



# José F Papí

## Earmarking fiscal income to transport infrastructure funding



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**José F Papí** is  
Chairman of the  
Smart Transportation  
Alliance, STA

**T**oday the cost of providing transport infrastructure is met directly through user charges, or indirectly through taxation. In the case of closed systems (rail, aviation), users pay for the infrastructure as a part of their overall transport charge. For open systems, primarily roads, there is either no direct infrastructure charge, or the infrastructure charge is levied directly to the user in the form of a toll.

The EU has clearly pointed out that transport charges and taxes must be restructured in the direction of a wider application of the so-called ‘user pays’ principle. In the specific case of roads, a ‘user pays’ approach would replace the existing taxation system (vehicle registration taxes, annual circulation taxes, fuel duties, etc) with charges based on motorists’ actual use of roads. In addition, new technologies would allow charges to be applied at different rates during peak periods in the same way we pay for the use of telecommunications or electricity networks.

Exporting such a model to transport infrastructure funding seems to be a natural shift. Transport infrastructure funding has been traditionally conceived as a responsibility of governments. However, in the last 20 years experiences across the world have proven that the capacity of most governments to adequately fund transport infrastructure construction and maintenance is quite limited. I am of the opinion that the generalisation of the ‘user-pays’ principle to generate revenue from transport would certainly contribute to raise the funding required to complete Europe’s transport infrastructure, and in addition secure a proper level of maintenance to our transport assets.

In a way, the model is already being used to promote decarbonisation - but such application is not homogeneous across modes, or between countries. In this context two main market-based instruments are in use today: fuel taxation and Emission Trading Systems (ETS). Taxation is applied to fuels used in land transport, while the ETS scheme applies indirectly to other transport energy sources, or directly in the case of the aviation sector. In the case of aviation and shipping, which are both global industries by nature, attempts at the introduction of regional market based measures, such as the inclusion of aviation in the EU’s ETS in 2012, have been controversial and raised objections from the international community.

## EARMARKING TRANSPORT CHARGES FOR TRANSPORT INFRASTRUCTURE FUNDING

Earmarking (also called ring-fencing or hypothecation) is the dedication of the revenue from a specific tax for a particular expenditure purpose. There are several examples of hypothecated taxation to the funding of transport infrastructure, the funding of the US surface transport infrastructure being the most well known.

The construction and maintenance of roads and highways in United States is funded through a combination of federal, state and local revenue. This revenue is primarily collected through transportation user fees, including state and federal taxes on fuel purchases. Federal fuel taxes on gasoline and diesel make up about 90 per cent of revenue for the Highway Trust Fund (HTF), the primary fund for federal investment in surface transportation infrastructure. A portion of the HTF – maybe not as large as it should be - is also allocated to public transport infrastructure in urban areas. In the past the Australian government has also hypothecated fuel taxes to provide the States with grants for road construction and maintenance.

I believe tax earmarking at the EU level should be promoted, and in addition coupled with the application of the ‘user pays’ principle to transport. Experts are aware that the suitability of earmarking (and its associated fiscal income potential) differs by transport mode. But the ‘BAU’ approach (Business As Usual) is no longer working...as our improperly maintained transport infrastructures show us every day.

Transport networks enable the free movement of goods and services, support the generation of economic wealth across countries, and allow the import and export of goods and services. I think it is high time for a brave and responsible step ahead. Insisting on the BAU approach when it comes to such a fundamental part of our socioeconomic model does not seem a sound policy to me whatsoever.

Finally, my congratulations to Thinking Highways on its 10th anniversary. The transport media arena is not the same since you first published and, thanks to you, it has improved in the right direction!