

**RESOLUTION No. 98/1 ON THE POLICY APPROACH TO INTERNALISING
THE EXTERNAL COSTS OF TRANSPORT**

[CEMT/CM(98)5/FINAL]

Ministers of Transport of the ECMT, meeting in Copenhagen on 26-27 May 1998

REITERATING

- that adequate and efficient transport systems are of fundamental importance to the economies of all ECMT Member Countries and play an important role in the lives of their citizens;
- that there exist safety, health and environmental problems for which the transport sector bears a responsibility;
- that difficulties are increasingly apparent in meeting demand for mobility and funding infrastructure developments.

RECALLING

- that the Council of Ministers at Annecy in 1994 established an ad hoc Task Force on the Social Costs of Transport to clarify the issues in the debate on external costs, advise on methods of evaluation and develop appropriate policy options;
- that the 1996 ECMT Hearing of International Non-Governmental Organisations showed general support for the approach to managing the social costs of transport adopted by the Task Force;
- that the Berlin Council of Ministers of 1997 accepted the approach to internalising the external costs of transport set out in the report of the Task Force and called for the drafting of a resolution on policy toward the external costs of transport;
- that Ministers reiterated their support for further consideration of the application of the principle of internalising the external costs of transport in their 1997 Helsinki Declaration and at the 1997 UN/ECE Conference on Transport and Environment in Vienna;
- that the European Commission will make proposals on the development of instruments for reducing the social costs of transport on the basis of the 1996 report Towards Fair and Efficient Pricing in Transport;

CONSIDERING

- that significant welfare gains could be realised through reducing the external costs of transport efficiently and that internalisation aims to achieve this by factoring external costs into markets;
- that through more efficient management of resources and government expenditure, internalisation presents opportunities to reduce budget deficits, increase public spending and/or reduce taxes on labour and capital;
- that internalisation is a key element of policies aimed at fostering sustainable development;

AWARE

- that internalisation can be achieved without a net increase in taxation in the economy as a whole;
- that by improving economic efficiency internalisation can improve the competitive position of enterprise;
- that issues of equity (including the international dimension) need to be considered in developing internalisation policies. Equity issues can and should be addressed by a variety of flanking measures. In this way, internalisation can be made compatible with policies for regional cohesion;
- that the tax systems of many countries may already internalise some external costs, either as a result of overt policy or as a by-product of raising revenue through taxes specific to transport;
- that there are uncertainties in the estimation of external costs and in cost allocation, but these costs are certainly not zero and the lower bound estimates used as the basis for the accompanying report are unlikely to over-value external costs;
- that for some transport services with high external costs, internalisation is likely to lead to price increases but that internalisation should be based primarily upon structuring prices more efficiently, rather than increasing prices overall;
- that for those modes currently associated with high external costs, internalisation will, at the same time as improving efficiency, reduce growth in the volume of transport and any associated socio-economic benefits. However, a well designed policy package need have little impact on GDP and will result in an increase in net welfare when the value of safety and environmental benefits is taken into account.

NOTING

- that the potential for economic instruments to address the social costs of transport has been under-exploited;

- that tax increases that provide no incentive to reduce external costs do not contribute to internalisation;
- that regulations should be dynamic (tightened over time) in order to provide incentives for technological improvement, and that fiscal components of internalisation policy must take into account the expected benefits of such technological improvements;
- that economic indications of individual preference are the ideal basis for the valuation of external costs. However, where satisfactory valuations on this basis do not exist, agreed political targets (e.g. ambient air quality or exhaust emissions standards) are the most suitable basis for a practical internalisation strategy.

AGREE TO THE FOLLOWING PRINCIPLES

- that in the interests of improving economic efficiency, reducing the social costs of transport and increasing economic welfare, internalisation is an important transport policy objective;
- that full internalisation should be viewed as a long term objective, taking account of the wide gap that exists between the present structure of costs and prices in transport markets and the ideal in many countries (and particularly in some transition economies);
- that internalisation policies should be implemented through economic instruments and/or regulations, designed to provide effective incentives for reducing externalities while not resulting in a net increase in taxation in the economy as a whole;
- that Governments must co-operate to develop effective instruments for internalisation that do not discriminate between citizens or companies of different countries;
- that internalisation policies should not discriminate between different modes of transport or between transport and other sectors of the economy;
- that where public financial support for the provision of public goods is necessary, it should be provided, but only through transparent payments under contract;
- that internalisation policy should be implemented in a gradual step-wise manner in order to avoid economic shocks;
- that these gradual changes should be co-ordinated between modes to avoid shifts in modal split that would prove uneconomic in the long term.

RECOMMEND

- that Governments pursue opportunities to provide incentives for internalisation in the development of transport policy both in the context of EU legislation and in the framework of national legislation in all ECMT Member countries;

- that Governments develop economic instruments for the internalisation of transport externalities and that Ministers of Transport co-operate with Ministers of Finance in exploring the possibilities;
- that Governments align the structure of taxation more closely with costs, for example by moving towards more differentiated tax systems in transport and making greater use of variable charges¹;
- that Governments progressively tighten fuel, emissions and safety standards cost-effectively to stimulate technical improvements towards lower social costs of transport;
- that Governments ensure that existing regulations are respected, notably in regard to social legislation;
- that where existing legislation related to the external costs of transport proves difficult to enforce, notably in the areas of road safety and environmental protection, regulations are reviewed with a view to rendering enforcement more practicable and effective;
- that special attention be given to reducing acute externalities, such as in urban areas, in the shorter term;
- that Governments ensure coherence in the valuation of costs and benefits, both private and external, used in project appraisals and environmental impact assessments and in developing both investment and internalisation policies;
- that Governments ensure that the electronic charging systems for using roads under development in a number of Member countries are compatible to a degree that minimises the costs of using such systems, avoids the need for individual vehicles to be equipped with several different systems and avoids the creation of delays at national frontiers;
- that Governments undertake appropriate public education measures to prepare the ground for the introduction of internalisation policies;
- that first steps towards a gradual and progressive internalisation of the external costs of transport be taken in individual Member countries as soon as possible.

INSTRUCT THE COMMITTEE OF DEPUTIES

- to monitor the development of internalisation policies in ECMT Member Countries;
- and to report on progress towards the application of this Resolution within three years.

1. Italy entered a reservation in view of its concern that fiscal policy is not the remit of Transport Ministers.