whether the roads around their houses are more or less congested – and if the role of politicians is to show some leadership qualities – then **it is important to use economic theory as a guide to what is likely to work** and what isn't.

There is also the "knee-jerk reaction" in a recession that if the construction industry has a lot of work, things must be OK. Countless studies have shown that investing in infrastructure does not automatically bring economic benefits, but still the discredited assumption survives. This means resources are diverted into transport infrastructure from more justifiable investment, causing damage to other parts of the economy. The survival of this discredited assumption, plus the power of the road transport lobby, probably explains the proposed requirement that income from a scheme aimed at promoting true prices must be ploughed back into road infrastructure. As we say above, this amounts to using external cost pricing to contribute to the development of the cause of the externality, and **plenty of voters will be able to see that this requirement makes no sense**.

The Commission's wish to decide how to use money on behalf of member states, and its wish to be the arbiter on which non-TEN roads may qualify for user charges are violations of the subsidiarity principle. As subsidiarity was established to give EU citizens the message that the EU only exists for matters of transnational importance, violating it without any apparently sound reason **risks alienating voters from the European project**.

It is a tell-tale sign and a warning for politicians that no mention is made in the draft directive of either the "Fair Payment for Infrastructure Use" white paper published by the Commission in July 1998 nor the 1999 report by the "high-level group on user-charging". These EU policy guidelines supported the view that charging traffic for infrastructure investment would reduce the use of existing roads to an inefficient level. Politicians should be warned that ignoring authoritative reports because they don't say what you want is **no way to win respect from voters. It can even lead to accusations that taxpayers' money is being wasted.**

While the arguments against the draft revision of the Eurovignette directive are most convincing when expressed in economic terms, there are numerous political reasons why politicians should be wary of supporting a proposal that seems motivated by populist concerns about making life easier for road users, but will ultimately lead to worse conditions in road transport.

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What is *good* about it

Credit where it is due! The proposal does have a handful of improvements over the 1999 directive it is due to replace. These include:

- The new directive will cover all vehicles over 3.5 tonnes, not just those over 12 tonnes
- The external costs of accidents will be included
- In ecologically sensitive areas an added charge (up to 25%) will be allowed, though on condition that the revenue is used for alternative transport through the area
- By July 2008 member states will be obliged to vary the charges according to local characteristics, such as ecological sensitivity, population density and accident risk.

What *should* be done

There is a case to be made for the directive to be ripped up and completely rewritten.

Because of the inherent flaws in economic theory, the risk of violating the subsidiarity principle, and the general lack of coherence, there is a likelihood that the draft Eurovignette directive will not only fail to deliver what it should but possibly even add to the problems caused and experienced by road haulage. A European directive on infrastructure charging should allow member states to cover, as a minimum, the full social marginal cost of road damage, the cost of polluting and climate changing emissions, the noise problems and the risk of road traffic accidents, with options for separate charges covering congestion and specific local factors. The current draft does not do this.

The optimum would be to rewrite the proposal, as carrying the present draft forward may cause as much time. Having said this, if for reasons of political acceptability or a legal timetable a complete rewrite is *not* an option, then as an absolute minimum three basic changes must be made to the draft directive:

- **No earmarking of revenues** – all requirements about how to use the revenue should be removed from the proposal. Some earmarking may be useful for acceptability reasons in certain cases, but this cannot be imposed from the Commission without violating the subsidiarity principle.
- **No restrictions with regard to the network** – if charging true prices is to lead to an efficient transport system, member states must be free to apply charging systems on *the whole road network*. The requirement to get the Commission's permission for roads which are not part of the trans-European network is not only a violation of the subsidiarity principle but a bureaucratic hurdle without necessity or obvious benefit.
- **Members states must be allowed to include all external costs** – the omission of environmental and congestion costs from a directive supposedly seeking to charge true prices would be laughable if it were not so serious. These cost categories must be added to the proposal.

There is much resting on the Eurovignette directive. A directive striving for true costs based on sound economics could set in motion a series of incentives that could gradually make Europe's goods transport much less damaging, much more efficient and much more sustainable. The Commission's draft revised directive will do very little to help and could well exacerbate the very problems that led to pressure for the current Eurovignette to be revised.

As such, MEPs and ministers have a major responsibility to ensure that the draft directive is changed along the lines outlined in this paper when it passes through the EU legislative process.

In the broader context, even an optimum Eurovignette directive can only be one device towards the overall goal of optimising transport so it can play its part in an environmentally sustainable economy. Other measures will also be necessary. These range from providing a legal framework for the interoperability of electronic fee collection systems, through beefing up the requirements for full and binding environmental impact assessments (both specific and strategic) of proposed transport infrastructure, to ensuring that harmonised minimum levels of duty on transport fuels (notably diesel) are high enough to allow optimum functioning of the market. For heavy vehicles, a well thought-out kilometre charge based on full marginal costs is a fairer and more efficient way than diesel tax to charge for other externalities than CO_2-emissions[2].

All of which makes it vital that the Eurovignette does what it's supposed to, as an inadequate system for charging heavy goods vehicles for use of Europe's roads would take us a step further away from sustainability rather than towards it.

2 Member states that introduce a kilometre charge should therefore be permitted to reduce the diesel tax for these vehicles to the minimum level fixed in the newly adopted energy tax directive (€302/ 1000 l). It is worth noting that for private car use, it is particularly important that member states raise the fuel duty for diesel to at least to the same level as the taxes on petrol.

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