INTERNALISING THE SOCIAL COSTS OF TRANSPORT

Chapter 7

European Union Policy on Taxes and Charges in the Road Transport Sector

by Dirk Van Vreckem
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From the outset, the European Union (EU) has made the harmonization of the conditions of competition in the road transport sector an integral part of its transport policy. This harmonization -- which concerns the technical, social and fiscal aspects of the sector -- has been the subject of numerous laws and regulations, as well as much scientific and academic analysis.

Neither the scale of the action undertaken by the Union, nor the political will to obtain practical results should be of any surprise. Inasmuch as the successful completion of the internal market implies an increase in the transfrontier or inter-Member State services supplied by carriers established in the different Union countries, in addition to the opening up of national markets to all Union hauliers, it is essential for competition that such transport operations be harmonized. Opening up markets leads to the opening up of competition, especially among all Union carriers. If such competition is to be fair, operators must be subject to the same (or at least comparable) conditions, including those relating to taxes and charges. Harmonization is therefore not an end in itself, but rather a means of ensuring healthier competition and thus, a more efficient allocation of resources.

Having established, by way of introduction, precisely why transport harmonization is warranted, let us focus more specifically on taxes and charges in the road sector. First, the three main objectives are as follows:

• to harmonize the Member States' taxes and charges on the Union's hauliers;
• to allocate to hauliers the real costs generated by the use of their vehicles, costs relating not only to infrastructure but also to externalities; and
• to ensure that Member States are reimbursed for what they spend on road infrastructure by those who use it, and who therefore generate costs.

Since the frame of reference for this paper is the common transport policy, the taxes and charges examined here are:

• excise duties on diesel oil;
• vehicle taxes; and
• tolls and user charges.

The Union has taken the following decisions in this sphere: on 19 October 1992, the Council adopted a Directive fixing the minimum rate of excise duty on diesel oil at 245 ECU per 1 000 litres. While this Directive simply lays down a minimum rate, it is nevertheless an important measure, since this rate is set at a fairly high level. Moreover, excise duties account for two-thirds of Member States' tax revenues from the road sector. Lastly, substantial progress has been made towards scaling road charges, so that they are not
established on a "lump-sum" basis, but are commensurate with kilometres travelled, energy consumed, use made of the road network, and costs generated.

There is then the policy compromise of 19 June 1993 which, without exaggeration, may be qualified as "historic", since it represents a breakthrough towards not only a fairer system of road taxes and charges, but also toward a more equitable allocation of costs among users. It consists of two parts:

- establishment of a minimum rate for taxes and charges on heavy goods vehicles; and
- provision for Member States to introduce charges for the use of trunk roads.

As regards the tax on goods vehicles, the Council decided to set minimum rates in accordance with the permissible gross laden weight and with the number and type of axles. Thus, from 1 January 1995 at the latest, the minimum rate for a conventional 2+3 axle vehicle weighing up to 40 tonnes will be 700 ECU per annum. In order to take account of certain special circumstances, provision has been made for optional reduced rates. This applies in particular:

- to France, Greece, Italy, Portugal and Spain, authorised to apply rates of up to 50 per cent below the minima, until 31 December 1997;
- to certain types of vehicle used for occasional, non-commercial transport operations;
- until 1 July 1998 at the latest, to national local transport operations carried out by vehicles with up to three axles; and
- to motor vehicles used for combined rail/road or waterway/road transport.

The Council agreed that these minimum rates would remain unchanged for three years (i.e. until 31 December 1997, after which they are to be revised).

As regards tolls and user rights -- the latter being the real innovation of the Council's policy conclusions -- Member States are authorised to introduce or maintain them, subject to the following conditions:

- tolls and user charges shall be payable by all concerned, with no direct or indirect discrimination based on the haulier's nationality or the origin or destination of traffic;
- both a toll and a charge shall not be imposed at the same time for the use of a single section of road;
- they must not give rise to controls at frontiers within the Union;
- they may apply only to motorways (or their equivalent), or to the top category of road in a Member State and, subject to a Union procedure, to sections of a Member State's primary road network, if warranted on safety grounds;
- user charges may not exceed 1 250 ECU per annum -- a ceiling which is to remain unchanged until 1 January 1997, when it will be reviewed -- a procedure that will then be repeated every other year;
- daily, weekly and monthly rates shall be proportional to the duration of actual use of the infrastructures concerned, plus a small charge to cover administrative costs;
- tolls are to be related to the costs of building, maintaining, operating and developing the road network concerned;
- two or more Member States may co-operate in introducing a common system of user charges applicable within their territories. In this event:
  -- the maximum rate may not exceed 1 250 ECU per annum;
  -- the common user charge gives access to the road network of the Member States participating in the system;
  -- other Member States may join the common system; and
-- the participating Member States set up a scheme whereby each receives a fair share of the income arising from the user charges.

- special rules may be adopted by the Member States concerned regarding frontier zones.

Belgium, Denmark, Germany, Luxembourg and the Netherlands have, in fact, already decided to co-operate in introducing a common system of user charges. This agreement provides in particular that:

- the maximum annual charge is 1 250 ECU for vehicles with 4 axles or more, and 750 ECU for vehicles with 2 or 3 axles;
- the maximum daily rate is 6 ECU;
- the weekly and monthly rates are to be set in consultation with the European Commission;
- any decision concerning user charge rates must be taken by common agreement;
- any Member State may waive its right to levy the user charge within its territory or to stop levying it. In this event, the country concerned undertakes not to introduce a national charge;
- the details of the common system are to be established before 1 January 1994, and an agreement is to be signed to this effect; and
- reduced rates will be paid for three years by vehicles registered in Greece, and for two years by vehicles registered in Portugal and Ireland, since those countries have economies at a different stage of development and they are at a disadvantage owing to their geographical location.

The policy Decision of 19 June 1993 looks set to have a major impact. Even though the motor vehicle tax will be reduced in certain countries -- a 50 per cent cut is planned in Germany, for example -- it is certain that this reduction will be more than offset by the increases in tax revenues which will result from the introduction of user charges in five or six Member States; from the setting of minimum rates for motor vehicle taxes; and from the planned increase in excise duties on diesel oil. This general increase in the cost of road haulage will inevitably have consequences for intermodal competition.

Moreover, the Decision of 19 June 1993 has managed to offer at least a short-term solution to the problem of non-resident hauliers' access to national transport (cabotage) -- a problem that might well have had serious political, legal, economic and institutional consequences had the Council failed to act. The Decision provides for the use of common instruments (excise duties on oil, motor vehicle taxes, tolls and user charges), which are to be used to implement Union policy on road taxation and cost allocation.

By specifying that the provisions on user charges are transitional, and by planning to introduce electronic equipment in 1998 (which will require more intensive research and development) for cost allocation based on the territorial and variable nature of the charges, the Council has indicated the main thrust of its future action.

The Council Decision of 19 June 1993 thus sets out the internal structures needed to take account of all infrastructure costs and, at a later stage of all external costs of road transport. In the light of the policies outlined in its White Paper on the future development of the common transport policy, the Commission will spend the next few years on further analyses of the concept of external costs generated by road haulage and other forms of transport. The analyses will seek to identify external effects which will then be quantified and internalised. A report on the "state of the art" will first be drawn up and can then serve as a frame of reference and information for the guidance of policy-makers.

Accordingly, when the system introduced by the Decision of 19 June 1993 is reviewed in 1998, the Union will be in a position to take decisions based on sound technological, ecological and economic considerations.