# The European Commission White Paper on European Transport Policy

## *International Road Federation detailed commentary*

## A. General commentary

### *1. A winning formula?*

The International Road Federation represents a transport sector – the road – whose performance in Europe has, by any measure, far exceeded that of any other mode. Today, the road's success, in terms of market share, can be attributed, for freight transport, to its capability of meeting the demand for rapid, A to B, "just in time", relatively strike-free transport, and for passengers, to its qualities of flexibility, comfort, and inherent ability to respond to the need for and right to individual mobility.

At the same time, the IRF agrees on the need to address negative aspects of road use as perceived in the White Paper – safety, environmental impact, etc. Indeed, a significant portion of its recent World Meeting focused on how the road sector can rapidly and efficiently take the necessary measures to mitigate these negative impacts. The IRF works on the basis that the free market has historically shown itself capable of rapidly correcting the problems it has itself created.

### *2. Analysing the problem*

The Commission's White Paper accurately analyses the multiple problems facing Europe's transport market. However, it goes on to make a chain of assumptions not only about the transport market itself but also about the role public policy might play in offering solutions. Should one link be broken or challenged, the entire policy chain is in danger of disintegrating.

For example, the Commission makes the assumption that "fair pricing" of infrastructure might provide a key policy tool for manipulating the transport market. This assumption may, at first glance, carry its own logic – in theory. In practice, there is ample evidence to suggest that price is frequently the only *quantifiable* measure in a series of factors which influence consumer choices.

### *3. Interpreting congestion*

Further, the Commission interprets certain factors, for example, congestion as an entirely negative economic phenomenon carrying heavy costs. Yet the private sector generally interprets congestion as a sign of heightened economic activity and responds by investing in new infrastructure.

No one would argue that a congested transport infrastructure is, in itself, a good thing. Equally, few would argue that lack of congestion, for instance in Eastern Europe in the 1980s, was a good thing either, certainly not a positive economic indicator.

In our view, the Commission White Paper's approach to tackling congestion is both too theoretical and too *dirigiste.* It fails to recognize that public policy does not always achieve its declared goals and has, on occasion, actually worsened the problem it attempted to solve.

### *4. A policy for Europe's taxpayers?*

Despite the Commission's declared intention to place "the citizen at the heart of transport policy", there is little evidence in the White Paper that the Commission's transport policy-makers having taken due note of what the European taxpayer *wants,* expressed by his or her actual behaviour in the transport market.
Rather the Commission seems to have created an abstract European citizen whose *needs* it proceeds to define. It sets forward a number of policy aims (reducing congestion, protecting the environment, improving safety) and a number of policies for achieving them (correcting modal imbalance; increased regulation; social and fiscal harmonization; etc), yet provides little evidence to suggest that these measures have succeeded elsewhere in the world. In addition, there is a real danger that basing policy on Commission-perceived needs rather than citizen-expressed wishes will result in precisely the reverse effects to those intended.

### *5. Transport and the economy*

The second aim of the White Paper is to "decouple" transport needs from economic activity. Commission planners are, however, silent on how this is to be achieved. Throughout history, economic and social development has gone hand in hand with infrastructure development, whether it was the railways of the 19th Century, responding to the needs of mass transport, or the roads of the 20th Century, responding to the need for more flexibility and individual choice in transport.
The IRF recognizes the ever increasing need for transport and mobility in Europe and recommends that all transport modes should be developed to their full potential in order the meet user demand. However, all modes have their inherent strengths and weaknesses. Where each mode is developed according to the advantages it offers, and ensures the best possible service in the market for which it is particularly well-adapted, it should need no funding beyond what it generates through its own activities.

### *6. State intervention*

The IRF fears that any attempt by the Commission or national governments to intervene in the transport market and impose choices on citizens will end in failure and, in all likelihood, inflict upon European citizens a transport policy entirely ill adapted to their wishes and hence, to their *real* needs.
This does not mean that the Commission or States should avoid any intervention in the transport market. However, the IRF firmly believes that the State's role should be to regulate, for instance, on environmental and safety issues. Other claims for State intervention, such as the need to harmonise transport-related taxes to support the single market are highly dubious given that 50 years of experience in the other large internal market, the United States, reveal numerous differences in tax policy, in particular fuel tax policy, with no damage whatsoever to inter-State trade.

Recent *exceptional* events have also shown that *temporary* State intervention, for example, cash injections to the airline industry due to new crippling insurance costs are clearly justified. However, we repeat, the events are exceptional.

## B. Detailed commentary

### *1. Sustainable transport – the need for a new definition*

Transport charging should take into account both the costs generated by and benefits derived from each mode. The Commission may well be right in calling for externalities to be factored in to transport charges. All the same, its emphasis on "sustainable transport", a vague concept at best, has led it to focus entirely on transport costs and ignore user benefits. The IRF considers this a dangerous policy precedent since it implies charging for "externalities" the user neither sees nor understands while ignoring the benefits he or she clearly perceives.
In June 2001, the Swiss Parliament, generally known for its pro-rail bias, voted against factoring externalities into transport costs (the "Initiative Bundi"). Parliamentarians noted that scientific study reveals a significant number of indirect derived benefits from road transport, which should also be factored into costs. (Study: University of Cologne, Prof. Baum).
Alongside the vague definition of sustainable transport, the White Paper offers some equally vague accounting through which transport charges emerge as a means of achieving political goals. Thus, while EU States already siphon off two-thirds of road revenues to their general budgets, the Commission sees fit to reinforce this trend by encouraging policies aimed at cross-subsidizing rail with revenues from current or new road tolls.

### *2. Transport and economic growth*

The aim of modern goods transport is to respond to the needs of a global economy, which relies on "just-in-time" production. European businesses and industry must, to remain competitive, be offered a transport choice based on imperatives such as speed, performance, flexibility and cost-effectiveness.
Supply-side policies seeking to shift goods from road to rail can only hamper Europe's economic performance and the competitiveness of its business. The huge investments needed to raise the performance of rail to an acceptable level far outweigh the derived benefits.
Decoupling growth in transport from economic growth will only result in sluggish economic growth, high unemployment, and lack of competitiveness of Europe's economies. In fact, in its recently published *European Transport Report 2000* Prognos came to the conclusion that there will be no decoupling of economic and transport growth in Western Europe.
The political and economic priority given to road development in the peripheral countries to the

European Union over the past decade and in most of the accession countries clearly illustrates that an efficient road system is the cornerstone of economic development. A recent study, commissioned by the EC for the Transport Infrastructure Needs Assessment (TINA) in the Central European countries, considered various scenarios for economic development and transport infrastructure development. It opined that if economic indicators improve, and with balanced funding for road and rail, road will naturally develop higher growth dynamics than the rail sector due to road's flexibility, availability, comfort, and the prestige and individuality derived from car ownership and use.

### 3. Fair pricing

In most sectors of the economy, competition is based on prices, which are in turn based on relative costs. However, human behaviour is unpredictable, and experience shows that price is not always the primary consideration. Transport seems to be the one area where planners feel they can manipulate competition, basing their assumptions entirely on pricing and ignoring unmeasurable elements such as comfort, speed, personal freedom, flexibility and so on.

The method devised by the Commission to influence modal market share is based on taxation and pricing. The justification is that transport by road fails to internalize external costs and that these should be factored into the price of road transport through fiscal and pricing measures.

In fact, one of the external costs of road transport – scarcity of fuel, lack of reserves – has been factored into the cost of transport since the 1970s through crippling fuel taxes, which have inexorably increased despite evidence that reserves are far greater than previously envisaged.

A second pretext for maintaining fuel taxes at high levels was that it was somehow "environmentally friendly" to do so since it would reduce consumption. In fact, governments discovered they could increase fuel taxes year by year, with little impact on consumption, and increase revenue, which was rarely returned to finance the infrastructure – road – from which they were taken. Instead, the revenues were channelled off for other forms of government spending.

In fact, road transport costs were entirely decoupled from actual road expenditure, but transport demand increased substantially with economic growth. Today, fair pricing of infrastructure demands that, if road transport costs are to *factor in* external costs of damage to the environment and human health, they should equally *factor out* the external cost of scarcity inherent in high fuel taxation. Equally, transport charging policy should take into account future technological developments such as pollution free vehicles that will substantially reduce the environmental externalities of road transport.

### 4. Cross subsidies

When the EU competition imposed motorway reform, it specifically outlawed the practice of using revenues from profitable routes to subsidize unprofitable routes, i.e. cross subsidies, on the grounds that it was unfair competition (see French government decree "La réforme autoroutière".). Yet the *White Paper* positively encourages the practice of cross-subsidy in the rail sector and even goes so far as to suggest that road profits might be used to subsidize rail.

The IRF considers this proposal unjustified and detrimental to the transparency needed for a real cost/benefit analysis of the transport sector.

Sustainable transport also depends upon self-sustaining transport modes.

### 5. Towards a modal shift?

The theory according to the White Paper is that, once external costs have been factored into the cost of road, the resulting price increase will effect a shift to rail. This is rather to suggest that rail's woes are based entirely on unfair pricing, and little on performance and quality of service.

#### Reform

Although the Commission has intimated that rail reform is underway, there is little actual evidence that it is taking place. The EC Transport Directorate may talk theoretically about opening up the rail market, but evidence from the competition directorate reveals that the same protectionist policies prevail. Even the Commission itself has to admit that "modern techniques and infrastructure have not always been matched by modernization of company management, particularly rail companies".

The Commission maintains that "unequal growth in different transport modes [...] reflects the fact that some modes have adapted better to the needs of a modern economy...". On the contrary, the IRF maintains that some modes are *better suited* to the needs of a modern economy. The single attempt to improve rail performance and involve the private sector, i.e. rail privatization in the United Kingdom, can hardly be heralded as a success.

To attempt a modal shift in advance of any real evidence of reform of the rail sector is to reward failure. It is unlikely to have a positive impact until rail demonstrates that it is able, both in terms of capacity and performance, to take on the new challenges.

#### Employment intensive

There is some evidence that the attempt to bring about a modal shift in the name of the environment would also protect employment in a declining, unprofitable sector. An article which appeared in *Le Monde* in 1997 revealed that the then French Railway Company, SNCF, employed some quarter of a million (in fact, its entire payroll, including pensioners, was nearer to 600,000). Even using the 250,000 figure, with some 32,000 km of track, which means *one employee per 128 metres* of track.

Given these startling figures – and there is little reason to believe that other publicly-funded rail operations in Europe are in any way different – the

question remains: is it possible to reform a sector where the slightest attempt at downsizing is likely to unleash a storm of strikes and social unrest?
The IRF maintains that rail's drop in market share compared with road has less to do with relative modal pricing than with overstaffing, inflexibility, and poor performance. While one can understand the political imperatives behind government's desire to protect employment, it should not be a primary consideration in transport policy.

## 6. Consequences of an ill-adapted transport policy

### *a. It will fail to achieve its declared aim of solving congestion*

(1) optimistic scenario:

even if market shares are maintained at 1998 levels, stretches of urban and high traffic interurban roads will continue to suffer from congestion, while bottlenecks will worsen due to increased transport demand especially in the road sector where market share and demand are already high;

(2) realistic scenario:

if, as the IRF expects, and regardless of policy measures, road traffic continues to increase at its present rate and rail continues to decline, congestion will be proportionately greater than in our "optimistic scenario". In the short term, it is already too late to remedy congestion after years of neglect of Europe's road network. But, in the light of future congestion, the IRF urges policy makers to make it a priority to develop long-term (5 to 10 year) master plans to prepare for the future where investment is most needed: roads.

### *b. Environmental and safety considerations*

If the Commission has got it wrong – and the IRF is convinced it has – the first victims will be the environment and safety. If the hoped for modal shift does not occur, despite overcharging road users, despite using road revenues, as the Commission proposes, to subsidise rail, the result will be increased congestion on Europe's roads which will have a negative impact both on the environment and safety.
Market signals show conclusively that road is the primary *choice* of Europe's citizens. Revenues raised from road users should be spent on improving the road network.

### *c. Economic consequences*

Transport economists have already pointed out that there is clearly no way to decouple growth in transport from economic growth. Policies which ignore the increase in bottlenecks on road links, particularly on major arteries, will actively inhibit Europe's economic growth.
The IRF's impression is that, despite its obvious good intentions, the Commission has developed a series of policies that will artificially fuel increased transport costs across the continent. Further, they will encourage profits from roads, paid by the users from tolls or heavy fuel taxes, to be used to finance the lacklustre performance of costly rail operations, despite this cross subsidy process being outlawed in other sectors. Ultimately, it will be Europe's consumers who will pay for these policies through higher prices. The White Paper itself, rather than providing a blueprint for the future, appears to the IRF as a regressive step, reminiscent of an era of "collective" transport solutions, hardly in keeping with the modern trend of individual freedom and mobility.
Europe's motor vehicle industry is the absolute barometer of consumer confidence, especially during the current economic downturn. Policies which seek to curtail road use cannot fail to have a negative impact on an industry which, in itself, makes a vital contribution to the health of Europe's economy. There is little logic in encouraging consumers to go on buying cars and operating trucks and coaches in the interests of the continent's economic health and at the same time developing policies to deter actually driving them!
In the IRF's view, the European institutions have the duty, in the name of both the environment and safety, to address urgently the problem of Europe's deteriorating road network since the vast majority of corporate and individual taxpayers have, in all evidence, chosen road as the preferred means of transport for freight and passengers alike.
The IRF is ready to inform and cooperate with Europe's policy makers in devising transport strategies based on market realities.

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**International Road Federation**
**Geneva Programme Centre**

2 chemin de Blandonnet
1214 Vernier (Geneva)
Switzerland
Tel: +41-22-306-0260
Fax: +41-22-306-0270
Email: info@irfnet.org
Internet: www.irfnet.org