

Transport policy and regional policy in the European Communities

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I have the honour to speak to you for a few minutes about "Transport Policy and Regional Policy in the European Communities". As I guess you are especially interested in the interrelationship between the Community's transport policy on the one hand and the regional policy and land-use-planning on the other hand I will limit myself to the links between those two policies as we see it in Brussels.

As a matter of fact the European Communities have already developed some activities in this context. As the most important I should like to mention the following ones:

- in 1972 a memorandum was drawn up on transport as an instrument of regional policy and land-use-planning in the Community. The main assumptions contained in it still apply. I will come back on this later.

- one year later, in 1973, the Commission published its new approach to the common transport policy and stated that transport infrastructure is an essential basis for the development of structural policies, particularly regional policy and planning.

- in order to give substance to the link between transport and regional policy, the Advisory Committee on Transport, set up under article 83 of the Treaty, was instructed to examine this question and reported early in 1975.

- the Economic and Social Committee paid also attention to this subject and published its report at the end of 1975.

- finally the consultation of a number of university professors as regards the regional impact of a set of Commission's proposals to the functioning of the transport market should be mentioned.

These activities have enabled the services of the Commission to set clear priorities, resulting in a number of more general bases which are taken into account in the common transport policy and in the Community's regional policy. What follows deals exclusively with these general bases. Before starting with this, it is useful to make one preliminary and fundamental remark. That is to say that the Commission believes that transport is only one of the means of acting in solving regional policy problems; there are others which, often are even more important and helpful.

The Commission's memorandum of 1972 set out two bases which still fully apply:

- regional policy and land-use-planning measures must not impinge upon the management independence and financial balance of transport operators. If the authorities decide to impose public service obligations, then the operator must be given appropriate financial compensation.

- regional policy and land-use-planning measures must not rule out competition within a mode of transport or between modes.

Both these principles reveal clearly that the Commission subscribes to the opinion that there can be no question of transport being subordinated to the aims of regional policy and land-use-planning. This does not of course mean to say that transport cannot make a contribution to the achievement of these aims. In fact, transport policy and regional policy should contribute in a coherent and non-contradictory way to the fundamental objectives of the Community.

After these introductory remarks, let us now try to answer the question how transport can be used to help achieve regional policy objectives. The Commission in Brussels is distinguishing here between three types of transport policy instruments: transport infrastructure, support tariffs and the imposition of public service obligations. It is worthwhile to deal with them separately.

As regards the first item "transport infrastructure" a distinction once again between three aspects should be made, e.g. the expansion of transport infrastructure, the financing of the creation of new infrastructure and, when the infrastructure is available, the charging for the use of it. Transport infrastructure has to be taken in the largest sense of the word, e.g. land transport, ports, airports, but also the telecommunications.

It is obvious that there can be no transport when no transport infrastructure is available. This also implies that the basic prerequisite for developing a specific region is an adequate infrastructure for the raw materials to be brought in and semi-finished and finished products to be moved to, from and within the region as well as for a satisfactory passenger transport. But the view in Brussels is that the transport infrastructure's development function should not be overrated. As things stand in the Community at present, perhaps with an exception for Greenland, it appears that practically every place can be reached in some way or another. It is far more a matter of the existence of a disequilibrium in the quality of the various transport infrastructures. Improving the quality and not the quantity of the existing infrastructure is therefore what counts in the first place. When carrying out such specific infrastructure projects it is advisable to take account of the extent to which they really complement or replace existing or planned infrastructure networks; otherwise there is the risk that new imbalances may result. The E.C. Commission believes therefore, that an attempt should be made to achieve integrated and coordinated infrastructure planning both within a mode of transport and between modes, thereby taking into account the various characteristics of the regions concerned.

It is true that the improvement of transport infrastructure has in fact the same effect as decreasing transport prices in both directions. In fact the existing competition position of industries located in those regions, will be improved: the same is however true for the industries

located in the concentration areas. If therefore, from the regional policy point of view, a transport infrastructure project is carried out without other measures being taken outside the transport sector, for example in the field of industrial projects, there might conceivably be the danger that the outcome could be the reverse of that desired. Cases are known in the Community of, for instance, a motorway built to an underdeveloped area without any accompanying measures; instead of boosting the area in question, this has resulted in a vacuum. In this context, the Commission believes therefore that it is sensible to carry out transport infrastructure projects only if they form an integral part of a regional development programme. This point was in fact expressed very clearly when the Regional Fund was set up.

On this point the Commission is urging the Member States to attract, as far as possible, industries which are not too capital intensive and those who are not very sensitive to transport costs to the regions in need of development.

At this very moment, little practical information is available about the effects of transport infrastructure projects as such on regional policy, especially as regards defining their extent. The Commission is therefore considering the possibility of ordering a study to provide insight into the regional effects of transport infrastructure projects from both the economic and political angles. We think that special attention should be paid to the structural effects of projects of this type.

As regards the financing of the creation of transport infrastructure, the European Communities currently dispose of two possibilities, a third possibility has been proposed last year to the Council of Ministers. Let us see what this is all about.

Under article 129 of the treaty of Rome a European Investment Bank was set up with the task to contribute to the balanced and steady development of the common market. In practice, projects for developing less-developed regions, amount to 75% of all loans. The majority of these loans - 85% - are for infrastructure projects, the remaining 15% for typical industrial projects. Transport infrastructure projects play a leading role, accounting for 15-20% of the total; this increases to 35-40% if loans for telecommunications projects are included.

In March 1975 the Regional Fund, the second possibility, was established officially for a period of three years with funds of 1.300 millions U.C. in total. The Regional Policy Committee, set up at the same time, was not able to reach a unanimous decision on whether or not transport infrastructure projects qualify for financing for projects of this type. As a result of this attitude transport infrastructure projects account for about 10% of all financing approved till now. It should be pointed out that this figure concerns only the transport infrastructure projects pure and simple; finance is also provided for transport infrastructure as part of more comprehensive projects, in particular, road building in industrial estates and access to the public road network. It is, however, not statistically possible to show separately the share accounted for by these transport infrastructure projects.

Apart from these two resources of finance, the Commission sent the Council a proposal in mid-1976 on the establishment at Community level of a system of financial support for projects of Community interest in transport infrastructure. It will not be possible to fix detailed rules for this financing system until the Council approves this proposal. Among projects coming into consideration there will be those who link areas between two Member States, which may have important implications for the frontier regions of the Community.

The third and last aspect of the item "transport infra-

structure" concerns the charging of infrastructure costs. As things stand at present in the various Member States, a charge is made for the utilisation of the infrastructure by means of a tax on motor vehicles and fuel; in some cases tolls are also imposed, e.g. on motorways in France and Italy. These tolls apart, the user of the infrastructure pays just as much (or just as little!) wherever he is based and irrespective of where the journeys take place. In other words, the current charging system does not take account of the special circumstances in various regions. This state of affairs must obviously be considered unsatisfactory from the point of view of "making whoever originates costs pay them". Apart from a certain link between this principle and tax on motor fuel, infrastructure costs are not passed on directly to the actual users of this infrastructure.

One of the principles behind the Commission's ideas on the common transport policy is the charging of infrastructure costs. In 1971 a proposal was submitted to the Council of Ministers for a Community solution to this problem. The system proposed is based on the principle of marginal social costs, coupled with the need to cover budgetary costs. As regards the marginal social costs, it is proposed that the road-user should pay not only costs directly caused by him, e.g. wear and tear - but also the indirect or external costs. The latter include, in particular, congestion costs, external costs caused by air pollution and noise and the costs connected with road safety. As it would be a pure coincidence if revenue from charges, on the basis of marginal social costs, were to equal expenditure on the building of infrastructure projects over a certain period, the requirement for the meeting of budgetary costs was brought in. In case it appears in a given year that revenue from the marginal social costs is not sufficient to cover expenditure on infrastructure projects, the users of the infrastructure will have to be charged an additional charge.

Although opinion inside the services of the Commission is not unanimous to this point, I nevertheless should like to mention the possibility of promoting regional policy objectives by means of this system. To illustrate this, it is necessary to examine the situation in a highly developed or densely populated region and in a backward region. The marginal social costs will be high in a highly developed or densely populated region. But because the demand for transport services in this area is also very high, the revenue from the charging system will also be high; it may even be assumed that the point of equilibrium where the marginal revenue is equal to the marginal cost will in this case be above the average total cost curve, suggesting a surplus over expenditure and ruling out the problem of a balancing budgetary outlays. The level of marginal social costs is usually appreciably lower in a less developed region. As demand for transport services is normally very low in such regions, it is extremely probable that the point of equilibrium where marginal revenue is equal to marginal cost will also be appreciably lower because of the low revenue from charges based on marginal social costs. It may also be assumed that this point will lie actually beneath the average total cost curve, which implies that the revenue from charges is not sufficient to cover expenditure; a deficit will therefore result.

Implementation on a regional basis of the Commission's proposal for a system of marginal social costs plus cost-covering could thus plainly lead to high user charges in the less-developed regions while infrastructure users in the densely-populated areas would pay lower charges. The situation nevertheless, and this is very important, changes completely if the proposed system is applied not on a regional basis but for a whole country or even for the whole Community. In this case the surplus on charges in

the densely-populated areas could be used to cover all or some of the deficits in other areas. This could lead to so called "spatial equalization" as it were. It must however be borne in mind that if this method is employed, i.e. if the system of charges is used to pursue regional policy objectives, there can no longer be any question of charging infrastructure costs purely on the principle that the originator of costs pays them. But not too much attention should be paid to this objection since in practice a number of arbitrary distribution scales have in any case to be used so that the originator will not pay in fact the exact costs that he causes; he may pay too little or too much.

The "Leitmotiv" of the EEC Treaty is the creation of a common market based on freedom of competition, a fact that once again has clearly been confirmed in the communication of October 1973. . . In principle, therefore, there is no place in this framework for support tariffs which, by definition, encroach upon freedom of competition. Specific support tariffs are compatible with the aims of the Treaty only in those cases defined in Article 92 (2) and (3). The Commission therefore considers that support tariffs in the transport sector in fact should be abolished. It believes that, through transport, a number of basic disadvantages are inherent in support tariffs:

- They prevent undertakings from gaining an accurate picture of their actual position as they artificially reduce the disadvantage of their remote siting, thereby causing wrong sitings, or make it harder to perceive what changes are needed in the long term; in other words, they may give rise to incorrect siting.

- they prevent society at large and the public authorities from realizing the exact importance of their financial assistance to the recipient undertakings; it is also difficult to assess precisely their real effectiveness and their impact on competition and trade.

- the public authorities may modify or even completely abolish a support tariff from one day to the next, which may have considerable impact on firms' continuity i.e. survival.

- anyone, irrespective of need, can take advantage of support tariffs in transport. In other words, even sound undertakings have a right to the reduced tariff.

The Commission considers therefore that direct support measures (support tariffs in transport are indirect support measures) are generally more effective and often less expensive as well. This means to say that in many cases it would be better to award the support directly to those concerned so that they are able to spend the funds put at their disposal as best suits their position. This opinion is shared also by the Advisory Committee on Transport. However, it must not be denied that the system of direct support has a number of disadvantages, chiefly:

- from the administrative viewpoint, direct support measures are more difficult and complicated as the amount has to be determined in each case;

- post-facto supervision is also more difficult. There must be a check on whether the funds made available were actually used for the stated purpose.

Apart from these pros and cons specific limits however are set, in the Treaty itself, on the abolition of existing support tariffs or steps to block the introduction of new support tariffs in transport by the Commission.

Article 80 (2) states that the Commission shall, when examining these rates take "account in particular of the requirements of an appropriate regional economic policy, the needs of underdeveloped areas and the problems of areas seriously affected by political circumstances".

This final aspect is stressed in respect of the Federal Republic of Germany in Article 82 which states that this country may take measures "to the extent that they are required in order to compensate for the economic disad-

vantages caused by the division of Germany to the economy of certain areas of the Federal Republic affected by that division".

Hitherto the Commission has applied the provision of Article 82 (2) in such a way that support tariffs in transport may be approved when other forms of action appear inadequate for resolving the difficulty. These support tariffs are permitted only for a clearly specified period, during which they must be degressive. The purpose is to show recipients clearly from the very beginning that they must adjust their operations in such a way that they become competitive again in the longer term.

As already indicated, the Commission considers that when the public authorities decide to impose public service obligations (tariff obligation, the obligation to operate and the obligation to carry) they must also compensate the transport undertakings for the financial disadvantages which may arise. The Council of Ministers has accepted this in principle by adopting Regulation No 1191/69¹. It was agreed that the general objective should be the removal of public service obligations, though where their imposition is necessary in order to ensure the provision of adequate transport services the burdens should be subject to the compensation made in accordance with common procedures. At the same time the scope of the Regulation was restricted to the national Railways while the Regulation was made nonapplicable to undertakings in the other modes of transport (road and inland waterway) which mainly provide transport services of a local or regional character. The Commission has repeatedly tried to extend the scope of this Regulation to other railway companies and to road transport undertakings more particularly engaged in regional operations. But up to now these attempts have not met with success. It may be assumed that the Member States fear a considerable increase in the financial burdens.

The Commission attaches great value to the possibility of pursuing general political objectives by imposing public-service obligations; regional policy objectives will definitely be one of the major priorities. It may also be automatically assumed that this whole question will become more topical when closures of uneconomic railway lines are under discussion.

Let us try to come to a conclusion! The Commission is of the opinion that transport should be considered as one of several methods of boosting less-developed regions. In particular, consultation with the academics in 1975 clearly revealed that the effects of measures taken in the transport sector for this purpose emerged only in the medium, or even long term. Short-term effects are rare. This fact is of importance if it is proposed to close an uneconomic railway line, for instance, without taking any compensatory measures (e.g. by means of road transport); the adverse effects of such a policy on the area in question only emerge in the long term.

It should also be mentioned that it is very difficult to make universally valid statements as general and specific siting factors vary from region to region, as regards both quality and the possible combinations of factors. It is for instance possible that a specific measure may give ideal results in one region and have an unfavourable effect in another. The Commission therefore considers it inadvisable to formulate a detailed policy that is to be applied in every respect; it is much better to set up a general framework which allows sufficient latitude for taking account in practice of the specific circumstances which may occur in a particular situation.

It is therefore a question of framing a policy under which it should be possible to reach pragmatic solutions

and, above all, the optimum one in each case. This implies that the Commission should restrict itself to drawing up guidelines which allow the Member States so much latitude at both national and regional level that specific regional factors may be taken into consideration.

FOOTNOTE

1. Regulation (EEC) No 1191/69 of the Council of 26 June 1969 on action by Member States concerning the obligations inherent in the concept of a public service in transport by rail, road and inland waterway. OJ No L 156 of 28 June 1969.