

Fair and efficient EU transport pricing

Reinhard Madlener, Anna Kleissner

There is a great variety of schemes for transport charges within the European Union, leading to undesirable market distortions not only between member states, but also between the various modes of transport. Moreover, considerable external costs in terms of congestion, accidents, air pollution, and noise constitute a barrier for the more efficient provision and use of transport infrastructure.

As a consequence, during the 1990s the European Commission made several efforts to establish a coherent and integrated plan for the development of a Common Transport Policy. In particular, the action programme "Sustainable Mobility: Perspectives for the Future" describes initiatives aiming to encourage the development of "efficient and environmentally friendly transport systems that are safe and socially acceptable". Major targets are the deepening of the internal market for transport services, environmental protection, safety issues, economic and social cohesion, and a fairer and more efficient pricing of transport services.

Efficient infrastructure pricing would facilitate the introduction of public private partnerships and may substantially relieve demands on tight public budgets

With regard to fair and efficient transport service pricing, the Commission issued a White Paper on "Fair Payment for Infrastructure Use" in 1998, in which a progressive step-by-step harmonization of the principles of charging for transport services is laid out. This harmonization requires greater convergence regarding the methods for calculating different (internal and external) cost components, and should lead to fairer competition between the different modes of transport. As a prerequisite, fair and efficient pricing policies attempt to improve the linkage between transport charges and infrastructure costs at the level of the individual user. This has the potential not only to reduce repair and maintenance costs of the transport infrastructure system, but also to mobilize private capital for infrastructure provision. Thus, efficient infrastructure pricing would facilitate the introduction of public private partnerships and, therefore, substantially relieve demands on tight public budgets.

The Commission argues that providers and users of transport systems need proper market-based incentives to adjust transport behaviour, and has suggested to progressively apply the pricing principles based on marginal social costs. This means that prices paid by individual transport users will have to reflect the full (internal plus external) costs of transport more accurately.

Two-part tariffs and Ramsey pricing more adequately reflect internal and external costs of transport

Two methods seem particularly useful in this respect, namely two-part tariffs and Ramsey pricing. Two-part tariffs are composed of a part that reflects the fixed costs and one that reflects the marginal costs incurred (i.e., that reflects the consumer's dual decision on whether at all and if so how much to consume a certain good or service). Ramsey prices take into account the fact that in the case of an inelastic demand-price elasticity, price mark-ups can (and should) be higher than in the case of an elastic demand-price relationship.

The amount of the external costs caused by the provision and use of transport infrastructure is significant, even at conservative estimates: congestion is estimated to cost about 2% of the Union's GDP each year; accidents another 1.5%; and air pollution and noise at least 0.6%. Over 90% of these costs are attributed to road transport, although road taxation, in general, is way too low to cover these external costs. Despite major progress in this area, there is still large uncertainty surrounding cost estimates of individual externalities, and costs vary significantly across and within modes of transport, and time and place of use. However, there is some agreement that the order of magnitude of the total costs lies mostly in the range of the total direct contribution of the inland transport modes to GDP.

Finally, it is important to stress that distributional equity considerations need not be an argument against the introduction of more cost-effective policies, but, quite on the contrary, can serve as an argument for introducing additional measures. This is because efficiency gains achieved through the adoption of a more cost-effective instrument can be used to compensate those faced with an unfair burden imposed by the policy, and still make society as a whole benefit. Needless to say that, in cases where it is difficult to define and implement sufficient additional measures, the transport policy adopted should be modified in such a way that negative distributional impacts are minimized. □