



**Statement by Prof. Dr. Dieter Schmidtchen**

**Stakeholder consultation on the internalisation of transport external costs**

**(Brussels, 31. January 2008)**

One can't talk about the internalisation of external costs without talking about the Commission's Better Regulation Agenda.

Let me start by briefly quoting the "Better Regulation Agenda" in which the Commission describes the Key Analytical Steps In Impact Assessment by way of six questions:

1. What is the problem?
2. What are the objectives?
3. What are the policy options?
4. What are the likely economic, social and environmental impacts?
5. How do the options compare?
6. How could future monitoring and evaluation be organised?

It seems to me that a policy committed to the polluter pays principle is at least partly in contradiction to these sensible analytical steps of impact assessment. The reason is that policy options which require actors other than the polluter to take action are ignored.

I will argue that the polluter is not responsible for all external cost. Here are two examples:

- Road transport does not cause the same external costs if there is a city or a small town along its route. In the city, many more people are affected by its pollution, driving up the costs. Consequently, pollutees must also be considered as cost drivers. *Should one make the transport industry solely responsible for external costs that depend on population density? Should not people who move close to the road accept a certain level of pollution?*
- Second, external costs, i.e. pollution, are increased if the state fails to invest sufficiently in infrastructure, leading to traffic jams. *Would it not be reasonable to build more roads rather than to penalise the transport industry doubly by making it incur costs through traffic jams and requiring it to pay for the extra pollution?*

These examples show that the transport industry doesn't alone control the external costs that are generated by its activity and that other actors, i.e. pollutees and the state, can and possibly should, also take action to reduce external costs.

Who should pay how much, if anything at all, to reduce these costs should result from a rigorous assessment along the lines of the Commission's Better Regulation Agenda. Regulation must not lead to abatement costs that exceed the benefits.

The philosophy underpinning the Better Regulation Agenda is generally accepted in economics under the name of "cheapest cost avoider principle" and presents a number of clear advantages over the polluter pays principle. To put it bluntly, the PPP is an outmoded concept from the point of view of modern economics. It does not help to implement an efficient European transportation system, which is at the heart of the Lisbon Agenda for sustainable growth, jobs and competitiveness of the economy.

In contrast, the Cheapest Cost Avoider Principle has the following five advantages:

1. It guarantees efficiency, i.e. no waste of resources, which is in turn fundamental in the pursuit of the Lisbon goals of growth and jobs.
2. It is a better means to achieve fairness, justice and an undamaged environment.
3. It studies a broader set of options. In contrast to the polluter pays principle, it can lead to the choice of innovative projects.
4. Its use of cost-benefit analysis in a welfare economics framework makes it take into account a much broader range of relevant variables, such as administration costs or values.
5. The cheapest cost avoider analysis incorporates "polluter pays" as one possible outcome. In contrast to the polluter pays approach, it does not make this outcome a principle.

If it does not apply the cheapest cost avoider principle, the Commission's policy risks regulatory failure.