Subsidies, Taxes and Charges in European Transport

The huge variety of subsidies, taxes and charges in the transport sector make it very difficult to assess whether all modes of transport are indeed priced according to the external effects they impose on others. In order to ensure fair competition and a level playing field for different modes of transport, transport prices need to reflect the true costs of transport. To better understand this issue, the EEA has commissioned Ecologic and the Chair for Transport Ecology at the TU Dresden to provide an overview of subsidies, taxes and charges in the European transport sector. Ensuring fair competition is a key goal of the European Commission, and transport is no exception. However, the Commission recognises that competition is not only a matter of market regulations, as many of the effects of transport (positive as well as negative) do not have a market price or do not accrue to the people using transport. To compensate for these market imperfections, European governments have established various subsidies, charges and taxes.

Some subsidies, charges and taxes are rooted in quantifiable benefits or costs, but others have been introduced for political, historical, social or other reasons. As transport is merely a means to an end (and not an end in itself), it is no surprise that many subsidies, charges and taxes were introduced to affect development in other sectors (e.g., foster economic development, prevent social exclusion, etc.). Over time, however, subsidies, charges or taxes may simply remain because it can be politically impossible to change the status quo, even when the original arguments for the subsidy, charge or tax no longer exist.

If subsidies, charges or taxes lead to a distortion of the environmentally optimal balance between transport modes or increase travel demand above what it would otherwise have been, the subsidies, charges or taxes become economically and environmentally undesirable.
The EEA work on transport subsidies will assess the balance of subsidies, charges and taxes on different transport modes under different operating conditions. This should facilitate a better comparison of each transport mode’s economic operating conditions and environmental burden. The aim is not to assess external costs, but to assess the desirability of the various subsidies, taxes and charges. Environmental impacts and external costs are the subject of other EEA activities, especially the TERM fact sheets on external costs.

The European Commission has repeatedly argued that there is a need for fair and efficient pricing in the transport sector. Whether that takes the form of charges, subsidies, road pricing, or other forms of technical or administrative adjustment is less important as long as the total set of adjustments helps to create a more “level playing field” for competition between transport modes or between activities with different transport needs.

This project will provide an overview of the current state of research in the field of transport subsidies, taxes and charges, and will make results accessible in a database. The work will be carried out jointly by Ecologic and the Chair for Transport Ecology at the Dresden Technical University, with support from Claus Doll at the Fraunhofer Institute for System and Innovations Research. It is the 4th project under the EEA framework contract on environmental economics, European Environmental Economic Activities (3EA [1]).

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