ASSESS

Assessment of the contribution of the TEN and other transport policy measures to the mid-term implementation of the White Paper on the European Transport Policy for 2010

FINAL REPORT
ANNEX XX POLITICAL DIMENSION

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Preface

This is ANNEX XX of the final report for *'Assessment of the contribution of the TEN and other transport policy measures to the mid-term implementation of the White Paper on the European Transport Policy for 2010'*.

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Scope

<u>**Scope of the ASSESS project**</u>

The ASSESS study is about the ***"Assessment of the contribution of the TEN and other transport policy measures to the mid-term implementation of the White Paper on the European Transport Policy for 2010"***.

The European Commission's White Paper of 12.9.2001 "European transport policy for 2010: time to decide" aims to promote a sustainable transport policy. The White Paper proposes to achieve sustainability by gradually breaking the link between transport growth and economic growth, principally in three ways: changing the modal split in the long term, clearing infrastructure bottlenecks and placing safety and quality at the heart of the transport policy.

As foreseen, the White Paper on Transport undergoes in 2005 an overall ***assessment concerning the implementation of the measures it advocates and to check whether its targets*** - for example, on modal split or road safety - ***and objectives are being attained or whether adjustments are needed.***

ASSESS provides technical support to the Commission services for the above mid-term assessment of the White Paper.

The analysis accounts for the economic, social and environmental consequences of the proposed measures and their contribution to sustainable development objectives. It provides also a detailed analysis of those effects of enlargement likely to affect the structure and performance of the EU transport system.

The study takes a three pillar approach based on the use of analysis, indicators and models. National transport policies are reviewed for compatibility and coherence with the White Paper objectives. The models used allow a detailed analysis of the freight market, the passenger market and their infrastructure networks under a number of scenarios.

<u>**Scope of this Annex**</u>

This task "political dimension" is part of the qualitative assessment tasks which take the White Paper measures into account in order to complement and integrate the quantitative assessment provided by the models.

The analysis of the political dimension concerns two main themes:

1. Institutional problems: competences of the EC, Member states, regions, etc.;
2. Identification of the socio-economic groups affected by the policies (conflicts, lobbies, etc.).

The analysis is complemented by the presentation of a set of <u>relevant case studies</u> related to specific political problems of implementation of White Paper measures. One of these case studies deals extensively with the public acceptability of the measures.

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ANNEX XX Political dimension

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Executive Summary

Introduction

This task "political dimension" is part of the qualitative assessment tasks which take the White Paper measures into account in order to complement and integrate the quantitative assessment provided by the models.

The analysis of the political dimension concerns two main themes:
1. Institutional problems: competences of the EC, Member states, regions, etc.;
2. Identification of the socio-economic groups affected by the policies (conflicts, lobbies, etc.).

Theme 1 tackles the problems related to the implementation of policies on the administrative competences at various levels: European Community, Member States, regions, municipalities, etc. The analysis will be carried out considering different institutional frameworks (centralised, regionalised, etc).

Theme 2 is based on the recognition that the European society is not a homogenous entity, but it is formed by different groups with conflicting objectives and different pressure power on authorities. The White Paper measures will be then "read" in terms of their impact on different social groups and institutional players. For instance, efficiency-oriented reforms (liberalisation policies) which can benefit large groups in the long run (users, taxpayers, social groups in other sectors that will benefit from more public services), while they can hit often other groups (e.g. workers in the public sector) and private vested interests in the short run.

The analysis is complemented by the presentation of a set of relevant case studies related to specific political problems of implementation of White Paper measures. One of these case studies deals extensively with the public acceptability of the measures.

Institutional conflicts

Subsidiarity is the European Union's guiding principle in realising the objectives set out in the White Paper. Therefore partnerships between the European Union's institutions and the Member States are necessary at all levels, that is not only at the highest political and official level, but also among operators, users, investors and environmental organisations.

Many of the problems encountered in implementing the European Common Transport Policy relate to the variation in regulatory and administrative environment in the field of transport across Member States.

Differences arise in the fields of:

- <u>Distribution of administrative responsibility and competencies</u>. In most countries, the responsibility for drawing out and co-ordinating transport policy at national level rests with a single ministry. However, increasingly, due to the development of cross-sectoral policies, a greater number of different administrative actors come to play a role: the ministry responsible for environmental affairs and/or public works or spatial planning and, due to the heavy involvement of public funds in transport investments, ministry responsible for finance.
- <u>Degree of "planning culture" of transport policy</u>. The European Common Transport Policy, especially with respect to harmonisation, has had the greatest impact in those countries with poor 'planning culture', where it has provided a lever for upgrading and/or structuring national transport policy, helping to level conflicts and speed-up decision-making procedures.
- <u>Decision-making structure</u>. This is related to two issues: the control of the decision making process (centralised by the national government or decentralized to regions, etc.) and the degree of intervention of the state in the operation of the transport market (from state controlled to free-market). The situation is different among Member States and, in the last years, processes of institutional decentralization and fiscal federalism are taking place in most of these.

With respect to the different competences, the rise of a new supra-national European level might collide with the demand of regional and local governments for more participation in decision-making. Disagreements still exist regarding the extent of harmonisation, specifically concerning issues and areas which are legitimately to be dealt with at the European level. Examples include the common environmental threshold levels, safety regulations or negotiation mandates with third countries.

The following table shows the possible conflict situations of the policies. The policies which are more likely to generate political conflicts are the ones grouped in action priority 1 "Shifting the balance between modes". First of all, this could be explained by the fact that sometimes the EU goal to reduce road traffic in favour of more sustainable transport modes is not a Member States national priority. For some countries, road transport still remains the most utilized and functional transport mode, and the national transport documents still stresses this concern.

Other kinds of conflicts could rise, concerning this action priority, between different levels of government, and this is especially true when the expected impact of a transport policy is twofold: develop the transport system and regenerate the area in which the policy is implemented. So, policies as "Improving quality in the road transport sector", "Controlling the growth in air transport", "Promoting transport by sea and inland waterway" and "Turning intermodality into reality", which include a development of the local infrastructure, could lead to a sort of competition between regional/local authorities (specially in a context of top-down earmarked finance). Furthermore, conflicts could rise between different ministries: as example the policy of "Controlling the growth in air transport" usually involves transport and environmental ministers, which could have different priorities and objectives concerning these themes. As regards the TEN-T policy, the evidence shows that an unclear policy articulation at the EU level could lead to an incorrectly and imprecise interpretation of the policy objects at a lower level. Conflicts are likely to rise also concerning the charging policy, since among the Member States still prevail different orientations concerning both the charge levels and the revenues use.

Table 1: Potential institutional conflicts of the 12 White Paper policies at national level

Action priority	Policies		Conflict Level
Shifting the balance between modes	**1**	Improving quality in the road transport sector	***
	2	Revitalizing the railways	***
	3	Controlling the growth in air transport	***
	4	Promoting transport by sea and inland waterway	**
	5	Turning intermodality into reality	**
Eliminating Bottlenecks	**6**	Building the Trans-European transport network	**
Placing users at the heart of transport policy	**7**	Improving road safety	*
	8	Effective charging for transport	***
	9	Recognizing the rights and obligations of users	*
	10	Developing high-quality urban transport	*
	11	Putting research and technology at the service of clean, efficient transport	*
Managing the globalization of transport	**12**	Managing the effects of globalization	*

Code: *** High level of conflict
** Medium level of conflict
* Low level of conflict

Socio-economic groups conflicts

The Common Transport Policy of the European Union and the objectives outlined in the White Paper have diverse effects on different stakeholder groups. As society is no homogeneous entity, it is an enormous challenge for politics to cope with the different, and very often conflicting, views and objectives that different groups in society have. Furthermore, policy makers have “hidden agendas”, like short-term election objectives etc. Additionally, on the European level, different cultures, languages, social backgrounds, legal systems and levels of prosperity have to be taken into account when political strategies are to be developed and implemented.

The Commission has to withstand lobby groups that are massively trying to safeguard their vested interests. However, if interpreted in the right way, and provided that a balance of opinions is taken into account, this kind of stakeholder participation can provide important insights from the affected groups. In many cases, the EU has a greater scope of action than national governments in liberalising (or efficiently regulating) markets, because of its less direct relation to lobby groups. In this regard, the distance of EU institutions, which is usually seen as a disadvantage, when it comes to interaction with the public, is an asset, when it makes EU institutions potentially less directly exposed to lobbying and reduces the risk of “capture”. The past has shown that in this sense the EU has attempted to use its powers extensively, but many lobby groups were successfully resisting, every time these have been supported by their national governments. A closer look is given to three groups of White Paper measures.

1. Measures aimed at opening/efficiently regulating transport markets. Although these measures are aimed to enhance overall economic efficiency, they provoke resistance by incumbent companies, their industry federations and trade unions alike, often with active protection by the states involved. Reason for this behaviour is the fear to loose economic rents and short-term political consent. As these profits are owed to the institutional pattern how the market is organised, the affected social groups try to influence policymakers and regulators to uphold the status that is connected with certain benefits for them. According to the Public Choice Theory, this phenomenon is called “regulatory capture”, often based on “information asymmetries” and “vote exchanging”, and does not only lead to higher prices

for consumers, but also affects innovation adversely, as creative new entrants face market entry barriers or even denial to access the market. Vice versa, lobbying, even if far weaker, is exerted from the potential winners of such measures, in this example interested new entrants. However, due to different economic power, relations, structure, etc. the pressures from the different groups are not proportional, neither to the issues at stake nor to the potential overall benefit. Therefore, a neutral position is not the simple sum of all forces in action, but needs discernment of the arguments presented, and a clear understanding of the efficiency and distributive content of every single policy.

2. Measures aimed at harmonising social standards. These measures will be hailed by workers' federations and trade unions, particularly in the Member States where wages are relatively high. These groups fear that competitive pressure, particularly from the new Member States will lead to a reduction in their own wages or to a loss of jobs. Although in terms of income distribution, more open markets without harmonization will lead to advantages to lower-paid workers.
3. Measures aimed at harmonising the competitive situation. These measures are of special importance for entrepreneurs from different Member States that compete on the Common Market. Competitive distortions, based for instance on differences in taxation, have had severe impacts on the ability to conduct business for many companies. Nevertheless, pressures in favour of setting "level fields" in advance, often disguise mere enduring protection for the incumbents.

The general conflict 'environment vs. economic development' sees very special social groups involved, i.e. present economic interests put against future generations welfare. This conflict deals on the one hand on policies concerned with reducing the negative impacts of traffic for the environment and society, and even with reducing transport volume per se, and on the other hand policies to improve transport flows in order to further enhance economic development and market competition. Such a conflict cuts vertically across all dimensions and/or levels of political decision-making or action, covering environment-related concerns, such as noise abatement, air pollution, safety, pricing of external costs, the extension of transport infrastructure, etc., and global competition issues (specially toward less social minded context, like Asia, and for the environment, the same U.S.A.).

With respect to the New Member States, the analysis has not taken into account the role of political decision-making. The level of social group conflicts in these countries has been assessed taking into considerations following factors: the organization of activity at national level, the membership in international organizations and associations, the employment in given transport sectors, the imbalance of living standard in a given country in relation to the EU-15 average and the social repercussions (acceptance or objections) of protest activities or strikes in different transport sectors. It can be stated that the most important social groups conflicts exist on road market both urban and interurban. Especially in Poland, Hungary and Czech Republic significant social conflicts can be observed. In the Baltic States and Slovak Republic intensity of conflicts is lower while in Slovenia the indicator is very low – 75% lower than in Poland. On the contrary in water transport sector level of conflicts is almost insignificant. The highest indicator is represented by Poland, following Hungary, the lowest one belongs to Czech Republic. Rail and air sector can be assessed as intermediately taking into account the level of their relevant factors. Similarly to road sector in Poland, Czech Republic and Hungary an intensity of conflicts is the highest, while in Estonia and Slovenia almost insignificant.

Relevant examples of political conflicts

The Public Choice Theory assumes that the public decision makers tend to develop consistent and rationale "egoistic" objectives, as it postulates the capability of vested interest ("rent seekers") of "capturing" the elected decision makers. In turn, the main instruments of this "capture" are "information rents" and "exchange of votes". The European transport policy shows a wide range of practical fields where this approach can offer important insights: its main failures or delays can well be linked to the protection of special interests against the more general ones.

- Liberalization/efficient regulation difficulties for public subsidized sectors. The process of opening up some form of market competition in the rail and local public transport seems much more slow and difficult than in profit-making (or at least non-subsidized) sectors, like airline services or highway and airport concessions. The "standard" explanation of lack of private operators' interest in entering loss-making activities is absolutely not convincing. In fact, the inefficiencies are often so large, than opening a real (unrigged) competitive bidding for the present services with the present subsidies will generate a rush of competing new entrants. According to a "capture" explanation, any firm appointed within a competitive process cannot guarantee favourable electoral impacts, or jobs appointed with political criteria, or the choice of suppliers in political-sensitive regions etc.
- Investments in low priority infrastructures. Several projects with limited traffic perspectives and negative rentability absorb a large share of limited public resources. This attitude may obviously be related with traditional consensus building practices. "Standard" Keynesian arguments scarcely hold: the impact of infrastructure building is limited both for its low "multiplier effect" and for the considerable lag that civil works (specially large ones) present between the initial decision and the actual building activity, with the obvious risk, compared to other forms of Keynesian incentives, of taking place in the following growth economic cycle.
- <u>"National champions": "prisoner's dilemma" or "capture"?</u> The "hidden agenda" that explain a large part of the resistance to opening up the market in many transport activities can be related to the defence of large national firms. The standard explanation can be a "prisoner's dilemma" case: I am not liberalizing first, since I do not know if other countries will follow suite, and therefore my "champion" can be severely damaged. In this context, "Capture" seems by far a better explanation: the users are a very general and nondescript body, while the interest involved in the large national firms are vocal and able to influence the short-term consensus mechanism in several forms.
- <u>Resistance against "efficient pricing"</u>. The contradiction between the European acceptance of the Kyoto Treaty and the widespread resistance in implementing consistent measures in order to achieve its objectives can be explained considering that in this case the "capture" phenomena are more evident and transparent. In fact the pressure of global competition tends to put all the economies with stiff environmental standards at an evident disadvantage. Short- term consensus and employment considerations prevail over a picture of a long term clean and sustainable environment. But, if the present level of oil price will last, the environmental picture and perspectives will change for the better anyway: alternative clean energy sources will rapidly become available due to the fact that their production costs become competitive.
- <u>The inefficient regulation of infrastructure concessions</u>. Infrastructure concessions, both when the concessionaires are public agencies and when they are private operators, are in general weakly regulated and this in turn generates also low efficiency and innovation capability from the under-incentivated concessionaires. "Information asymmetry" is the key to treat this as a "capture" phenomenon: short-range electoral (i.e. "egoistic") objectives can be disguised by the above mentioned practices, while longer range efficiency goals will suffer from misallocated public resources. But this can be hardly perceived by the general public.

An in-depth specific case study is considered in order to illustrate the relevance of the public acceptability of White Paper policies, as these tend to affect people's daily life to some greater or lesser extent. Indeed, a failure to take on board the user perspective can, by itself, lead to resistance even where a policy would lead to overall societal benefits; and that such resistance – and the behaviour it triggers - could endanger the success of the policy.

- <u>Heavy goods vehicle charges</u>. Road pricing is generally shown in research as the area most subject to acceptability concerns. The key proposal of the White Paper relating to infrastructure charging was to bring forward a framework directive setting out the principles and structure of an infrastructure-charging system and a common methodology for setting charging levels, offset by the removal of existing taxes. Progress in all of these important measures has been problematic and, in the absence of a common charging framework applicable to all modes being developed, focus has turned to roads (the Eurovignette directive). The opposition to this proposal centres on a number of concerns, particularly regarding the impact of full internalization on competitiveness and the environmental impact of new transport infrastructure. Designing a package of measures which will meet these concerns is clearly not easy, as it would involve gaining the trust of stakeholders that revenue would be used in a way which removed any threat from the higher charges to competitiveness, and some form of compensation for peripheral states.

Recommendations

a) Compensate the losers. It is important to identify the relevant stakeholder groups relating to any policy measure, understand their concerns and – if necessary to get the measure through – develop measures to 'buy-off' the opposition, taking into account the distributive effects. The 'carrot and stick' approach, i.e. incentives to Member States and local administrations which are more active in making their transport systems more efficient, might be of great help in this context.
b) Liberalise and/or regulate case by case, and privatise with extreme prudence. The experience in Britain shows that it is easy to do these things in a way that is counter productive: bus deregulation led to poorer services (in some respects at least), higher fares, fewer jobs, lower wages and poorer working conditions (though admittedly much less subsidy). Competitive tendering is likely to work as a way of introducing competition ('for the market' rather than 'in the market'), and can be applied in a wide range of cases where full competition looks not efficient or risky.
c) Recommend independent national regulation Authorities, able to protect the users and to incentivate efficiency, avoiding as far as possible the widespread present "capture" mechanisms. A similar approach can be recommended also for infrastructure investments: the evaluation process has to be performed by independent subjects, via a tendering procedure, and with transparent and publicly debated results (see the World Bank approach).
d) Regulate transport infrastructures more effectively. The aim here is to protect the users, both firms and travellers, from monopolistic rents in case of private concessionaires, and from inefficiencies in case of public ones. Special care has to be taken on investments of concessionaires: here direct and attentive public intervention and control seems necessary, given the high risks both of under- and over-investment ("gold plating") experienced in several cases, also outside the transport sector.
e) Make the 'national champions' problem more explicit, avoiding that the national pressures remain "behind the scenes". A possible tool is promoting or requiring specific analysis of the national and European costs and benefits (as well as distributive impacts) of reforming actions that may change the role of large national companies.
f) Make explicit the social trade-offs between the protection of the transport demand and the protection of transport supply (workers, firms, etc.), highlighting that in a context of limited public resources, higher supply cost implies either less social services or higher tariffs (i.e. the "social opportunity cost of public funds").
g) Analyse the anti-cyclical and the employment effects of large infrastructures investments, further than reinforcing the "traditional" cost-benefit analysis, given the fact that these arguments are frequently raised in order to justify low-priority investments, and large doubts exists on the validity of these arguments (civil works have now both a limited occupation multiplier and delayed economic impact).
h) Recommend the avoidance, as much as possible, of top-down ear-marked finance ("derived finance"). This mechanism renders the local and sectoral decision-makers financially irresponsible, incentivating the maximization of the costs (both for investment and operations). At least part of the financing has

to be allocated as a lump-sum to the decision makers, setting in motion the perception of the social opportunity cost of public resources.

XX.1. Institutional conflicts

XX.1.1. Introduction

Transport policy has almost exclusively been a national issue in the past and despite the increasing number of common European initiatives in the field during the last several years, it still remains under the control of national governments. In fact, progress towards a common European action programme is still quite slow.

With the publication of the White Paper on the Future Development of the Common Transport Policy (2001), the common transport policy approach came to delineate a more comprehensive framework, covering a broad range of fields, including environmental protection and conservation, social impacts as well as the external dimension, i.e. the relation to third countries. The six pillars of this common European transport policy are:
1. An efficiently working internal market, facilitating free movements of people and goods;
2. A coherent, integrated transport system using the most appropriate technologies;
3. A trans-European transport network which interconnects national networks, makes them interoperable and links the peripheral regions with the central ones;
4. Transport systems helping to resolve major environmental problems;
5. Promotion of the highest possible safety standards;
6. Social policies to protect and promote the interests of both transport workers and users.

Subsidiarity is the Union's guiding principle in realising the objectives set out in its Common Transport Policy. Therefore partnerships between the Union's institutions and the Member States are necessary at all levels, that is not only at the highest political and official level, but also among operators, users, investors and environmental organisations.

In the framework established by the principle of subsidiarity, it is the Union's task to promote the interconnection and interoperability of national transport networks as well as the access to those networks. The planning of transport infrastructure remains at the Member States levels with reference to Union priorities. It is the task of the Member States to decide the timing of realisation of projects and to determine financing strategies.

The Union fulfils its tasks through publishing guidelines which identify measures and projects of common interest, indicating also their priority in terms of realisation. It also issues guidelines for the technical harmonisation process of the national transport systems. All guidelines proposed by the Commission have to be adopted by the Council and the European Parliament in accordance with the co-decision procedure. In a consultation process, the opinions from the Economic and Social Committee and from the Committee of the Regions are sought.

In the last years, the Member States played different roles in the process of developing and shaping transport policies at Community level, depending on their specific policy environment. Deregulation, liberalisation and privatisation, which in today's political discussion comprise broadly accepted guidelines for advancement in the transport sector, were for a certain time very fiercely discussed and opposed to.

XX.1.2. National regulatory environments

Many of the problems encountered in implementing the European Common Transport Policy relate to the variation in regulatory environment in the field of transport across Member States. The following were identified as of specific importance:

- the variation in the distribution of administrative responsibility and competencies at the national level;
- the variation in the degree of "planning culture" of transport policy, in the form of master plans but also assessment and/or evaluation frameworks;
- the variation in the decision-making structure with respect to the degree of centralisation, especially with respect to the role assigned to the regions, and to the regulatory intervention of the State.

XX.1.2.1. Distribution of administrative responsibility and competencies

In most countries, the responsibility for drawing out and co-ordinating transport policy at national level rests with a single ministry. However, increasingly, due to the development of cross-sectoral policies, a greater number of different administrative actors (i.e. other ministries or governmental authorities) come to play a role in the formulation of transport policy. The most important among these actors tends to be the ministry responsible for environmental affairs (and/or public works or spatial planning): this is, currently, especially the case where transport planning is incorporated in a larger framework of spatial and environmental planning and where, subsequently, such consultations are part of the regular process of policy formulation. This form of co-ordination is becoming extended in almost all the Members States. Furthermore, it ought here to be noted that due to the heavy involvement of public funds in transport investments, the respective national ministries of finance have high influence on the realisation of transport policies and projects.

The acting of many administrative actors in the transport policy matters could led both to a more structured transport policy and to a conflict situation between these different bodies.

XX.1.2.2. Degree of "planning culture" of transport policy

Most European countries have elaborated specific master plans for transport; others provide very specific assessment frameworks for transport investments and policy progress. Depending on the structure of the country, such master plan concepts are available at national, regional and, also partly, local level. These concept plans are often accompanied by detailed infrastructure master plans. In some cases, these are embedded in a wider frame for future planning and development, covering socio-economic, environmental and spatial aspects. Very few countries haven't a specific transport master plan and elaborate their transport policy in more wide-ranging national documents: conflicts, usually, could arose in those areas/countries were transport policy results no well defined.

The table below shows the most important national transport documents in the Member States. These overarching policy documents do not always carry the same weight in terms of implementation. For the most part, these set general orientation guidelines or define general objectives or assessment criteria. More specific on actual instruments or measures of implementation are the infrastructure investment plans; however here too, it is increasingly becoming common practice that the goals set out are not met, or, at least, not within the time framework originally specified. Related to the incidence of general planning documents, but not necessarily dependent on it, is the scope of planning activities, what we could call 'planning culture'.

In those countries without general guiding policy documents, there was for several years little in the sense of a proactive approach in the field of the elaboration of transport policy. However, it is precisely in these

countries, where it could be said that the elaboration of the European Common Transport Policy, especially with respect to harmonisation, has had the greatest impact in terms of providing a lever for upgrading and/or structuring national transport policy. Furthermore, in many instances, in these countries, it helped to level conflicts and speed-up decision-making procedures. The latter, however, is also not unrelated to the fact that the implementation of specific projects in these countries was connected with financial contributions from the European funds.
A different situation occurred where the Common Transport Policy did not meet with a vacuum situation, but was confronted with established policy objectives and instruments.

***Table 2:* Most important national transport policy documents**

Country	Policy document
EU15	
Austria	Austrian Transport Masterplan ("Generalverkehrsplan Österreich – GVP-Ö), 2002
Belgium	National Railway Company Investment Plan (2001 – 2012)
Denmark	Transport Plan 2003 (Trafikplan 2003)
Finland	Towards Intelligent and Sustainable Transport 2025, Programmes and strategies 1/2000 (English version
France	The "LOADDT" ("Orientation" law on spatial and land use planning) & National schemes for multimodal transport (2002), one scheme for goods transport, another for passengers transport
Germany	National Transport Infrastructure Plan (FTIP) 2003 (Bundesverkehrs-wegeplan 2003 or BWVP 2003)
Greece	Operational Programme 'Railways, Airports, Public Transport (2000-2006)
Ireland	Statement of Strategy 2003-2005 (DoT)
Italy	PGTeL (National Plan for Transport and Logistics), 2001
Luxembourg	Note on General Policy Director plan in the transport sector
Netherlands	2nd Structure Scheme Transport (Tweede Structuurschema Verkeer en Vervoer)
Portugal	Operational Programme of Accessibilities and Transports (POAT - Programa Operacional de Acessibilidades e Tranpsortes), 2000
Spain	PEIT, Plan Estratégico de Infraestrucuturas y Trasporte
Sweden	Infrastructure for a long term sustainable transport system, 2002
United Kingdom	Integrated Transport White Paper – A New Deal for Transport: Better for Everyone
NMS	
Czech Republic	New Transport Policy, currently in preparation
Cyprus	Policy Declaration, 1996
Estonia	Transport Development Plan 1999-2006, 1996
Hungary	Hungarian Transport Policy 2003-2015, 2004
Latvia	National Programme for the Development of Transport from 1996 to 2010
Lithuania	Lithuanian long-term (to year 2025) transport system development strategy, 2005
Malta	Draft White Paper on Sustainable Land Transport, 2004
Poland	National Transport Policy 2001 - 2015
Slovakia	The Transport Policy of the Slovak Republic, 2003
Slovenia	Resolucija o prometni politiki Republike Slovenije (Resolution on transport policy of Republic of Slovenia), 2004

XX.1.2.3. Decision-making structure

The third major discriminatory variable in identifying possible conflict situations in implementing common transport policies is the degree of the decision-making structure which consists in the:

- **Degree of centralization**. This criterion examines whether the decision making process is controlled centrally by the national government or whether the decision making process is decentralized to lower echelons of government (i.e. regions, prefectures) and transport organizations (e.g. public transport companies, rail operators)
- **Degree of regulatory intervention.** This criterion examines the degree of intervention of the state in the operation of the transport market. The levels identified are: 1. State-controlled, 2. Moderate intervention, 3. Free-market.

According to the TIPP project (STRAFICA et al., 2003 – 2005), nine classifications of institutional settings are identified, with regards to the structure of the decision-making environment:

1. *Centralised state-controlled*: This classification is characterized by high centralization and high regulatory intervention. It refers to highly centralized institutional settings with little private sector control over transport services/strong government intervention in the provision of transport services.
2. *Centralised with moderate intervention*: This classification is characterized by high centralization and moderate regulatory intervention. It refers to highly centralized institutional settings with moderate private sector control in the provision of transport services.
3. *Centralised free-market*: This classification is characterized by high centralization and low regulatory intervention. It refers to highly centralized institutional settings with a relatively light touch regulatory approach and with largely private sector provision of transport services.
4. *Moderately decentralised state-controlled*: This classification refers to moderately decentralized institutional settings with a high degree of regulatory intervention in the operation of the transport market and in the provision of transport services.
5. *Moderately decentralised with moderate intervention*: This classification refers to moderately decentralized institutional settings with a moderate degree of state intervention in the operation of the transport market and in the provision of transport services.
6. *Moderately decentralised free-market*: This classification refers to moderately decentralized institutional settings with a low degree of regulatory intervention in the operation of the transport market and in the provision of transport services.
7. *Decentralised state controlled*: This classification is characterized by low centralization and high regulatory intervention in the operation of the transport market and in the provision of transport services. It refers to institutional settings with devolved powers for managing transport, which are likely to be accompanied by good co-ordination across modes at the local level.
8. *Decentralised with moderate intervention*: This classification is characterized by low centralization and moderate regulatory intervention in the operation of the transport market and in the provision of transport services. It refers to institutional settings with devolved powers for managing transport, which may be partially opened with regards to the intervention of the state in the operation of the transport market.
9. *Decentralised free-market*: This classification is characterized by low centralization and low regulatory intervention in the operation of the transport market and in the provision of transport services. It refers to institutional settings with a broad span of policymaking authority and low intervention of the state in the operation of the transport market.

Of course, at the most obvious level, competencies among the state's territorial authorities are distributed in different ways depending on the degree and character of federalisation as established in the respective State Constitutions.

In the transport field, typically regions are responsible for urban as well as regional transport networks (and especially secondary road infrastructure, regional rail services and urban public transport) and, by reason of the fact that they usually have the jurisdiction over physical planning and/or land use designation, they are indirectly, if not directly, involved in transport policy planning and formulation.
Making reference to the level of centralization and of the regulatory intervention of the state, the institutional frameworks of the Member States could be classified as illustrated in Table 3. According with these classifications, four current approaches to sub-national government within the EU15 emerge:

- *Federal approach*: Austria, Germany and Belgium
- *Tradition of relatively strong sub-national government*: Denmark, Finland, and Sweden
- *Tradition of relatively weak sub-national government*: Greece, Ireland and Portugal
- *Centralized approach*: France, Italy, Netherlands Spain and United Kingdom

Among the NMS we find four countries that have a genuine regional level (Czech Republic, Latvia, Poland, Slovak Republic) and two countries with two tiers of local government (Latvia and Poland). Others countries show a unitary approach to the sub-national government.

However, it should be noted that, in the last years, processes of institutional decentralization and fiscal federalism are taking place in most of the member states. A gain in efficiency usually justifies such changes in the national frameworks.

Table 3: Decision-making structure in the Member States institutional frameworks

Country	Degree of centralization	Regulatory intervention
MS		
Austria	Decentralization	State control
Belgium	Decentralization	State control
Denmark	Moderate decentralization	Moderate regulatory intervention
Finland	Moderate decentralization	Moderate regulatory intervention
France	Centralization	State control
Germany	Decentralization	State control
Greece	Moderate decentralization	State control
Ireland	Moderate decentralization	Moderate regulatory intervention
Italy	Centralization	State control
Luxembourg	Centralization	State control
Netherlands	Centralization	State control
Portugal	Moderate decentralization	State control
Spain	Centralization	State control
Sweden	Moderate decentralization	Moderate regulatory intervention
United Kingdom	Moderate decentralization	Free market
NMS		
Czech Republic	Centralization	Moderate regulatory intervention
Cyprus	Centralization	State control
Estonia	Moderate decentralization	Moderate regulatory intervention
Hungary	Moderate decentralization	State control
Latvia	Moderate decentralization	Moderate regulatory intervention
Lithuania	Moderate decentralization	Moderate regulatory intervention
Malta	Centralization	State control
Poland	Moderate decentralization	State control
Slovakia	Moderate decentralization	State control
Slovenia	Moderate decentralization	State control

XX.1.3. Conflicts about competencies of different institutions

There are conflicts arising between the four established political levels - local, regional, national and European - in the framework established by subsidiarity. Two developments are at the root of these conflicts: the rise of a new supra-national European level, and the demand of regional and local governments for more participation in decision-making.

Disagreements still exist regarding the extent of harmonisation, specifically concerning issues and areas which are legitimately to be dealt with at the European level. Examples include the common environmental threshold levels, safety regulations or negotiation mandates with third countries.

Regional authorities, especially in those Member States where they still have no or a low participation in decision-making, try to increase their influence within the Member States as well as directly on the European Union. The same is true of local authorities which have the least competence in transport policy, yet are the often the most affected through large-scale infrastructure projects.

In order to understand the potential conflict level of the 12 White Paper policies, it is useful to firstly point out their administrative level of influence. Three level of influence could be distinguished (Table 4):

1. European: policies that more aim to harmonize European transport policy and which work to encourage cohesion among the Member States. These policies are the ones which have the higher European added value
2. National: policies which are more related to national issue and only impart contribute to the European transport policy. Their European added value is medium.
3. Regional/Local: policies whose target is regional/local. These policies have a low impact on European transport policy and a quite low European added value.

Table 4: Level of influence of White Paper policies

Action priority	Policies		EU Level	National Level	Regional/Local Level
Shifting the balance between modes	**1**	Improving quality in the road transport sector	**	**	*
	2	Revitalizing the railways	**	**	*
	3	Controlling the growth in air transport	***	*	*
	4	Promoting transport by sea and inland waterway	**	*	**
	5	Turning intermodality into reality	***	***	*
Eliminating Bottlenecks	**6**	Building the Trans-European transport network	***	**	*
Placing users at the heart of transport policy	**7**	Improving road safety	***	***	**
	8	Effective charging for transport	*	**	***
	9	Recognizing the rights and obligations of users	*	***	*
	10	Developing high-quality urban transport	*	*	***
	11	Putting research and technology at the service of clean, efficient transport	***	**	**
Managing the globalization of transport	**12**	Managing the effects of globalization	***	**	*

Code: *** High level of conflict
** Medium level of conflict
* Low level of conflict

Table 5: Potential conflicts of the 12 White Paper policies at national level

Action priority	Policies		Competition between municipalities/regions/ State/EU	Conflicting interests of different levels of policy making	Conflicting interests of different Ministries and other authorities	Internal conflicts within government
Shifting the balance between modes	**1**	Improving quality in the road transport sector	***	*		*
	2	Revitalizing the railways	***	*		*
	3	Controlling the growth in air transport	***	*	**	
	4	Promoting transport by sea and inland waterway	**	*	**	
	5	Turning intermodality into reality	**	*	*	
Eliminating Bottlenecks	**6**	Building the Trans-European transport network	**	*		
Placing users at the heart of transport policy	**7**	Improving road safety	*	*	*	*
	8	Effective charging for transport	***	*	*	
	9	Recognizing the rights and obligations of users	*	*		
	10	Developing high-quality urban transport	*	*		
	11	Putting research and technology at the service of clean, efficient transport	*	*	*	
Managing the globalization of transport	**12**	Managing the effects of globalization	*	*		

Code: *** High level of conflict
** Medium level of conflict
* Low level of conflict

According to the above considerations, Table 6 shows the possible conflict situations of the policies. It should be underlined that the conflict level of the policies could be different among the states according to their administrative structures too.

The policies which are more likely to generate political conflicts are the ones grouped in action priority 1 "Shifting the balance between modes". First of all, this could be explained by the fact that sometimes the EU goal to reduce road traffic in favour of more sustainable transport modes is not a Member States national priority. For some countries, road transport still remains the most utilized and functional transport mode, and the national transport documents still stresses this concern.

Other kinds of conflicts could rise, concerning this action priority, between different levels of government, and this is especially true when the expected impact of a transport policy is twofold: develop the transport system and regenerate the area in which the policy is implemented. So, policies as "Improving quality in the road transport sector", "Controlling the growth in air transport", "Promoting transport by sea and inland waterway" and "Turning intermodality into reality", which include a development of the local infrastructure, could lead to a sort of competition between regional/local authorities (specially in a context of top-down earmarked finance). Furthermore, conflicts could rise between different ministries: as example the policy of "Controlling the growth in air transport" usually involves transport and environmental ministers, which could have different priorities and objectives concerning these themes. As regards the TEN-T policy, the evidence shows that an unclear policy articulation at the EU level could lead to an incorrectly and imprecise interpretation of the policy objects at a lower level. Conflicts are likely to rise also concerning the charging policy, since among the Member States still prevail different orientations concerning both the charge levels and the revenues use.

Table 6: Potential institutional conflicts of the 12 White Paper policies at national level

Action priority	Policies		Conflict Level
Shifting the balance between modes	**1**	Improving quality in the road transport sector	***
	2	Revitalizing the railways	***
	3	Controlling the growth in air transport	***
	4	Promoting transport by sea and inland waterway	**
	5	Turning intermodality into reality	**
Eliminating Bottlenecks	**6**	Building the Trans-European transport network	**
Placing users at the heart of transport policy	**7**	Improving road safety	*
	8	Effective charging for transport	***
	9	Recognizing the rights and obligations of users	*
	10	Developing high-quality urban transport	*
	11	Putting research and technology at the service of clean, efficient transport	*
Managing the globalization of transport	**12**	Managing the effects of globalization	*

Code: *** High level of conflict
** Medium level of conflict
* Low level of conflict

XX.2. Socio-economic groups conflicts

XX.2.1. Introduction

The Common Transport Policy of the European Union and the objectives outlined in the White Paper have diverse effects on different stakeholder groups. The following analysis should therefore give a closer look at the stakeholder groups, their positions, interests and the conflicts arising between them due to the implementation of the White Paper's policies.

As society is no homogeneous entity, it is an enormous challenge for politics to cope with the different, and very often conflicting, views and objectives that different groups in society have. Additionally, on the European level, different cultures, languages, social backgrounds, legal systems and levels of prosperity have to be taken into account when political strategies are to be developed and implemented. While the rich diversity of different cultures is generally regarded as an asset and a distinctive characteristic Europe can be proud of, it also bears potential conflicts for the realisation of political projects on a European level.

In this context, Public Choice Theory offers a wide range of analytical tools to identify these conflicts and gives some solutions to find more efficient governance regimes. Prior to the development of Public Choice Theory it was general consensus among political scientists that governments acted from a neutral position on behalf of the whole society. However, the works of economists such as James M. Buchanan, Gordon Tullock and George J. Stigler as prime representatives of the Public Choice Theory have identified that governments and regulatory authorities are subject to the influence of political action groups and lobbyists, who try to exploit the political and regulatory system on their behalf to achieve "differential advantages"[1], such as economic rents. In particular, lobbying groups aim to influence the political agenda to achieve a preferential treatment of their own interests. If governments succumb to the lobbying attempts of single groups, overall social welfare is reduced. However, regulators hardly have complete knowledge and hence the input from stakeholders can significantly improve the understanding and perception of the issues at stake and their consequences.

[1] Buchanan, J. M./Tullock, G. (1999), para. 3.19.9.

It has also to be regarded that power is distributed unevenly among these groups. If all participant parties in society had comparable lobby groups, the probability would be great that these groups balanced their interests towards the governments resulting in a neutral outcome. But the strength of the different groups is not equal and has to be taken into consideration. Especially consumer interests are often rather weakly represented, while industry federations and in many Member States also trade unions have a high significance in the public discussion.

To make the system of governance more immune to the influences of particular groups of society it is therefore necessary in a first step to identify what are the vested interests of certain groups in relation to the measures of the White Paper and which conflicts the implementation of these measures may spark.

XX.2.2. Historical background

In the past, the transportation sector was a field, where national governments acted to protect the interests of certain stakeholder groups. For instance limitations on market access and fixed prices were an institutional guarantee for incumbents to earn supernormal profits at the expense of newcomers, who potentially could produce more efficiently. This was also at the expense of users, who had to pay higher prices than in a competitive system.

Since the end of the 1980s, the European Community has been a driver for the reduction of particular interests of stakeholder groups to create a Common Market and to increase competition. The most pressing conflict in this context is the harmonisation of competitive conditions and the liberalisation of market access and pricing issues.[2] While the former is particularly demanded by the national governments of the Member States and by most lobby groups of the supply side stakeholders, lobby groups arguing for the latter have been rather weak.

As late as 1985 the European Court of Justice decided that harmonisation is not a prerequisite for efforts to liberalise the transport markets,[3] paving the way for all legislative acts on the EU level to follow, such as the liberalisation of the road transport and aviation sectors.

In several sectors it could be seen in the meantime that competition may lead to harmonisation. The pressure coming from competition forces the Member States to adapt their own legislation to create more equal competitive conditions for the companies of their own country. So instead of harmonisation as a prerequisite of competition experience shows that competition will lead to harmonisation. On the other side, competition promotes adaptive forces within the different companies. In a lot of circumstances, companies achieve a considerable level of competitiveness – even in different competitive conditions – to find a way to live with these different starting levels and to find other distinctive competitive advantages.

While on the one hand it can be an effective strategy to reduce the power of certain stakeholder groups to enhance overall welfare, it may be necessary to strengthen other stakeholders. This is particularly true for consumers' interests, as these interests are usually only weakly represented in society. With its policy to foster competition the Commission advances exactly into this direction: A competitive environment is not only the best climate for companies, but it is also the best way to maximise social welfare – and that is finally the amalgamation of the consumers' interests. In a competitive environment, the consumer has the opportunity to choose from a multitude of service providers and contractors, therefore exerting power on large corporations, which was not possible in times of closed national markets. This way, the Commission

[2] Cf. Aberle (2003), p. 172.
[3] As decided by the European Court of Justice in case 13/83, cf. ECJ (1985).

achieves a market determined promotion of consumers' interests, which can be regarded as more efficient than any kind of regulation or the formation of special consumer interest groups.

XX.2.3. Challenges and conflicts in the transition to a highly competitive environment

The basic rationale behind the liberalisation process is that the market produces superior results in the fields of innovation, prices and quality than governmental regulation. However, the transformation process from a highly regulated system towards a highly competitive environment is also associated with frictions and fears by entrepreneurs and employees alike.

Liberalisation is feared to have adverse impacts on the personal situation; becoming more productive could mean on the other hand working longer, earning less or even a reduction of workforce for a particular company. While economic theory says that the loss of jobs is a short-term effect, in reality the affected groups try to resist any institutional changes that are connected with personal disadvantages in comparison to the status quo situation. Moreover, they call for harmonisation, which should guarantee social cohesion on the one hand, but also does limit the forces of competition on the other hand

It is not always the case that liberalisation leads to less jobs in a specific industry. With an increase of competition newcomers enter the markets, and they create *inter alia* also new jobs. But these newly created jobs are usually associated with lower salaries and less favourable working conditions. Also these new companies have often no relationship with unions. These two reasons are mainly responsible for the situation that unions prefer to stay with the status quo situation even if it is foreseeable that in the end there will be more jobs in the industry than before.

Empirically, a divergence of growth rates between U.S. and the European Community can be observed since the 1980s, a phenomenon that is named "Eurosclerosis". Economists argue that, besides other contributing factors, the influence of stakeholder groups on the political decision making process is limiting growth in the EU. It is argued that Europeans emphasise the need to uphold the social cohesion, which means that equality in society has a higher significance than growth, resulting in the resistance to more groundbreaking changes in the organisation of work.[4]

Difficulties in the transformation from protected industries to a competitive environment become obvious in different sectors of the transportation industry. After the first phase of liberalisation, usually the market structure of a one sided monopoly can be observed with one dominating competitor and several smaller ones. At least this is the case in the railway industry as well as in the airline industry. The described market structure makes it very difficult for new entrants to compete on the same level as the incumbent. This situation can be ascribed to network economies existing in the transportation sector. Furthermore, at least the potential to discriminate exists, for instance in the railway sector, where the incumbents very often provide infrastructure and offer transport services as well, while new entrants are infrastructure users only.

Another important factor in the context of deregulation of transport markets is the role of rent seeking and monopolies. In the transport industry, monopolies can commonly be observed, be it either created by institutional regulations or economic characteristics, as the so-called "natural monopoly". Especially the provision of transport infrastructure has in many cases the characteristic of a natural monopoly. While institutionally created monopolies can be reduced with a more liberal legislation, the situation of natural monopolies is more difficult. With the latter, price regulation is needed to hinder the monopolist to ex-

[4] Coyle, D. (2005).

tract monopoly rents from infrastructure users and/or consumers. In this context, conflicts appear between infrastructure providers, who argue to be in the need to receive higher user fees to finance service quality and capacity expansion, while users want to minimise their fee burden.

Liberalisation of monopolies with economic instruments such as the essential facilities doctrine or unbundling often has not lead to a considerable level of competition. The reason for it is that the starting positions of the incumbents and the newcomers are so different resulting in an extremely unequal distribution of market power.

In contrast to the theory of contestable markets, most newcomers start only with a very limited offer or in a limited number of markets and with a quite smaller size. In contrast to this theory – which was at the base of the liberalisation process – these newcomers are however more competitive than the incumbents though they cannot materialise economies of scale and scope. Now the incumbents can use their market force and especially their rents coming out of still regulated markets - or out of markets where they don't have yet competition - to undercut the prices of the newcomer. This harm to competition is very difficult to prove, so that we face often a lot of market entries as well as exits after liberalisation. Thus, it may be a task of the EU to find ways to differentiate between competitive pricing and predatory pricing or behaviour. The result may be that the monopoly situation of the incumbent may even be stronger after liberalisation than before – a surprising result of liberalisation.

A further problem lies in the relation between the different incumbents on the one side and the newcomers on the other side. In road transportation this is more in the domestic transportation whereas in the railway and airline industry it is more in the international context. Caused by the abolition of competition, the incumbent companies were used to cooperate and via the price regulation to agree on prices. Now under the liberalised environment they should enter competition – this change of industry philosophy and companies' strategy seems to be nearly impossible. If these monopolistic incumbents do not compete with each other competition may only enter via newcomers. Then once competition started we face always the risk of collusion especially between the incumbents – they know so well each other. Even if there is no proof of collusion, even if there is no collusion at all, we often experience that the incumbents start with open cooperation to strengthen each others market position against (potential) newcomers. This can on the one side be seen in special cooperations between different railway companies or in the alliances in the aviation industry. But on the other side it is also visible in intermodal cooperation as the example of DB with Schenker shows. Then, no collusion is needed to eliminate competition.

XX.2.4. Lobby group responses to the White Paper

The following paragraphs illustrate the kind of responses to the White Paper by different lobby groups. It can be seen that the opinions on the objectives of the White Paper are highly dependent on the individual position of the respective stakeholder groups, i.e. which mode, whether industry, workers or consumers' organisation, national or international interests, etc.

Lobby groups from the railway sector for instance hail the objectives of the White Paper to strengthen the share of rail in the overall modal split. For example the Community of European Railways (CER) states in its position paper that the environmental benefits of rail are understated in the White Paper[5] and it supports the objective to shift the modal split towards rail. This view is also supported by the European Association of Railway Industries (UNIFE), which particularly praises the financial support contributed by various EU programmes.[6]

[5] Cf. CER (2002), p. 3.

[6] Cf. UNIFE (2001).

In contrast to the perception of the railway industry, aviation stakeholders are by far more critical with the statements in the White Paper. The Association of European Airlines (AEA) secretary general, stated that "[t]he White Paper seems to offer very little in the way of positive support for our sector - the message is overwhelmingly negative".[7] In the same direction goes the response of the Airports Council International – Europe (ACI-Europe), which "fundamentally objects to the overall goal of the European Commission's White Paper to redistribute the proportion of usage amongst the transport modes".[8]

The International Road Transport Union (IRU) agrees on the White Paper's findings concerning the most pressing problems; however it disagrees with the measures outlined in the White Paper.[9] In fact, IRU stated that "[t]he road transport industry is the only transport mode to have committed itself to the goal of sustainable development."[10] The German road haulage federation BGL goes even so far to denounce the policy outlined in the White Paper as "eco-socialist command economy".[11]

From the point of view of a labour organisation, the Austrian Chamber of Labour, which serves as a representative of more than 2.7m workers, emphasises the need to establish a link between liberalisation of markets and harmonisation of social standards in the railway sector.[12]

An industry viewpoint might be illustrated by the position of the Confederation of British Industries, representing more than 200,000 businesses in the UK; they voice their concern that the White Paper is biased towards addressing the problems of freight transport.[13]

Table 7: Relevant stakeholders related to White Paper policies

Policies	Relevant stakeholders	Attention to the NMS
1. Improving quality in the road transport sector	Road transport industry federations Manufacturing industry, e.g. ACEA, JAMA, KAMA Shippers, e.g. IRU	Organizations of road transport employers. In all new member states there are carriers associated in IRU, Organizations of workers – most important are trade unions in the Czech Republic, Hungary and Poland associated in ETF
2. Revitalizing the railways	Member States' governments Railway operators and their organisations, e.g. CER, UIC, UNIFE	13 railway enterprises in 8 new member states associated in CER, trade unions of railways associated in ETF (mainly from the Czech Rep., Hungary, Latvia Lithuania, Poland and Slovenia)
3. Controlling the growth in air transport	Environmental NGOs, e.g. T&E Airlines and their associations like AEA Airports and their associations like ACI-Europe, AOA, ADV	administrations of the airports and air carriers of new member states, associated in the ACI (excluding Lithuania) and in the AEA (carriers from Poland, Czech Rep., Hungary and Slovenia), trade unions of air transport workers associated in the ETF (in Hungary, Latvia and Poland)
4. Promoting transport by sea and inland waterway	IMO Member States' governments Ports and shippers	representatives of navigation companies associated in the ECSA (in Estonia, Lithuania and Latvia) trade unions of workers associated in the ETF (Estonia, Latvia, Lithuania, Poland and Slovenia)

[7] Neumeister, K.-H. (2002), p. 1.
[8] ACI-Europe (2002), p. 1.
[9] Cf. IRU (2002).
[10] IRU (2002).
[11] BGL (2002).
[12] Cf. Austrian Federal Chamber of Labour (2002).
[13] Cf. CBI (2005).

5. Turning inter-modality into reality	Member States' governments Vehicle manufacturing industry Railway operators and their organisations, e.g. CER, UIC, UIRR Road transport industry federations, e.g. IRU.	representatives of intermodal transport operators associated in UIRR (in the Czech Rep., Hungary and Slovenia) trade unions of railways workers associated in ETF
6. Building the Trans-European transport network	National governments, regional authorities Environmental NGOs	road and railways carriers in new member states associated in the European organisations trade unions of workers of road and railway transport enterprises associated in ETF
7. Improving road safety	Member States' governments Vehicle manufacturing industry, e.g. FIA, FEHRL,	road carriers in new member states associated in IRU and national organisations, trade unions of road transport workers associated in the ETF
8. Effective charging for transport	Member States' governments Railway operators and their organisations, CER, UIC, Road transport industry federations, IRU, Airlines and their associations like AEA Airports and their associations like ACI-Europe, AOA, ADV	road carriers of new member states associated in IRU and national organisations, trade unions of road transport workers associated in the ETF
9. Recognizing the rights and obligations of users	Consumer Protection Organisations, e.g. ADAC, T&E, Airlines and their associations like AEA Railway operators and their organisations, e.g. UIC	air and railway carriers of new member states associated in the European organisations, trade unions of air and railways workers associated in the ETF
10. Developing high-quality urban transport	Regional and municipal authorities, e.g. POLIS, Vehicle manufacturing industry, e.g. ACEA, JAMA, KAMA Public transport operators, e.g. UITP	Urban transport operators associated in UITP from all new member states, excluding Latvia Trade unions of workers of urban transport companies
11. Putting research and technology at the service of clean, efficient transport	Vehicle manufacturing industry, e.g. ACEA, EUCAR, CONCAWE Environmental NGOs, e.g. T&E	road and air carriers in all new member states associated in the European organisations trade unions of workers of road and air companies associated in the ETF
12. Managing the effects of globalization	IMO Member States' governments Labour unions Airlines and their associations like AEA Airports and their associations like ACI-Europe, AOA, ADV	air enterprises of new member states and maritime navigation companies from Estonia, Lithuania, Latvia, Poland and Slovenia associated in the European organisations trade unions of employees of air and maritime companies associated in the ETF

NB: Details of the NMS stakeholders and organisations can be found in appendix A and B.

XX.2.5. The White Paper measures' impacts on social groups

Making reference to the social conflicts feared by the respective stakeholders, as mentioned in the previous paragraph, it would be by far too complex to show in detail the social implications of each of the White Paper's measures. However, some general conclusions can be drawn, independently of the transport mode.

XX.2.5.1. Measures aimed at opening transport markets

This group of measures includes:
- Measure 7: Opening up the national and international freight railway market,
- Measure 12: Gradual opening-up of international railway passenger services,
- Measure 25: Air service agreements,
- Measure 29: Port services liberalisation.

Although these measures are aimed to enhance overall economic efficiency, they provoke resistance by incumbent companies, their industry federations and trade unions alike. Reason for this behaviour is the fear to loose economic rents[14]. It is not obligatory that these rents materialise as profits, as is particularly the case with price-regulated companies such as airport operators. The price regulation incentivises management to produce at higher costs – having a higher workforce than needed ("empire-building"), overcapitalise ("gold-plating") or offering costly perks to management. So the economic rent can materialise as inefficiency and may be distributed to shareholders, to management or to employees and their unions.

As these profits are owed to the institutional pattern how the market is organised, the affected social groups try to influence policymakers and regulators to uphold the status that is connected with certain benefits for them. This phenomenon is called "regulatory capture" and does not only lead to higher prices for consumers, but also affects innovation adversely, as creative new entrants face market entry barriers or even denial to access the market.[15] Vice versa, lobbying is exerted from the potential winners of such measures, in this example interested new entrants. However, due to different economic power, relations, structure, etc. the pressures from the different groups are not proportional, neither to the issues at stake nor to the potential overall benefit. Therefore, a neutral position is not the simple sum of all forces in action but needs discernment of the arguments presented.

A recent example for the failure to implement a policy that is aimed to freely grant market access due to lobbying is the collapse of the Services Directive in early 2005.[16] This Directive would have opened up the market in each Member State for services offered under the rules of the service providers' home country. Under the current rules, goods and capital enjoy free movement throughout the Community, while the market access for service providers is tied to an establishment in the respective Member State. Service providers then are subject to the rules and regulations of the host country.

The proposal to give the service providers the right to operate in each Member State without having to create an establishment has stirred a controversy in the public discussion. Main opponents, such as trade unions and anti-globalisation activists argue that such a Directive would undermine the social cohesion of the Union. Actually, reading between the lines, trade unions fear to lose power in the collective bargaining process.[17] This is particularly relevant in France, Germany and Sweden.

However, the collapse of the legal proposal does not save jobs on a grand scale, as activists and politicians would like to suggest.[18] The following example related to the transport sector illustrates the ambiguous nature of both, the current as well as the proposed legal status. As under the current rules free movement of services is restricted, it will be substituted by the free movement of goods where possible. Transportable goods, on which services are to be performed, will be transported to Member States, where the services can be performed cheaper than in the originating country, as long as the wage differential is higher than the costs for transport. For example, many hotels and hospitals in Berlin do not use a local laundry, but transport their dirty linen to Poland, let it clean there and transport it back to Berlin.[19] Therefore the current legislation does not achieve to protect as many laundry jobs in Berlin as could be desired by the trade unions, and additionally it creates more traffic that adversely affects the environment and contributes to congestion. Under the Services Directive, a Polish laundry operator could offer his services in Berlin according to Polish terms, therefore making it obsolete to transport the linen to Poland and back. Obviously, there is a conflict of multiple objectives which can only be solved if priorities are set: jobs conserva-

[14] Economic rents are supernormal profits generated by the fact that market access is restricted.
[15] Cf. McMahon, G. (2002), p. 1.
[16] Cf. Commission of the European Communities (2004).
[17] Cf. Kernohan, D. (2005).
[18] Cf. Attac (2005).
[19] Cf. Anon (2003).

tion or creation in different places, or welfare generation respectively, must be traded against the full costs of the operation, in this case considering also the impacts of additional transport – when the transport market has not yet internalised its full costs, here in terms of congestion, environmental and health impact - together with the working and treatment conditions, both social and environmental, in both places in question.

XX.2.5.2. Measures aimed at harmonising social standards

These measures in particular are:
- Measure 3: Training of professional drivers,
- Measure 4: Social harmonisation of road transport,
- Measure 5: Introduction of the digital tachograph,
- Measure 11: Certification of train crews,
- Measure 35: Training of seafarers,
- Measure 39: Social legislation inland waterway transport,
- Measure 48: Harmonisation of road safety checks and penalties

In general, these measures will be hailed by workers' federations and trade unions, particularly in the Member States where wages are relatively high. These groups fear that competitive pressure, particularly from the new Member States will lead to a reduction in their own wages or to a loss of jobs. Sometimes it is argued that the competitive advantages of the new Member States originate from the fact that social standards are lower than in the old Member States. From their viewpoint the rationale behind social harmonisation is that it will reduce competition and therefore guarantee their jobs and income level.

But from a perspective taking into account the overall impacts on the economy, such a rationale can also have negative effects. The question in this context is if social harmonisation enhances economic efficiency or if such a policy reduces competitive advantages of countries with a lower cost structure. In economics it is argued that harmonisation induced by politics, such as the creation of social standards, is more or less reducing overall welfare, while harmonisation induced by the market, for example as the long-term equalisation of wages in different countries due to the free movement of goods, capital, services and labour, enhances overall economic welfare.[20] The effect of policy-induced social harmonisation is a cost increase for those countries that have to adapt to the new standards, which will subsequently result in job losses. This is not to dispute the good foundations of social minimum standards. The question is rather to what extent they are necessary to protect fundamental rights, to what extent they need to be imposed on all market participants to have a level playing field, and when all this rather becomes a barrier for market entry of newcomers which might offer the same quality to lower societal costs.

XX.2.5.3. Measures aimed at harmonising the competitive situation

Measures included in this group are:
- Measure 1: Harmonise clauses in commercial road transport contracts,
- Measure 60: Harmonising VAT deductions,
- Measure 62: Taxation of energy products,
- Measure 22: Community framework for airport noise management

These measures are of special importance for entrepreneurs from different Member States that compete on the Common Market. Competitive distortions, based for instance on differences in taxation, have had severe impacts on the ability to conduct business for many companies. For instance, German road haulage

[20] Cf. Luckenbach, H. (n.d.), p. 8.

companies face competitive disadvantages from vehicle and fuel taxation in comparison to their French and Spanish counterparts.[21] This has lead to the fact that the market share of German haulers has been reduced to marginal residues.[22] In the past this has sparked conflicts between the road haulage industry and the German federal government, as the industry federations demanded to reduce the artificial costs (such as vehicle and fuel taxation or depreciation rules) to create a level playing field in the competition with their counterparts from other Member States.[23]

XX.2.6. Implications for the European transport policy

The preceding paragraphs have shown that the Commission has to withstand lobby groups that are massively trying to safeguard their vested interests. To reach their objectives, lobby groups often operate with hypothesis, suggestions, selective presentation of facts and one-sided interpretation. However, if asked and interpreted in the right way, and provided that a balance of opinions is taken into account, this kind of stakeholder participation can provide important insights from the affected groups. Thus a precondition for the interpretation of their intervention is an understanding of their genuine interests and potential background. This does also include the position of single Member States.

Institutions of the European Union are particularly exposed to criticism, as the EU follows an ambitious agenda to foster the Common Market in order to increase overall welfare in the Union, which in turn can reduce supernormal profits and economic rents vested in the hands for particular groups of society. In many cases, the EU has a greater scope of action than national governments in liberalising (or efficiently regulating) markets, because of its less direct relation to lobby groups. In this regard, the distance of EU institutions, which is usually seen as a disadvantage, when it comes to interaction with the public, is an asset, when it makes EU institutions potentially less directly exposed to lobbying and reduces the risk of "capture". The past has shown that in this sense the EU has attempted to use its powers extensively, but many lobby groups were successfully resisting, every time these have been supported by their national governments.

The general conflict 'environment vs. economic development' sees very special social groups involved, i.e. present economic interests put against future generations welfare. This conflict deals on the one hand on policies concerned with reducing the negative impacts of traffic for the environment and society, and even with reducing transport volume per se, and on the other hand policies to improve transport flows in order to further enhance economic development and market competition. Such a conflict cuts vertically across all dimensions and/or levels of political decision-making or action, covering environment-related concerns, such as noise abatement, air pollution, safety, pricing of external costs, the extension of transport infrastructure, etc., and global competition issues (specially toward less social minded context, like Asia, and for the environment, the same U.S.A.).

XX.2.7. Focus on the New Member States

In order to evaluate the impact of different stakeholders in the New Member States[24] of the European Union, the following methodological assumptions have been made:

- identification of factors determining the impact of stakeholders' activity in new member states (see next paragraph),

[21] Cf. Aberle, G. (2003), pp. 179f.
[22] Cf. Aberle, G. (2005), p. 243.
[23] Cf. Deutsches Verkehrsforum (2001), pp. 11f.
[24] This analysis will not consider Malta and Cyprus.

– the evaluation concerning three grouped transport modes have been developed (i.e. Table 8 for road urban and interurban transport, Table 9 for railway and air transport and Table 10 for maritime and inland waterway transport);
– for each factor determining the impact, it has been assessed the indicators' weight in the range between 0.1 to 1.0;
– ranking of countries by modes of transport presenting social groups pressure has been developed on the base of product of estimated indicators.

The activity of stakeholders in specific New Member States in relation to the European transport policy and specific measures included in the White Paper, depends on several factors:

1. organization of activity at national level,
2. membership in international organizations and associations,
3. employment in given transport sectors,
4. imbalance of living standard in a given country in relation to the EU-15 average,
5. social repercussions (acceptance or objections) of protest activities or strikes in different transport sectors.

The indicators concerning level of employment have been calculated on the base of number of employees in the transport sector by mode.

Table 8: Stakeholders in interurban and urban road transport in New Member States – indicator of weights for pressure on authorities

Factors / countries	Poland	Hungary	Czech Republic	Slovak Republic	Lithuania	Latvia	Estonia	Slovenia
Organization of activity at national level	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Membership in international organisations and associations	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Employment in the sector	1.00	1.00	1.00	0.60	0.60	0.60	0.60	0.30
Living standard, disparity of GDP in relation to the UE-15 average	1.00	1.00	0.80	1.00	1.00	1.00	1.00	0.80
Social repercussion of any protest activities	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Total (product)	1.00	1.00	0.80	0.60	0.60	0.60	0.60	0.24

Note: the range of indicators between 0.1 to 1.0, where 0.1 means the weakest level of impact, and 1.0 – the strongest pressure

Table 9: Stakeholders in railway and air transport in New Member States – indicator of weights for pressure on authorities

Factors / countries	Poland	Hungary	Czech Republic	Slovak Republic	Lithuania	Latvia	Estonia	Slovenia
Organization of activity at national level	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Membership in international organisations and associations	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Employment in the sector	1.00	1.00	1.00	0.60	0.60	0.60	0.30	0.30
Living standard, disparity of GDP in relation to the UE-15 average	1.00	1.00	0.80	1.00	1.00	1.00	1.00	0.80
Social repercussion of any protest activities	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Total (product)	0.30	0.30	0.24	0.18	0.18	0.18	0.09	0.07

Note: The range of indicators between 0.1 to 1.0, where 0.1 means the weakest level of impact, and 1.0 – the strongest pressure

Table 10: Stakeholders in inland waterway and maritime transport in New Member States – indicator of weights for pressure on authorities

Factors / countries	Poland	Hun-gary	Czech Republic	Slovak Republic	Lithua-nia	Latvia	Estonia	Slove-nia
Organization of activity at national level	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Membership in international organisa-tions and associations	1.00	1.00	0.50	0.50	0.50	0.50	0.50	0.50
Employment in the sector	0.60	0.30	0.30	0.30	0.30	0.30	0.30	0.30
living standard, disparity of GDP in relation to the UE-15 average	1.00	1.00	0.80	1.00	1.00	1.00	1.00	0.80
Social repercussion of any protest activities	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Total (product)	0.06	0.03	0.01	0.02	0.02	0.02	0.02	0.01

Note: The range of indicators between 0.1 to 1.0, where 0.1 means the weakest level of impact, and 1.0 – the strongest pres-sure

Table 11: Employment in the transport sector in New Member States (in 2001)

Country	CZ	EE	CY	LV	LT	HU	MT	PL	SI	SK	UE-25
Road freight transport	41 885	9 810	2 463	9 103	21 487	60 292	826	221 459	6 465	9 612	383 402
Road passenger transport	96 876	9 075	2 529	19 140	19 269	54 447	1 444	82 320	3 634	18 492	307 226
Sea transport	0	0	3 659	221	1 557	7	710	13 638	0	0	19 792
Air transport	5 000	530	2 361	503	1 195	3 320	1 993	4 199	584	302	19 987
Railways	85 225	5 100	0	15 200	14 300	56 300	0	152 562	9 100	44 500	382 287
Inland water transport	1 000	0	0	19	246	1 939	0	1 800	156	0	5 160
Pipelines	0	0	0	0	0	59	0	855	0	0	914
Travel agencies & tour operators	12 816	1 387	3 118	1 100	1 544	6 147	1 688	64 200	14 099	2 178	108 277
Other* auxiliary transport activities	23 503	9 052	4 538	15 065	10 925	21 190	4 636	108 930	0	6 403	204 242
TOTAL transport	266 305	34 424	18 668	60 351	70 523	203 701	11 297	649 963	34 038	81 487	1 430 757
Employment in motorization sector	19 610	2 263	1 556	3 257	6 297	13 793	1 086	58 351	4 912	7 182	118 306
TOTAL transport and motorization	285 915	36 687	20 224	63 608	76 820	217 494	12 383	708 314	38 950	88 669	1 549 064
% of total employment	6.1%	6.4%	6.7%	6.6%	5.0%	5.7%	9.0%	5.0%	4.3%	4.4%	5.3%
Total employment	**4 724 300**	**576 800**	**301 900**	**965 000**	**1 521 800**	**3 844 800**	**138 000**	**14 207 000**	**898 500**	**2 037 300**	**29 215 400**

Source: DG TREN 2005 and: http://80.188.1.100/text/rocenka_03/Yearbook/texty_uk/obsah.htm;
http://www.stat.gov.pl/dane_spol-gosp/ceny_handel_uslugi/transport/2003/index.htm ;
http://www.uic.asso.fr/stats/article.php3?id_article=4 ;
http://www.stat.si/letopis/index_vsebina.asp?poglavje=12&leto=2004&jezik=en
Italics - estimations

On the basis of the assessment of weights for pressure on authorities in different countries taking into consideration different modes of transport, the ranking of specific conflicts can be developed (see Table 12). Finally, as a synthetic result of above analysis of the stakeholders in different modes of transport and their impact on authorities, the level of activity of the most important groups can be presented in Table 13.

Table 12: Ranking of social groups conflicts in the New Member States in different modes of transport

Country	Sector	Indicator
Poland	road & urban	1.00
Hungary	road & urban	1.00
Czech Republic	road & urban	0.80
Slovak Republic	road & urban	0.60
Lithuania	road & urban	0.60
Latvia	road & urban	0.60
Estonia	road & urban	0.60
Poland	rail & air	0.30
Hungary	rail & air	0.30
Slovenia	road & urban	0.24
Czech Republic	rail & air	0.24
Slovak Republic	rail & air	0.18
Lithuania	rail & air	0.18

Latvia	rail & air	0.18
Estonia	rail & air	0.09
Slovenia	rail & air	0.07
Poland	water	0.06
Hungary	water	0.03
Slovak Republic	water	0.02
Lithuania	water	0.02
Latvia	water	0.02
Estonia	water	0.02
Czech Republic	water	0.01
Slovenia	water	0.01

Note: The highest number, the strongest impact of the stakeholders on authorities

Table 13: Level of activity of the most important stakeholders in NMS

	Most important stakeholders													
Country	1	2	3	4	5	6	7	8	9	10	11	12	13	14
CZ	High	High	Medium	Medium	Low	Low	High	High	Low	Low	Medium	Medium	Low	Low
EE	High	High	Low	Low	Low	Low	High	High	Medium	Medium	Low	Low	Low	Low
HU	High	High	Medium	Medium	Low	Low	High	High	Low	Low	Medium	Medium	Low	Low
LV	High	High	Low	Low	Low	Low	High	High	Medium	Medium	Low	Low	Low	Low
LT	High	High	Low	Low	Low	Low	High	High	Medium	Medium	Low	Low	Low	Low
PL	High	High	Medium	Medium	Low	Low	High	High	Low	Low	Low	Low	High	Medium
SK	High	High	Low	Low	Low	Low	High	High	Low	Low	Low	Low	Low	Low
SI	Medium	Medium	Low	Low	Low	Low	Medium	Medium	Low	Low	Medium	Medium	Low	Low

1 – road organizations of operators
2 – road organizations of employees
3 – railway organizations of operators
4 – railway organizations of employees
5 – air transport organization of operators
6 - air transport organization of employees
7 – urban organizations of operators
8 – urban organizations of employees
9 – water organizations of operators
10 – water organizations of employees
11 – intermodal organizations of operators
12 – intermodal organizations of employees
13 – regional and local lobbies
14 – ecological organizations

Low level of activity
Medium level of activity
High level of activity

XX.3. Relevant case studies

Six case studies are presented in this section illustrating different contexts where political problems are encountered in the implementation of White Paper measures. The first group includes five cases where the Public Choice Theory is the interpretative key, whereas the last one deals with the problem of public acceptability.

As already stated in the appendix, the Public Choice Theory assumes that the public decision makers tend to develop consistent and rationale "egoistic" objectives. The entire theory of independent Authorities (Antitrust etc.) can be partially linked to this approach, that postulates the capability of vested interest ("rent seekers") of "capturing" the elected decision makers. In turn, the main instruments of this "capture" are "information rents" (for example, a monopolistic operator has far better and direct sources of information than the politicians, and will use them in several "strategic" ways), and "exchange of votes" (for example, the workforce of a large operator may well "compensate" at the ballots the politician that protect it from opening the sector to competition, or from too tight environmental policies etc.).

While, in its original form, Public Choice was synonymous of extreme pro-market attitudes, more recently its main tenets are accepted and used in several theoretical contexts. The European transport policy offers a wide range of practical fields where this approach can offer important insights: its main failures or delays can well be linked to the protection of special interests against the more general ones: weak environmental policies and the resistance against the liberalization process in several transport modes, and in particular the inadequate economic regulation of natural monopolies (infrastructures), in defence of the users, are examples of these problems.

The main "egoistic" objectives are often also linked (and more often disguised as) to the protection of "national champions"; nevertheless, within many European countries this type of problems arise, even without taking into account international aspects.

XX.3.1. Liberalization/privatization difficulties for public subsidized sectors

The process of opening up some form of market competition in the rail and local public transport, even in the soft form of competition "for the market", (i.e. Demsetz competition), seems much more slow and difficult than in profit-making (or at least non-subsidized) sectors, like airline services or highway and airport concessions. This, notwithstanding the added burden to the public purse of the costs of inefficient services to the rationale (and often perfectly acceptable) cost of subsidizing these type of transport.

The "standard" explanation of lack of private operators' interest in entering loss-making activities is absolutely not convincing. The inefficiencies are often so large, than opening a real (unrigged) competitive bidding for the present services with the present subsidies will generate a rush of competing new entrants.

For exactly the same reason, the other standard explanation (i.e. the potential loss of social/environmental objectives) does not stand an unbiased scrutiny: "Demsetz competition" can be applied also for free transport services, i.e. even with "extreme" social goals.

The contrary is true: given a limited amount of public resources, the higher the production cost of a service, the lower the amount of that service that can be provided (or in turn the higher the tariffs, etc.).

A "capture" explanation is much more convincing: a private firm, or any firm appointed within a competitive process, cannot guarantee favourable electoral impacts, or jobs appointed with political criteria, or the choice of suppliers in political-sensitive regions etc. This, set aside the possible more direct interest of the decision makers in top jobs at the expiring of their political commitment (a frequent case at every level of the administration).

XX.3.2. Investments in infrastructures of low priority: one of the few left-over ways of supporting local firms, also with the weak arguments of Keynesian or regional development policies

The overall level of rationality of infrastructure policies seem rather low across Europe: several projects with limited traffic perspectives and negative rentability absorb a large share of limited public resources.

This attitude may obviously be related with traditional consensus building practices ("pork barrel policies"), but has in fact been indirectly reinforced by the European competition rules, that correctly ban a large part of standard public transfers to local firms and industries. Since the civil work sector is not a "foot loose" one, even within a competitive bidding context local firms enjoy decisive advantages, and many inputs have to be purchased locally anyway.

"Standard" Keynesian arguments scarcely hold: the impact of infrastructure building is limited both for its low "multiplier effect" (the productive chain is rather short, and the sector today is *capital-intensive*), and for the considerable lag that civil works (specially large ones) present between the initial decision and the actual building activity, with the obvious risk, compared to other forms of Keynesian incentives, of taking place in the following growth economic cycle.

The justification of infrastructure with insufficient traffic are often related to regional growth, i.e. assuming a large traffic generated by the infrastructure itself. But in general this is true (and not even always) only within developing contexts (see Banister), were an infrastructure can change substantially the transport costs for the productive sectors (that is almost never the case in Europe, as confirmed by many ex-post studies – see Rothengatter et al.).

XX.3.3. "National champions": "prisoner's dilemma" or "capture"?

The "hidden agenda" that explain a large part of the resistance to opening up the market in many transport activities can be related to the defence of large national firms (mainly public in this sector: railways, infrastructure concessionaires, large local transport firms, etc.; but "national" airlines, even if formally private, enjoy the same defensive attitude).

Again, a standard explanation can be a "prisoner's dilemma" case: I am not liberalizing first, since I do not know if other countries will follow suite, and therefore my "champion" can be severely damaged.
But even this explanation is not convincing, and for very factual reasons: if a "prisoner's dilemma" does exist, together with a basic good faith on the advantages for the users (and for economic growth in general) of a competitive context, the involved countries will press the Commission to set a level market field for everyone. Quite the contrary is true, and the only visible action is taken in order to defend special national interests (in due turn, from country to country and mode to mode).

"Capture" seems by far a better explanation: the users are a very general and nondescript body, while the interest involved in the large national firms are vocal and able to influence the short-term consensus mechanism in several forms.

A second traditional explanation can be related to the (quite old) "big push", or Colbertian, growth theory: national monopolies can generate, reinvesting their rents, technical innovation and economies of scale, and only after this "accumulation", they can sail into the open sea of a free market.

This can well be true, but under competitive pressure: the Airbus industry is a good example. The public support that this enterprise has enjoyed in Europe has taken place in a very competitive context, based in fact on a "buyer's market". Nothing similar can be said for the above-mentioned transport sectors: monopolistic rents there take only the form of inefficiency, overstaffing, or in case of private subjects, simply larger dividends (and sometime also these privates are grateful).

XX.3.4. Resistance against "efficient pricing" for the environment and for road congestion

The contradiction between the European acceptance of the Kyoto Treaty, with its stringent goals and constraints, and the widespread resistance in implementing consistent measures in order to achieve them, can be explained considering that in this case the "capture" phenomena are more evident and transparent. In fact the pressure of global competition tends to put all the economies with stiff environmental standards at an evident disadvantage. Short term consensus and employment considerations prevail over a picture of a long term clean and sustainable environment. Also some left-over incertitude on the real costs of environmental damages contribute to the picture.

This adds on the fact that transport does really impose a heavy burden on the environment, but nevertheless its level of fiscal "internalization" of the related costs seems to be much higher than in other sectors (specially agriculture and domestic energy).

But if the present level of oil price will last, the environmental picture and perspectives will change for the better anyway: alternative, clean energy sources will rapidly become available due to the fact that their production costs become competitive.

The resistance of decision makers to introduce congestion-related "efficient" prices ("park" and "road pricing") seems to have also a double-faced explanation: part is surely due to the pressure of vested interest (urban commercial activities, automotive industry etc.), part to the implicit, even if weak, regressive impact of prices, that is strongly perceived as discriminating the use of the private car (and the city) in favour of higher- income groups.

The fact that the decision has to be left to <u>local</u> decision makers, facing direct, short-term consensus problems, is probably contributing to these difficulties. But also, the technical hurdles met in implementing effective charging systems play a relevant role.

XX.3.5. The inefficient regulation of infrastructure concessions: objectives of rising cash in the short run over defending the consumers from monopolistic rents or inefficiencies

Infrastructure concessions, both when the concessionaires are public agencies and when they are private operators, are in general weakly regulated. Independent regulating authorities are missing (with the exception of the U.K., but even there with severe problems), and in general the defence of the users (both individual citizens and transport service firms) looks a very low political priority. This in turn generates also low efficiency and innovation capability from the under-incentivated concessionaires.

The political motivations of this behaviour are manifolds. First, in many cases there is a conflict of interests: privatizing a concession ensuring high future returns (monopolistic rents) implies a correspondent high value of the concession, and in turn high immediate cash returns in the sale of the concession.

In second place, part of a profits made by the concessionaire can be turned into investments paid by the users of the infrastructure, avoiding in this way unpopular tax rises. So far, so good. The ensuing problem is known by the regulatory literature as the "Averch-Johnson effect": the concessionaire has an incentive of maximizing its investments even if of questionable priority or direct rentability, since they will be guaranteed anyway by a tariff increase (only if also the investments are subject of some form of price-capping this can be avoided, but this is seldom the case).

Finally, the European state budget constraints may well also play a role: if low-priority, non-rentable investments are made by a concessionaire, through a mix of capital increases by the state and through "widespread" tariff increases (for example, over an entire network), the state may formally escape the European constraints, even if in reality the economic meaning of the operation is identical to a public spending covered by tax increases or public deficit increases (see the recent Italian Railways case).

Is this a "capture" phenomenon? "Information asymmetry" is the answer: short-range electoral (i.e. "egoistic") objectives can be disguised by the above mentioned practices, while longer range efficiency goals will suffer from misallocated public resources. But this can be hardly perceived by the general public.

XX.3.6. Heavy goods vehicle charges: the acceptability issue

The need to accord with the democratic process and to focus on the user perspective are highlighted by Schade and Schlag (2003) as being the two factors which make consideration of acceptability in relation to policy implementation an important issue. They point out that in democratic societies innovations affecting society must be introduced through the democratic process and that a failure to take on board the user perspective can, by itself, lead to resistence even where a policy would lead to overall societal benefits; and that such resistence – and the behaviour it triggers - could endanger the success of the policy. Acceptability is a key issue in transport policy as it tends to affect people's daily life to some greater or lesser extent.

XX.3.6.1. Acceptability in relation to the White Paper

Public acceptability in relation to the White Paper is, however, a special case. Firstly, many of the White Paper's policies are targeted more towards the transport industry and less – other than in an indirect sense – towards individuals. Secondly, is likely that the level of awareness amongst the population of the European Transport White Paper and the measures it proposes – even where there is a direct link to individuals - is relatively low. So acceptability is more bound up with political and stakeholder views than with the direct concerns of individual travellers.

Whilst the White Paper contained a large number of proposals covering a wide range of areas, we propose to focus here on infrastructure charging – in particular for roads. Road pricing is generally shown in research as the area most subject to acceptability concerns.

The key proposal of the White Paper relating to infrastructure charging was the proposal to bring forward a framework directive setting out the principles and structure of an infrastructure-charging system and a common methodology for setting charging levels, offset by the removal of existing taxes. This framework would also allow cross-financing, by establishing a Community framework for allocating revenue from charges on competing routes to the construction of new infrastructure, especially rail infrastructure.

Progress in all of these important measures has been problematic, and acceptability has been a key issue throughout.
The Framework Directive was the centrepiece of the White Paper proposals on charging. It was to have been accompanied by a methodology paper, setting out methodologies for calculating the components of the common infrastructure charge. It was anticipated that the methodology paper and Framework directive would be followed by a series of four separate Directive proposals dealing in detail with the practical implementation of pricing for road, sea, rail and air modes.

The draft Framework Directive was proposed for publication during 2002 but did not emerge that year and has not emerged since. In view of the anticipated controversy on the subject, the Commission launched a stakeholder consultation on the methodologies to be used, but this appears to have run into the sand. Following that consultation there appears to have been no further progress with bringing forward the draft directive and it would now seem that it has, for the time being at least, been shelved, although a communication on the subject is now under consideration.

XX.3.6.2. The 2003 revised Eurovignette directive proposals

In the absence of a common charging framework applicable to all modes being developed, focus on infrastructure charging has turned to roads, at the same time as an attempt to establish the framework for allocating revenue from charges on competing routes to the construction of new infrastructure, referred to above. In July 2003 the Commission published its proposals, in the form of a draft directive revising the, so called, Eurovignette directive; Directive 1999/62/EC on the charging of heavy goods vehicles for the use of certain infrastructure.

The Commission's 2003 proposal, on 'alignment of the national systems of tolls and of user charges for infrastructure', relates to tolls and user charges applied to HGVs weighing over 3.5 tonnes operating on the TEN network and other roads to which traffic might divert, with an allowance also to extend the system to other roads as well. According to the original proposal, user charges would, on average, be tied to the costs of construction, operation, maintenance and development of the network plus the uncovered costs of accidents (including costs not covered by insurance), and allocated to vehicle types on the basis of stipulated equivalence factors. Tolls could vary according to a number of factors such as;
- distance travelled,
- location
- infrastructure type
- vehicle type
- time of day (though the highest charge may not be more than 100% above the lowest.)
- according to specific routes.

The use of revenue from charges was earmarked for expenditure on roads, other transport networks, transport substitutes or the transport sector as a whole. In exceptional circumstances a surcharge of up to 25% would be permitted, to fund alternative rail infrastructure. Each member state must create an independent transport infrastructure supervisory authority to guarantee that charges are being set and revenue is being used in the required way.

The decision to tie the average level of charges to average infrastructure and uncovered accident costs limits the extent to which the proposed charges can reflect marginal social costs, in particular environmental and congestion costs. Furthermore, earmarking revenue for spending in the transport sector may prevent it from being used in the most efficient way. Whilst it is widely recognised (e.g. Verhoef, 2001) that there are many reasons why "pure" short run marginal social cost pricing may not be the optimal policy in the real world, it is very difficult to think of any general second best conditions that could make the constraints imposed by the proposal sensible, given that they will in some cases (e.g. on severely congested roads such as many in Great Britain) lead to charges that are below marginal social cost, and in other cases where congestion is limited lead to charges above marginal social cost. Nor is there any reason to suppose that budgetary problems will cause it to be necessary to exactly recover infrastructure costs from user charges in all countries. Indeed, the proposal was that only capital charges on new infrastructure or that built in the last 15 years may be included, and that the share attributable to HGVs was to be based on vehicle km rather than on the degree to which they are responsible for the costs of construction of new roads. Thus it seemed likely that only a low level of infrastructure capital costs will typically be applicable and that charges under these proposals are more likely to be too low than too high.

Do the constraints reflect compromises in order to make the proposals generally acceptable throughout the Union, and/or institutional issues? It is certainly a common finding that user charges are made more acceptable if it is clear that they reflect actual money costs incurred by the authority levying the charges and if the revenue is earmarked to be spent in ways that benefit those paying the charge. Indeed this argument is explicitly cited in the explanatory memorandum, but it is hard to see why the same constraints should be applied to all member states, rather than leaving it up to each member state to deal with the issue. The argument for the exclusion of environmental costs from the total costs to be covered appears to be on the grounds that these are more uncertain than infrastructure and external accident costs, despite the enormous amount of work the Commission has funded on their measurement and valuation in recent years and the growing consensus at least on lower bound values found for instance in the Imprint-Europe thematic network (Nash and Matthews, 2003).

The constraints the Commission suggested on the levels of charge may be a reaction not just to acceptability problems, but also to particular institutional issues. There is good evidence that when the setting of charges is decentralised between governments covering different geographical areas of a single market, individual governments may have incentives to deviate from marginal social cost pricing in order to influence the distribution of revenues and costs. For instance, even if they are precluded from discriminating against foreign hauliers, countries with a high level of transit traffic may have an incentive to impose charges that are inefficiently high (Nash, Niskanen and Verhoef, 2003). This will ensure that transit traffic which uses the country concerned pays more than the marginal social costs. The result of this is not solely inefficient routing of international traffic, but distortions to production and distribution decisions throughout the economy. Thus there may be justification for imposing constraints on the levels of charges at the European level. Ideally these constraints would take the form of checking that charges are correctly based on marginal social cost. This is why the promised framework directive was so important, since it was expected to set out the principles to be applied to charging on all modes of transport, including methods of calculation. In its absence, the constraints in the proposed Directive may be designed to prevent such overcharging, but – as indicated above – they are a very poor substitute in terms of efficiency.

Most recently, agreement on a redrafted directive was reached amongst Transport ministers on 21 April 2005. This agreement limits the average level of tolls to average infrastructure costs (i.e. the proposal to include uncovered accident costs has been dropped), and does not require earmarking of revenues although it strongly recommends it. The agreement allows member states to apply tolls in a flexible manner, such that charges can be doubled or lowered to zero in order, for example, to reflect congestion or vehicle emissions. Furthermore, it allows for the levying of a 15% mark-up – over infrastructure costs - to finance new alternative transport infrastructure projects such as rail or inland waterways; this mark-up can be raised to 25% for cross-frontier projects in mountainous regions. The agreement is also said to clarify the type of infrastructure costs that can be covered by tolls, special rebates for frequent users and the basic principles of a European method for calculating road tolls.

This political agreement still has to go back to the Parliament, which has already indicated disagreement with some part of of it., so it is likely that whatever is finally adopted will still change again. But this story indicates the difficulty in gaining acceptability for what was a key plank in the White Paper – the internalization of externalities and the use of the revenues so produced to fund new investment in road and rail infrastructure. It is thus worth looking further at where the opposition to the measures came from.

XX.3.6.3. Acceptability of the revised Eurovignette directive

Clearly the first big concern was with the level of charges should full internalization of externalities be permitted. Naturally both the road haulage industry, and industry in general, wished to limit the level of charges, the former to protect their competitive position in the transport market, and the latter because of fears about the impact of higher transport charges on the competitiveness of European industry as a whole. There was also a wish to impose a low ceiling on charges in core member states from countries at the periphery of Europe, who particularly feared the effects on their economies of high charges in core countries.

Amongst the arguments used against full internalization was the fact that hauliers already perceived themselves as meeting all the costs incurred by government (i.e. infrastructure provision costs) and that goods vehicles should not be charged for their external costs before other vehicles were also charged. Given the acceptance that charges for use of roads by the private car are a matter for subsidiarity to member states, the latter argument makes it very difficult for the Commission to make progress.

On the other side in favour of full internalisation were lined up the transit countries, who wished to fully charge for all the costs imposed on them by transit traffic (and perhaps make a profit on it) and the environmental groups who wished to see full internalization of externalities.

Clearly, for the time being those who wished to see strict controls imposed on maximum prices at the European level appear to have one. In order to overcome this, the most hopeful way of proceeding would be to ensure the use of revenue in such a way that economic competitiveness was not damaged. This would include some form of compensation to peripheral countries, although again this is very difficult to achieve in practice, since revenues are retained by the member state collecting them, and there is no link to regional funds from the Commission.

This brings us on to the second major stumbling block. The Commission wished to see all revenues raised from goods vehicle charging earmarked for transport investment, either in the road system or in alternative rail or other links.

Amongst European ministers of transport at the European Council meeting in spring 2004, Belgium, Denmark, France, Germany, Ireland, Sweden and the UK stated their preference that revenues be integrated within government fiscal budgets, whilst the European Commission, the Parliament and a number of other Member States stated their view that the charging of road use is being put in place to reduce congestion and negative environmental impacts and not to generate additional state revenues. So the first major principle that earmarking runs up against is the desire by member states to manage their own budgets.

Secondly it has been argued, by many researchers as well as by environmental groups, that there is no guarantee that the best use of the funds raised is to invest them in transport infrastructure, particularly when the environmental costs of transport infrastructure investment are taken into account. Environmental groups and the rail industry of course strongly support the Commission's proposals for cross funding of rail investment from road goods vehicle charges.

On the other hand, road hauliers and industry in general argue for earmarking revenue for roads, contending that spending it on other modes is, in their view, as bad as on integrating it into general tax.

XX.3.6.4. National developments

Despite this lack of progress at the European level, there have been national developments in Austria and Germany (albeit still constrained by the 1999 Directive, which restricts charges to motorways and ties them to average infrastructure costs) and proposals in the UK (as well as in the non EU member country Switzerland). It is interesting to speculate on why this is so. Clearly Austria, Germany and Switzerland are all important transit countries and therefore likely to be in favour of higher charges. Moreover, in these countries - as in Britain – an important argument in favour of a kilometre based charge is the fact that it would apply equally to vehicles wherever their base, whereas vehicle registration taxes and fuel tax can be escaped by basing vehicles in and buying fuel in other countries. The road haulage industry in all these countries saw itself as threatened by companies based in countries with lower taxes, and to that extent had a strong motive for supporting a kilometre based charge. Indeed when the British government decided to postpone introduction of a kilometre based charge for goods vehicles until it was ready to do it for all vehicles, on the basis of implementation cost, the industry declared itself strongly opposed to this decision.

XX.3.6.5. Conclusion

Failure to take forward its proposals for infrastructure charges, which would have involved full internalization of externalities and raised money for investment in new transport infrastructure, may be seen as one of the key factors limiting achievement of the goals of the White paper. It has been seen that the opposition to these proposals centres on a number of concerns, particularly regarding the impact of full internalization on competitiveness and the environmental impact of new transport infrastructure. Designing a package of measures which will meet these concerns is clearly not easy, as it would involve gaining the trust of stakeholders that revenue would be used in a way which removed any threat from the higher charges to competitiveness, and some form of compensation for peripheral states.

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Appendix A: NMS Companies affiliated to employers' international organizations

The determination of the list of relevant stakeholders with conflicting objectives and different pressure power on authorities in New Member States[25] of the European Union has required the review of existing economic structures, including both enterprises and national or international organisations.

A. ACI - Airports Council International:

- Aerodrom Ljubljana (SI)
- Budapest Ferihegy International Airport (H)
- Frederic Chopin Warsaw Airport (PL)
- Katowice International Airport (PL)
- Kaunas International Airport (LV)
- Ostrava-Mosnov Airport (SK)
- Port Lotniczy Wroclaw Strachowice (PL)
- Riga International Airport LV)
- Tallinn Airport (EE)
- Airport Bratislava (SK)
- Airport Kosice (SK)
- Airport Tatry/Poprad (SK)
- Karlovy Vary Airport (CZ)

B. AEA - Association of European Airlines:

- Adria Airways (SI)
- LOT Polish Airlines (PL)
- Malev Hungarian Airlines (H)
- Czech Airlines (CZ)

C. ERA - European Regions Airline Association:

- Adria Airways (SI)
- Air Lithuania (LT)
- EuroLOT (PL)
- Lithuanian Airlines (LT)

D. International Air Carrier Association (IACA)

- no members from EU-10

E. Community of European Railways (CER)

- Czech Republic - Ceské Dráhy. CD is the national railway company in Czech Republic, both providing transport services and managing rail infrastructure. Link: www.cd.cz /
- Czech Republic - Spáva Železnicni Dopravní Cesty. SŽDC is the infrastructure manager in the Czech Republic. Link: www.szdc.cz /
- Estonia - Aktsiaselts Eesti Raudtee. EVR is the national railway undertaking in Estonia, both providing transport services and managing rail infrastructure. Link: www.evr.ee
- Hungary - Magyar Államvasutak. MÁV is the national railway company in Hungary, both providing transport services and managing rail infrastructure. Link: www.mav.hu
- Hungary – GYSEV. GySEV/ROeEE is an Hungarian/Austrian railway company operating lines between Györ - Sopron and Ebenfurti. Link: www.gysev.hu
- Hungary – Vasúti Pályakapacitás-elosztó Kft. VPE is the Hungarian Railway Capacity Allocator. Link: www.vpe.hu

[25] This analysis will not consider Malta and Cyprus.

– Latvia - Latvijas Dzelzcelš. The state joint-stock company LDZ is the largest railway in the Baltic countries. Link: www.ldz.lv
– Lithuania - Lietuvos Geležinkeliai. The state joint-stock company LG has recently undergone a complex reform for 2003-2005. Link: www.litrail.lt
– Poland - Polskie Koleje Państwowe. PKP is the national railway company in Poland, both providing transport services and managing rail infrastructure. Link: www.pkp.pl
– Slovak Republic - Železnice Slovenskej Republiky. ŽSR is the rail infrastructure manager in Slovakia. Link: www.zsr.sk
– Slovak Republic - Železnicná spolocnost' Slovensko a.s. ZSSK is the national rail passenger operator in Slovakia. Link: www.slovakrail.sk
– Slovak Republic - Železnièná spoloènos' Cargo Slovakia a.s. ZSSK Cargo is the national rail freight operator in Slovakia. Link: www.slovakrail.sk
– Slovenia - Slovenske Železnice. SŽ is the national railway company in Slovenia, both providing transport services and managing rail infrastructure. Link: www.slo-zeleznice.si

F. IRU - International Road Transport Union

– Czech Republic - CESMAD BOHEMIA - Association of Road Enterprises & Passenger Transport
– Estonia - ERAA - Association of Estonian International Road Carriers
– Hungary - ATRH - Association des Transporteurs Routiers Hongrois
– Lithuania - LINAVA -Lithuanian National Road Carriers Association
– Latvia - Latvijas Auto - Latvian Association of International Road Carriers
– Poland - ZMPD - Zrzeszenie Miedzynarodowych Przewozników Drogowych w Polsce
– Slovenia - GIZ INTERTRANSPORT
– Slovakia - CESMAD SLOVAKIA - Association of Road Transport Operators of the Slovak Republic

G. ECSA - European Community Shipowners' Association

- Estonian Shipowners' Association
- Latvian Shipowners
- Lithuanian Shipowners

H. OEB - Organisation Européenne des Bateliers

– no members from EU-10

I. UITP - International Association of Public Transport

- Czech Republic
- Estonia
- Hungary
- Latvia
- Poland
- Slovakia
- Slovenia

J. UIRR - International Union of combined Road - Rail transport companies

- Czech Republic – BOHEMIAKOMBI
- Hungary – HUNGAROKOMBI
- Slovenia - ADRIA KOMBI

Appendix B: Transport employees organizations in NMS

One of the most important organizations of transport employees in the European Union is the European Transport Workers' Federation (ETF), section of the International Transport Workers' Federation which associates 624 trade unions representing 4,500,000 transport workers in 142 countries. It is one of several Global Federation Unions allied with the International Confederation of Free Trade Unions. The following organizations of the ETF from New Member States[26] of the European Union can be enumerated:

Czech Republic

- Czech Trade Union of Seafarers
- Odborové Sdruzeni Zeleznicáru (Railway Workers' Union)
- Odborového Svazu Dopravy (Transport Workers' Union (http://www.m.osdopravy.cz/)
- Trade Union of Workers in Transport, Road Economy and Repair of Vehicles

Estonia

- Eesti Transpordi- Ja Teetöötajate Ametiühing (Estonian Transport & Road Workers Trade Union (http://www.etta.ee)
- Estonian Federation of Water Transport Workers' Unions
- Estonian Seafarers' Union
- Estonian Seamen's Independent Union (http://www.emsa.ee)

Hungary

- Air Traffic Controllers' Independent Trade Union (http://www.lifsz.hu)
- Independent Trade Union of Aviation Workers (Légiközlekedési Dolgozók Független Szakszervezete)
- Közlekedési Szakszervezetek Országos Szövetsége (http://www.kksz.hu) – road transport
- Repulogep-Muszakiak Fuggetlen Szakszervezete - Aircraft Technicians' Independent Trade Union MALEV
- Vasuti Dolgozók Szabad Szakszervezete (Free Trade Union of Railway Workers)

Latvia

- Latvian Railroad Trade Union (LTFJA)
- Latvian Seafarers' Union of Merchant Fleet (http://www.latseaunion.lv/?lang=EN)
- Udens Transporta Arodbiedribu Federacija

Lithuania

- Federation of Railway Workers' Trade Union of Lithuania
- Independent Dockers' Union
- Lithuanian Transport Workers' Federation
- Lithuanian Seamen's Union
- Lithuanian Trade Union of Railway Employees

Poland

- Cabin Crew Union of LOT Polish Airlines
- National Maritime Section NSZZ „Solidarność" (http://www.solidarnosc.nms.org.pl)
- National Section of Port Workers – NSZZ „Solidarność"

[26] This analysis will not consider Malta and Cyprus.

- Polish Seafarers' Union (Ogólnopolski Związek Zawodowy Oficerów i Marynarzy) (http://www.psu-pl.org/news.php)
- Seamen's & Fishermen's Trade Unions Federation (http://www.fedmaryb.org.pl)
- Trade Union Workers of PKP Federation
- Związek Zawodowy Kierowców Pekaes Transport SA, Oddział w Szczecinie

Slovenia
- Seamen's Union of Slovenia (http://www.vir.si/sps)
- Sindikat Strojevodij Slovenije (SSSLO)
- Sindikat Zeleznicarjev Slovenije (http://www.szs-sindikat.si)
- Sindikat Zelezniskega Prometa Slovenije Railway Traffic Union of Slovenia
- Sindikat Zelezniskega Transporta Slovenjie (Railway Transport Workers' of Slovenia)
- Trade Union of Railway Surveyors of Slovenia (Sindikat Vozovnih Preglednikov Slovenije)

Slovakia
n.a.

Appendix C: Theoretical background for analysing institutional effects

There is no single commonly accepted and widely used theoretical basis or model for analysing institutional aspects and issues. Indeed, there has been relatively little theoretical work on institutional analysis, particularly in relation to transport. The transport literature that does exist on institutions uses concepts from institutional economics and, to a lesser extent, from public choice.

A review of the different possible alternative theoretical approaches found that the leading candidates are:

1. game theory;
2. institutional economics;
3. the normative and positive theories of regulation;
4. the theory of public choice;

Game theory

Game theory was developed as a tool for studying strategic interactions between small numbers of participants or players whose actions affect each other's welfare. It has been applied to oligopolistic markets, bargaining, regulation, and relations between governments of neighbouring regions or governments at different levels in the same country. In the context of analysing institutions, those who design institutions, those who administer them, and those who are constrained or moulded by institutions, can be regarded as playing a game.

The theory distinguishes between different types of game. In a cooperative game, the players can make binding agreements that are mutually beneficial, whereas in a non-cooperative game, such agreements are ruled out. Games can also be categorised into static games in which actions are taken simultaneously at a point in time, and dynamic games in which play is extended over a span of time and later actions can be conditioned on earlier actions. The non-cooperative game theory is the more widely used branch of the game theory, and focuses on dynamic games as these allow for players responding to each other's actions, in keeping with the reality of most institutional interactions, e.g. between competing firms or different levels of government.

Two types of dynamic games can be identified: repeated games and sequential games. In repeated games the same static game is played twice or more in succession. The strategies chosen by the players in a given period, t, may depend on choices made in earlier periods, but the payoffs in period t depend only on choices made in period t. Sequential games differ from repeated games in that the payoffs have a structural time dependence; i.e. payoffs in period t can depend not only on choices made in period t, but also in period t-1 and possibly earlier (Friedman, 1986:19). In a finitely repeated game a one-shot game is played over a finite number of times. Given the repetition it is possible for players to use history-dependent strategies; i.e. to condition their choice in one period on what happened in earlier periods of the game. This might suggest that the outcome of the game can be more than a mere repetition each period of the equilibrium to the one-shot game. But such is not the case if the game is finitely repeated. In the last period, T, cooperation is impossible. Hence there is no benefit to cooperating in Period T-1. With no chance of cooperation in period T-1, there is no reason to cooperate in period T-2, etc. The possibility of cooperation "unravels" as long as the game has a last period where the unravelling can begin. The conclusion that cooperation cannot emerge in the PD game regardless of how many (finite) times it is played may seem counterintuitive; infact it is not robust to some variations on the basic assumptions.

An infinitely repeated game features an endless repetition of a one-shot game. Since there is no last period the unravelling argument described above for the finite game is not applicable. The scope for players to use history-dependent strategies enlarges the set of possible outcomes (including cooperative play) beyond equilibria of the one-shot game without the need to assume any degree or probability of "irrational" behaviour. That cooperation is possible in the infinitely repeated game is striking given that (a) cooperation is not possible (under the standard assumptions) in the finite game; and (b) cooperation is supported in a non-cooperative setting without binding resolution or even overt communication by the players.

It is important to note that, even if cooperation is an equilibrium to an infinitely repeated game, it is also an equilibrium for the players to select the non-cooperative equilibrium of the one-shot game in every period. Many other equilibria may also exist, including equilibria that involve alternating play between cooperation and defection, and equilibria in which ex ante identical players receive unequal present-value payoffs (Kreps, 1990:99). Historical and/or institutional factors may determine which of the various outcomes prevails.

In a sequential game payoffs have a structural time dependence. In a market where entry is possible, the payoffs are inter-temporally dependent because the decision by a new firm to enter has implications for its own profits as well as the future profits of incumbent firms.

Game theory has a number of strengths as a tool for analysing situations that involve conflict and/or potential cooperation. First, it is an appealing way to predict how rational agents will behave conditional on what they know. Second, the results are often intuitive, though game theory can yield quantitative indications as to when a particular outcome is feasible that could not be derived from intuition alone. Thirdly, game theory highlights the importance of credibility and commitment (e.g. in the entry game), and suggests ways in which promises and threats can be made credible.

Game theory also has limitations. Of overriding importance is that game-theoretic techniques require clear definition and knowledge of the game rules. It is necessary to know the identities, objectives and capabilities of all the players, as well as the timing of their moves, what exactly they observe, and so on. These features are normally not known to observers, and natural intuition suggests that they should not be too relevant.

Institutional economics

Williamson (1985) argued that transactions are the basic unit of institutional analysis. Institutions succeed if they reduce the costs of acquiring and processing information or other costs of transactions. As the need for cooperative adaptation grows, the advantage shifts from markets to hierarchies (Williamson, 1998). While the celebrated Coase theorem argues that governments or formal institutions are not required to resolve differences or conflicts, transactions costs and the potential for misrepresentation of preferences militate against bargaining by individuals, and in favour of institutions due to the economies of scale and specialisation they enjoy. With appropriate institutions in place, fresh rounds of bargaining are not required to deal with each new externality or conflict. Institutional economics is an approach to the study of institutions. Until recently the "old school" of institutional economics dominated. It offers itself as an alternative to the neoclassical economics conception of the economy. In place of markets it asserts the primacy of organisation and control of the economic system; i.e. the power structure. Indeed, institutional economics argues that the market itself is an institution, and that the economy is more than a market mechanism.

Several themes are prominent in institutional economics (Samuels, 1987):

– Institutions are endogenous. Institutional economics regards institutions “not as something to be taken as given but man-made and changeable, both deliberatively and non deliberatively” (Samuels, 1987:865).
– Institutional content and values are important. This contrasts sharply with neoclassical economics, which relies on models that focus nearly exclusively on equilibrium and optimality while largely ignoring institutional considerations and disregarding value judgments even though they are often implicit in the analysis.
– Whereas neoclassical economics focuses on the mechanics of choice for given opportunity sets, institutional economics emphasises that opportunity sets are endogenous. It also attempts to understand how human values change. In this respect, institutional economics is suited to the analysis of regulatory reform, and the removal of barriers to the implementation of efficiency-enhancing transport policies.

The New Institutional Economics may have started with Coase’s 1937 article “The nature of the firm” (Coase, 1937). The term “New Institutional Economics” was coined by Williamson to distinguish it from the old institutional economics, which was anti-theoretical and not susceptible to analytical methods or amenable to conceptual generalisations. However, the New Institutional Economics continues in the tradition of the old school in its treatment of opportunity sets and constraints as endogenous, and in its focus on change. This is in contrast to game theory where the protocols or rules of a game are usually taken as given. Institutional economics therefore can aid game theory by helping to determine the identities of the players, what they can do, and the timing of their moves. A careful inspection of institutional considerations can also aid in narrowing down the set of plausible outcomes of a game.

Institutional economics is therefore a useful, if not essential, supplement for game theory as a tool for studying institutional issues in transportation and other fields.

In summary, institutional economics (or at least the New Institutional Economics) can be viewed as a complement to game theory in analysing institutional issues in transport policy implementation. Game theory provides institutional economics with a framework for building rigorous arguments about institutional issues, and institutional economics helps to fill in the “holes” of the game-theoretic framework with empirical detail. Naturally, the detail will be specific to the setting under study. The specificity of the setting may also suggest fairly precisely what the players of the game can reasonably be assumed to know, what their objectives are, and to what degree they can (or have chosen to) optimise these objectives.

Institutional economics has a number of strengths:
– it recognises that institutions and opportunity sets are not exogenous and fixed, but endogenous and evolving.
– it attempts to understand how human values change.
– value judgments are made explicitly rather than being hidden or ignored.
– unlike with standard game theory models, agents are not assumed to be perfectly informed or to have unlimited cognitive powers. Nor is it assumed that the best institutional forms will always emerge.

These features of institutional economics suit it for analysis of how institutions can be improved, and how acceptability and other barriers to the implementation of progressive transport policies can be overcome. But perhaps the most important role of institutional economics is to help specify the rules of the game: i.e. the identities of the players, their objectives, their capabilities, and the timing of their moves. Institutional economics can also aid in identifying the most likely candidates amongst alternative equilibria to a game. A serious weakness of the “old school” of institutional economics is that it emphasised description rather than analysis, and was not amenable to conceptual generalisations. But this is not a disadvantage of the New Institutional Economics.

Regulatory theory

According to Noll (1989) the market failure rationale for regulation4 can be thought of as having three components or steps:
1. A positive theory of conditions when market failure occurs.
2. A normative theory that government should take corrective regulatory actions.
3. A positive theory that government will in fact undertake such actions.

The normative theory examines whether regulation is the best response to market failure, or whether alternatives such as fiscal or competition-based measures are superior and — if regulation is deemed best — how it should be designed. At step 1, the positive theory assesses whether significant market failure(s) are likely to occur. And at step 3, the positive theory addresses whether governments adhere to the prescriptions provided by the normative theory in actual practice, and if they do not do so how they do behave.

Ideally, a complete theory of regulation should explain: (a) what gets regulated, (b) the methods chosen for regulation, and (c) the likely winners and losers from regulation (Hahn, 1990). Normative theory is focused on question (b), although it addresses (a) in examining whether regulation is the best policy, and also (c) directly or indirectly through the calculus of welfare economic analysis. Positive theory has something to say on all three questions too, but its main strength lies in analysing the interplay between questions (a) and (c). That is, positive theory studies how potential winners from a particular regulation lobby for it, how potential losers lobby against it, and how the political system determines the outcome of the opposing forces.

The normative theory of regulation assumes that politicians act out of benevolent regard for their constituents, and that no group of voters has disproportionate influence. This ignores the human nature of politicians, civil servants and officials in regulatory agencies. The fundamental insight of Stigler (1971) and other contributors to the positive theory is that, like individuals and firms, these agents are driven by self-interest, and are susceptible to opportunistic behaviour.

In regulatory environments the principal outlet for opportunism is that, given a lack of constitutionally entrenched property rights, agreements and contracts can be abrogated. It is difficult to anticipate all the ways that government can infringe on franchise value; e.g. via changes in transportation, environmental, occupational health and safety regulations, or through regional development policies. Political demands for fair access may effectively impose limits on what prices firms can charge. And it may be difficult to distinguish legitimate actions from attempts to debase value — possibly for the nefarious purpose of buying out private interests cheaply (Daniels and Trebilcock, 1996).

In addition to market failure, a case for regulation is sometimes made on distributional or equity grounds. The core of normative theory is based on the assumption that regulatory policy should be designed on efficiency criteria alone without consideration of distribution. This overlooks the fact that government may lack policy instruments to address the two separately (it cannot impose individual specific lump-sum taxes freely), and therefore may have to make tradeoffs

A further consideration in the positive theories is that interest groups can influence regulatory and other political decisions by bending the ear of politicians or drowning out the voices of other constituents. Politicians and regulators can be captured by these interests. Because the preferences of interest groups generally do not coincide with the public interest (however this interest is defined) the normative theory may make poor predictions about what happens. Positive theories concern how regulation works in practice. Besides describing the outcome of political struggles, they can shed light on how institutions can be reformed to constrain opportunistic or rent-seeking behaviour. Restraints may be required in two directions:

first to restrain the discretion of agencies, and second to prevent government from changing the regulatory framework.

Amongst the strengths of the normative theory are:

a. Its rigorous microeconomic and game-theoretic foundations,
b. Recognition embodied in the principal-agent framework that actors do not have perfect information and that they differ with respect to what they know,
c. A clear understanding of the trade-off between efficiency and the size of the rent transfer to the utility/agent,
d. Clear insights into the relative merits of different forms of regulation such as rate-of return regulation and price regulation.

The limitations of the normative theory include:

a. The assumption of a benevolent/welfare-maximising regulator,
b. The assumption that politicians will favour simple and open decision processes,
c. Disregard of institutional considerations,
d. Use of equilibrium analysis,
e. Doubt that normative policy prescriptions can be fine-tuned to small differences in probability density functions as called for by the models.

The strengths of the positive theory are:

- Recognition that regulators behave in self-interested way.
- Insights into how institutions can be reformed to constrain opportunistic or rent-seeking behaviour.
- Insights into how requirements for efficient market operation depend on such conditions as degree of capital mobility, scope for opportunistic behaviour, and ability to contract on future contingencies.

The positive theory shares limitations d), e) and to some extent c) as identified for the normative theory.

Public choice theory

The theory of public choice concerns itself with the behaviour of politicians, voters and other parties involved with decision-making in the public and political domains. Public choice theory uses the methodology of economics and the institutions of political science. As Tullock (1987:1041) observes: "… by using a model in which voters, politicians and bureaucrats are assumed to be mainly self-interested, it became possible to employ tools of analysis that are derived from economic methodology Public choice theory is both positive and normative, and its development parallels that of the positive and normative theories of regulation although it is broader in scope.

Public choice theory has two crowning achievements. One is Arrow's impossibility theorem that no "ideal" social choice rule exists. The other is the recognition that government does not operate as a benevolent and omniscient entity, but rather is run by politicians and bureaucrats with their own agendas, and with cognitive limitations. The upshot of these two insights is that the public sector operates in a world of second best, that perfect outcomes cannot be expected, and that tradeoffs (e.g. between efficiency and equity, or between the well-being of opposing groups) are inevitable.

A vast literature on public choice theory has accumulated since the work of Buchanan and Tullock (1962). Some of its predictions are sensitive to assumptions; for example, whether the prospects of reform are enhanced if the benefits or the costs are highly concentrated turns on what information is disclosed, and whether individuals in particular groups decide to vote and/or exercise their voice. This ambiguity could be seen either as a drawback, or as a valuable insight that could well be descriptive of reality.

One limitation of the literature on fiscal federalism is the working assumption that there are only two levels of government, central and local. In many circumstances, however, intermediate-level governments (e.g. states or provinces) are also relevant. These governments have more room to manoeuvre than do local governments, although they are more constrained by mobility than are central governments. More importantly for analysis, intermediate-level governments interact with levels both above and below them. Simple median-voter models that work for local government may be inadequate to describe these circumstances (Ladd, 1994). Alternative models need to be developed to address such questions as whether aid to local governments should come from the intermediate or central government level.

Like game theory and theories of regulation, public choice theory needs to be informed by good institutional knowledge. As Oates (1994:150) remarks “Although economic analysis has much to contribute to our understanding of intergovernmental fiscal relations… the ‘solutions’ to federal fiscal problems must depend in important ways on the historical and constitutional character of individual countries."