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**OUTLINED PRAGMATIC APPROACH TO THE HARMONISATION AND  
INTERNALISATION OF EXTERNALITIES AFTER HELSINKI  
PANEUROPEAN TRANSPORT CONFERENCE**

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Katedra dopravního managementu, marketingu a logistiky

**Introduction**

The European Commission in its Green Paper „Towards fair and efficient pricing in transport policy - options for internalising the external costs of transport in the European Union“ (COM (95) 0691, prepared a discussion document to tackle the most important issues of the present and future transport policy in Europe. The paper led to some proposals, how to internalise externalities and using this way how to take into account especially in the road transport haulage socially necessary costs (infrastructure, environment, conditions of living). The most important part of them has not been still covered on the level of transport enterprises and individual road users, but by the general taxpayers - from the state budget. Such proposals shall not be accepted unanimously. There is too large share of people involved in road transport and industries of its suppliers, that opposed, progress is therefore rather slow.

The most important antithetical proposal has been, that there is necessary to continue in research work, because some items in the calculations of socially necessary costs in road transport are still not clear enough; that in case of implementing higher charging of road transport, (it means haulage using heavy vehicles), there would be a loss of ability of the European industry to compete and the significant increase of prices of consumers goods etc. In fact the Commission proved, that such impact on the level of prices is limited to a range from tenths to percent of prices of final products.

In the paneuropean transport policy there are two main issues to be tackled:

- to assure only sustainable mobility in passenger and freight transport because of environmental impacts,

- to assure access to the transport market for potential users of transport regardless to
  - financial position of a user,
  - physical constraints (ageing of population let more people, that could not use private cars and the appropriate mobility is regarded a citizen 's and social right, enabling to apply the predominant part of all other basic citizen 's and social rights),
  - area, where the demand for services has originated.

The key problem to assure only sustainable mobility is to express the till now known real social costs and put them in charges to indicate for final users the right value of transport services. Such first step - in case it would not be enough to limit the undesirable growth of transport could be followed by some legal and administrative constraints, but respecting market forces (within the bounds of social market economy).

The second dominant aspect is to find the real share of fares and subsidies in case of public services in general interests.

### **The theoretically possible solution**

The theoretical approach is rather simple:

- there is a concept of the construction of new motorways, expressways, border crossing, bypasses etc., schemed in some decision of government, based on studies of the necessary basic network. The limits for the discussion of the proposed extent are rather limited: these studies has been repeatedly improved and the changes within the categories of for example motorways and expressways are from the point of view of a driver hardly to recognise, but it needs massive investments and there are limited resources of the state budget;
- there is delay in maintenance of the infrastructure network. If we not take into account huge delays during the era of central command economy, from the year 1989 about 10 billion of Czech Crowns a year only in road infrastructure maintenance has been missing every year (roads and bridges).

In case of good developed public, mostly collective transport, we can regard usage of private cars as some kind of more luxury utility. To allow the access to the high quality public transport there is necessary to subsidy the public transport to make him competitive with private motor transport as a more environmentally harmful mode of transport; the only possibility is fair and efficient pricing in road transport not connected with general services in public interests. The aim is to keep under the rather unchanged conditions the fiscal neutrality with no raising the tax burden for citizens transferring the charging from all citizens to the groups of persons profiting from the more than necessary transport services.

### **Impact of internalisation of externalities on the final prices in transport**

In costs of transport undertakings, especially in case of rail transport or another type of monopoly used fixed paths there is a large share of fixed costs; the revenues covering more than marginal costs would than improve the rate of covering of the total costs of such undertaking.

The rate of covering the total costs both in the level of fares and subsidies of public transport depends in large extent on the elasticity of costs and prices in road transport in comparison with the fare and met quality standards in public transport. But at any way there is

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necessary to keep in mind, that it is a type of public services in general interests - with an access for everybody.

Such broad lines have been accepted by many policy decision - makers and people influenced by such decisions; there could be only objection against the used values of external effects, if some negative externalities are not just balanced by positive externalities etc., if there is necessary to practice something or to continue in research and development. The flood and other in previous years unusual climate phenomena could push the decision-making process in transport policy toward implementation.

There is an aim to include individual transport in transport chains with the most possible excessive participation of the collective and generally public transport, limiting the part connected with private cars, but enabling access to individual transport for everybody with needs for traffic in case of really social inefficient public transport services.

The costs of socially necessary transport could be decreased - in comparison with a situation, in which the services have been provided by a public body- using competition among potential transport operators, suppliers of equipment etc. To prepare a competitive milieu, there is necessary to change the legal position of the provider of services from the public law entity to the private law entity, mostly in a form of a company. The legal position of a company is in EU not connected with the property rights, ownership of shares etc. In fact, the prevailing part of companies providing public services are in public hands; there is nothing, that should orient a manager of a company to do the things better or worse in connection of property of the company. Some companies providing such general services in public interests, where the competition is by the characters of provided services limited, could be granted by especially or exclusive rights, the competition could be limited only on a part of activities (subsidiary, supplementary etc). In the Community law there is only one condition: a company in public hands can not have - with the exception of exclusively or special rights - another conditions, constraining in competition another potentially providers of the same type of services.

To decide to make farther step of privatisation - with private owner or public - private-partnership - needs to divide all activities in question into two parts:

- one with a „normal“ rate of return“, that could be sold to the private owner, (or one that would be bought by private capital),
- the other part - with no profits either
  - to let in public hands, or
  - to guarantee in advance the appropriate level of subsidies.

There could be feeling, that the public body not only responsible, but directly providing services is the second best option, how to operate such services. But there is a good example from Great Britain, that in case of public services it is not quite clear. „Testing the public services providers using the discipline of market“ needs to evaluate two sides of an equation:

- on one hand the higher revenue from both public and private resources, enabling to cover all costs of services, from the private initiative, and the possibility of a better access to private capital resources ;
- on the other hand additional costs from strengthening of the capacity (because private sector is trying to earn more money) of
  - supervisory body responsible for providing public services in general interests, (agreed level of transport services, in case of dividing the previous provider of services because e.g. of large amount of necessary capital to buy it by the private capital as a whole, maintaining the synergy network effects,

assuring interconnections in time tables, network information service and ticketing, interoperability of services etc.,

- public body responsible for subsidies of public services, that the amounts provide good quality for money,
- supervisory body responsible for health and working conditions,
- a body responsible for fair competition in general,
- subsidies granted to the users organisations, as they are important part of public control etc.

The most questionable solution is to decide, if there is useful to start the second stage of privatising the public services (shift of property to private persons) as a target in case; if it is not good enough only to shake off a part of responsibilities of the previous in full extent responsible public bodies and institutions to the private sector. In case of an idea for very advanced property privatisation the management could understand, that such property transition from public to private ownership of a private corporation is a short range problem, that should be solved in a shortest possible time period. Under such precondition the process could be speed up declining the price of an undertaking. To reach it, there is possible not to manage the undertaking in a most profitable way on one hand, but on the second hand with an effort to assure good personal position after all property transactions.

### **What to take into account comparing social costs of local transport services**

The high density of railway network in the Czech Republic, in some way envied by the West European transport politicians, where the railway network has been from the present point of view (environmental protection etc.) too much break down, could proved to be too high and questionable. It should be reviewed. But reviewing it there is necessary to compare

- the total social costs of both mode of transport - rail and road. In case of break of railway services there is necessary to keep in mind, that the local roads (2<sup>nd</sup> and 3<sup>rd</sup> class) have been originally built for vehicles hauled by animals, with many step by step laid layers of pavement, but without appropriate grounds for heavy traffic. In extreme cases - based on the methodology of the European Commission- there is possible to regard all costs of infrastructure, derived from wear and tear caused by traffic, as costs of only heavy vehicles transport.

### **The full (social) costs approach as a matter of reality**

There is a prevailing opinion (derived from the present knowledge of the environmental impact of cars), that the cars pay in the form of taxes more costs of infrastructure as appropriate and that these taxes are something as cross subsidies in favour of goods traffic operated by heavy goods vehicles. The opinions of the different representatives of environmental protection initiatives are not the same - the research of these problems is continuing.

The necessity to follow the principle of full internalising of the recent external costs could caused some delays in otherwise necessary standardisation in charging of heavy good vehicles in road transport on the European- wide level. Commission could than prefer to establish the lower limit of taxation and to let the concrete solution on the member states and associated countries. In such situation it looks to be most convenient solution in all items of charging and taxation to follow the pattern of Germany. The share of international traffic from, to and through Germany provided by the Czech hauliers is nearly 2/3 from the total

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international road traffic, in the share of foreign hauliers on the Czech road network the number of German or through Germany passing lorries is very high too. Therefore there is necessary to keep an appropriate level of taxation and charging of hauliers if not on a Community, than on such bilateral level. But there is a problem of the future level of taxation: in German road vehicles taxation law there are three classes of freight vehicles, divided with regards to their environmental impacts. In all three classes the charging up from the under limit 2000 kg is progressively graduated up to 200 kg, but limiting the upper rate of such charging. In addition in all three classes there are upper limits for lorries and tractors: from the most environmentally friendly to most harmful class 1300 DEM, 2000 DEM and 3000 DEM (trailers and semi-trailers are charged in all classes by unified upgraded charge). The law should change in 1998. And there is necessary in some way to harmonise both structure of charging, otherwise there will be after following step of liberalisation of the road transport a great distortion of the competition between Czech and German hauliers.

There is another aspect that will rather complicate the final solution of the harmonisation of the field of competition: very low charging of vehicles in the Czech Republic (not absolutely, but relatively) might contribute to excessive capacities in road transport, raising taxes and therefore prices could have a serious effect on the standard of living and employment. In such case there is necessary to provide some temporary exceptions, or introduce some measures aimed in EU to promote small and medium- size enterprises.

### **General and fiscal policies aspects**

The purpose of raised vehicle charging should be to provide in price level the necessary information for the orientation of final user about the right value of transport services. It shall lead to higher pricing for individual final users - both in road transport, and in competing modes (e.g. rail). But with the exception of delayed maintenance in general the burden of the users of transport services - with the exception of the public services in general interests ) should equal the decreased burden of general taxation of all taxpayers - all citizens. There is necessary to find an adequate step by step approach, not disrupting the financial position of road hauliers (in the sense of the 75<sup>th</sup> article of the ES Treaty). And there is necessary to prove, that the higher incomes in transport will be used in favour of improved infrastructure and in general transport quality.

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### **Resumé**

## **MOŽNÉ PRAGMATICKÉ POJETÍ HARMONIZACE Z INTERNALIZACE EXTERNALIT NA HELSINKÉ PANEVROPSKÉ DOPRAVNÍ KONFERENCI**

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Základním problémem evropské dopravní politiky (a i všech ostatních sektorových politik) je jen trvale udržitelná mobilita a její vývoj. Nejdůležitějším řešením je internalizace externalit pro stanovení správných cen dopravních služeb na jedné straně a na druhé straně zajištění přístupu k obecným službám ve veřejném zájmu. V stati se stručně popisují v tomto směru základní kroky.

## **Summary**

### **OUTLINED PRAGMATIC APPROACH TO THE HARMONISATION AND INTERNALISATION OF EXTERNALITIES AFTER HELSINKI PANEUROPEAN TRANSPORT CONFERENCE**

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The key priority of the European transport policy (as all other policies) is only sustainable mobility and its development. The most important solution is internalising the externalities to set right prices on transport services on one hand and to assure access to the general service in public interests in transport for everybody on the other hand. There is a short description of the basic steps in this way.

## **Zusammenfassung**

### **EIN VORSCHLAG ZUR HARMONISIERUNG UND INTERNALISIERUNG VON EXTERNAL KOSTEN NACH DER PANEUROPÄISCHEN VERKEHRS KONFERENZ IN HELSINKI**

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Ein Grundproblem der Europäischen Verkehrspolitik (und auch allen anderen Politik) ist nur die zulässige Mobilität and ihre Entwicklung. Das wichtigste Problem ist die Internalisierung von Externalitäten für reale Preise von Verkehrsdienste und ein allgemeiner Zugang zu den gemeinsamen Dienste in öffentlicher Interesse im Verkehr für alle. In dem Artikel ist eine kurze Beschreibung von Grungschritte zu dieser Zielsetzung.

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