



**The Cheapest Cost Avoider Principle
and Regulatory Impact Assessment:
Towards better regulation of European transport**

Seminar, 6 March 2008, 12h-17h,
Renaissance Brussels Hotel

As requested by the Eurovignette Directive, the Commission is currently examining ways to identify, assess and internalise external costs for all modes of transport. The seminar brings together policy-makers, scientists and stakeholders to discuss the best ways of handling the problem of externalities in view of implementing an efficient European transportation system. This question is at the heart of the Lisbon Agenda for sustainable growth, jobs and competitiveness of the economy.

Policy-makers have long considered the Polluter Pays Principle (PPP) as an appropriate tool to internalise external costs. It is explicitly mentioned in art. 174 of the EC-Treaty. However, this methodology has been criticised for lacking an in-depth cost-benefit analysis, for being economically outdated and simplistic, and for risking regulatory failure. Furthermore, it is argued that the PPP contradicts the EU's "Better Regulation Initiative", which calls for any policy-making to be based on some form of regulatory impact assessment. The question how one should most appropriately deal with external effects is considered to be more complex than simply to ask how much the party "causing" the external effect should be paying.

Given that avoiding pollution and thus improving the pollutee's situation inflicts harm on the polluter, economic theory states that the real question that has to be decided is how to avoid the most serious harm. The solution is provided by the cheapest cost avoider principle (CCAP).

The CCAP requires that the party which can prevent or reduce the external cost at the lowest cost for the overall economy take action. Three cost drivers contribute to the emergence of external costs: polluters, the state and pollutees. No single party should enjoy an automatic immunity from this joint responsibility, as is implied by the polluter pays principle. The Commission's Impact Assessment Guidelines recommend that in order to identify the responsible parties, a fully-fledged cost-benefit analysis must be undertaken. Such a CCAP analysis *may* result in the polluter being identified as the Cheapest Cost Avoider and thus the right party to pay the associated costs. But this responsibility is not made automatic, as is implied by the PPP.

The objective of the seminar is to determine which approach should guide the European Commission's policy on the internalisation of external costs for all modes of transport.

Presenters:

Professor Dr. Dieter Schmidtchen is Professor for Economics and Public Policy at Saarland University. He is also head of the Center for the Study of Law and Economics (CSLE).

Dr. Christian Koboldt, Consultant (DotEcon), is affiliated to the Center for the Study of Law and Economics.

Dr. Jenny Monheim is Assistant Professor for Economics and Public Policy at Saarland University and is affiliated to the Center for the Study of Law and Economics.

Mathieu Grosch, MEP is member of the Committee on Regional Policy, Transport and Tourism of the European Parliament.

Sandro Santamato is Head of the unit concerned with economic analysis, impact assessment, evaluation and climate change at the Directorate-General for Energy and Transport of the European Commission.

Craig Robertson is Senior Lecturer in the Unit on European Decision-Making of the European Institute of Public Administration in Maastricht. Prior to joining EIPA, he worked for almost four years as a National Expert (seconded by the UK Cabinet Office/Department of Trade and Industry) in the Secretariat-General of the European Commission, initially as part of the Strategic Planning and Programming Unit, but for most of that period in the Better Regulation Unit.

Professor Anthony Ogus is Professor of Law at the Manchester School of Law, Manchester University. He specialises in law and economics and regulation.

The **Center for the Study of Law and Economics** is the organiser of the conference. Founded in 1993 and based the Saarland University, it is a forum for the cooperation of scientists studying the economic analysis of law (<http://www.uni-saarland.de/fak1/fr12/csle/>).

We thank the International Road Transport Union (IRU) for financial support.